

ANNUAL
FINANCIAL
STATEMENTS
2016



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HOW TO NAVIGATE THE ANNUAL FINANCIAL STATEMENTS

The format of the annual financial statements for 2016 has been changed from prior years. The purpose of the change was to assist readers of the financial statements to navigate the financial statements more efficiently by grouping all key information relating to a financial line item 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 have been re-ordered with 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

1 March 2017

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

1 March 2017

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SANTAM LTD

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 Ltd (the company) and its subsidiaries (together the group) as at 31 December 2016, 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 Ltd's consolidated and separate financial statements set out on pages 14 to 119 comprise:

- the consolidated and separate statements of financial position as at 31 December 2016;
- 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

 <p>The diagram consists of three interconnected hexagons. The top-left hexagon is labeled 'MATERIALITY', the top-right is 'GROUP SCOPING', and the bottom-left is 'KEY AUDIT MATTERS'. They are arranged in a triangular pattern with overlapping edges, suggesting their interrelated nature in the audit process.</p>	<p>Overall group materiality</p> <ul style="list-style-type: none"> - Overall group materiality: R93 million, which represents 5% of profit before tax. <p>Group audit scope</p> <ul style="list-style-type: none"> - Full scope audits have been performed in respect of the company and material subsidiaries in the group. <p>Key audit matters</p> <ul style="list-style-type: none"> - Assessment of the Incurred But Not Reported (IBNR) liability. - The fair value of the unlisted investments in Sanlam Emerging Markets (SEM) target shares.
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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	R93 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose 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 gross written premium, we scoped in the company and four subsidiaries with active insurance licences. Furthermore, we included subsidiaries within our overall scope where such subsidiaries contributed materially to profit before tax or the total asset value of the group. The subsidiaries included in the scope are incorporated in South Africa and Namibia.

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 same 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
<i>Assessment of the Incurred But Not Reported (IBNR) liability</i>	
<p>The total value of the group gross Incurred But Not Reported claims (IBNR) at 31 December 2016 was R1 915 million as disclosed in note 4 – Insurance liabilities and reinsurance assets (page 33) (Santam Ltd – R1 631 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.</p> <p>There is substantial uncertainty regarding the ultimate outcome of claims that have occurred but had not yet been reported by the reporting date. The stochastic chain-ladder methodology aids in developing a greater understanding of the trends inherent in the data being projected to estimate the ultimate cost of claims. The methodology involves analysing historical claims development factors, and selecting estimated development factors based on this historical pattern. These development factors are applied to produce a projected final claims cost. The stochastic chain-ladder methodology involves running numerous simulations to obtain a range of the final cost.</p>	<p>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.</p> <p>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.</p> <p>The model used to calculate the IBNR was assessed using our actuarial expertise. The methodology that was applied was compared to the methodology applied across the industry. Estimated claims development factors used in the model were recalculated based on the historical data. The data in the actuarial reports used to run the models 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.</p> <p>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 valid claims (e.g. if the item being claimed was included on the original policy and if the premium has been paid up).</p> <p>Based on the work performed, we found the IBNR liability recognised to be within the range of projected final costs calculated by the models.</p>

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
<i>The fair value of the unlisted investments in SEM target shares</i>	
<p>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. The fair value of the SEM target shares (R1 127 million at 31 December 2016) as disclosed in note 5 – 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.</p> <p>The different businesses that Santam participates in as a result of the SEM target shares are included in note 5 on page 51.</p>	<p>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. The assumptions used in the model were tested by comparing these assumptions to our independently derived expectations.</p> <p>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.</p> <p>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.</p> <p>Exchange rates used in the valuations were compared to those quoted in the market.</p> <p>Using independent 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.</p>

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 directors' report, the report of the audit committee and the company secretary's certificate as required by the Companies Act of South Africa and the Integrated Report, which we obtained prior to the date of this auditor's 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 on the other information that we obtained prior to the date of this auditor's report, 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 88 years.

PricewaterhouseCoopers Inc.

PRICEWATERHOUSECOOPERS INC

Director: Z Abrahams

Registered auditor

Cape Town

1 March 2017

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 31 May 2017, comprises five independent non-executive directors of the company. Messrs MJ Reyneke, B Campbell, MP Fandesio, GG Gelink and Ms T Nyoka (née Fubu) were elected to the committee by the company's shareholders at the AGM on 1 June 2016. The qualifications of the members of the committee are listed on page 70 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 all subsidiaries of the group where an audit committee is required in terms of the Companies Act, 71 of 2008, as amended. 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 2016. 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 chief financial officer, 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 2016 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 board has confirmed that effective systems of internal control and risk management are being maintained. There were no breakdowns in the functioning of the internal financial control systems during the year, which had a material impact on the Santam Ltd group annual financial statements. The board is satisfied that the annual financial statements fairly present the financial position, changes in equity, 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.



M REYNEKE

Chairman of the audit committee

1 March 2017

ACTIVITIES

Santam Ltd (a public company incorporated in South Africa) and its subsidiaries transact all classes of general insurance.

FINANCIAL REVIEW

The Santam group reported underwriting results for the 2016 financial year well within the target range of 4% to 8% with a net underwriting margin of 6.4% compared to the exceptional 9.6% in 2015.

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

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

The lower underwriting profits compared to the exceptional performance in 2015 and significantly lower investment results reduced headline earnings per share by 41% compared to December 2015. An annualised return on capital of 15.9% was achieved. Normalising the results for the impact of the foreign currency gains and losses in 2015 and 2016, headline earnings per share would have decreased by 14%, while return on capital would have improved to 18.5%. The economic capital coverage ratio was 155%, close to the midpoint of the target range of 130% to 170%.

The property class achieved strong growth of 11% on the back of increased corporate property business written in the rest of Africa and Asia and good growth achieved by the Santam re property portfolio. The motor class benefitted from the 19% growth reported by MiWay, the direct insurance business (gross written premium of R2 101 million; 2015: R1 771 million), but was negatively impacted by corrective actions on unprofitable books of business on outsourced platforms.

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

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

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

The net underwriting margin of 6.4% decreased from the exceptional margin of 9.6% achieved in 2015. It is on par with the 10-year average of 6%.

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

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

DIRECTORS' REPORT

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

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

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

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

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

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

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

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

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

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

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

Santam increased its participatory interest in SGI during the second half of 2016 by 8% to 15% at a cost of R251 million. At 31 December 2016, the SEM investments had a fair value of R1 127 million (2015: R1 005 million), which accounted for 16.4% (2015: 12.4%) of the group's shareholder funds.

The acquisition of a 25% shareholding in SAN JV (RF) (Pty) Ltd (SAN JV), with SEM acquiring 75%, was finalised during the first quarter of 2016. SAN JV subsequently acquired a 30% shareholding in Saham Finances.

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

Net earnings from associated companies of R67 million increased from the R53 million reported in 2015 following the acquisition of the SAN JV investment, which contributed earnings of R43 million in 2016. No earnings were recognised from Credit Guarantee Insurance Corporation of Africa Ltd following the sale of this investment in 2015.

ORDINARY SHARES ISSUED

The shares in issue remained at 115 131 417 (2015: 115 131 417) shares of no par value (including 4 878 063 (2015: 5 009 470) treasury shares). In terms of the deferred share plan (DSP) implemented in 2007 and the performance deferred share plan (PDSP), 433 213 (2015: 361 886) shares were granted to employees on a deferred delivery basis during the year, 36 119 (2015: 23 424) shares lapsed as a result of resignations and 335 155 (2015: 389 500) 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 4 423 617 (2015: 4 324 988) 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 454 446 (2015: 684 482) shares being recognised as treasury shares as at 31 December 2016 (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.

	Group	
	2016	2015
	R million	R million
Interim dividend of 311 cents per share (2015: 288 cents)	358	332
Final dividend of 570 cents per share (2015: 528 cents)	656	608
	1 014	940

ORDINARY DIVIDENDS

The following dividends were paid and are proposed.

Interim dividend of 311 cents per share (2015: 288 cents)

Final dividend of 570 cents per share (2015: 528 cents)

SPECIAL DIVIDEND

A special dividend of 800 cents per share was declared in August 2016. No special dividend was declared or paid during 2015.

SUBSIDIARIES

Details of the company's direct and indirect interests in subsidiaries are set out in note 10.1 to the financial statements. No significant changes in shareholding took place during the year.

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:

- 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.
- During March 2016, Santam Ltd acquired 49% of Professional Provident Society Short-term Insurance Company Ltd for R55 million. During November 2016, a pro rata recapitalisation took place in terms of which Santam injected a further R10 million into the company.

DIRECTORS' REPORT

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, 12.2, 21.1 and 28 to the annual financial statements.

Details of directors' remuneration and their interest in the company's shares appear in notes 17.2 (interest in the shares of the company), 18.2 (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% (2015: 61.2%) 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 2016

	Risk committee	Audit committee	Human resources and remuneration committee	Nominations committee	Social, ethics and sustainability committee	Investment committee
Committee memberships						
Non-executive directors						
B Campbell	•	•			•	
MP Fandesio	•	•				
BTPKM Gamedze	•				•	
GG Gelink (chairman)	•	•	•	•		•
IM Kirk			•	•		
MLD Marole			•	•	•	
T Nyoka (née Fubu)	•	•				
Y Ramiah					•	
MJ Reyneke	•	•				•
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:

- Y Ramiah – Resigned as executive director and appointed as non-executive director on 2 March 2016
- CB Booth – Resigned from the board on 30 May 2016
- MD Dunn – Resigned from the board on 1 June 2016
- JP Möller – Resigned from the board on 13 September 2016
- HC Werth – Appointed to the board on 13 September 2016

The following changes took place on the company's board of directors subsequent to 31 December 2016:

- NV Mtetwa – Appointed to the board on 8 February 2017
- PE Speckmann – Appointed to the board on 8 February 2017

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 1 June 2016:

- 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.
- Amendment of the provisions of the memorandum of incorporation dealing with the manner in which fractional entitlement to shares is to be treated to align it with the amended JSE Listings Requirements.

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 2016, 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		Company	
		2016 R million	2015 R million	2016 R million	2015 R million
ASSETS					
Non-current assets					
Property and equipment	16	106	90	64	52
Intangible assets	13	885	827	324	275
Deferred income tax	23	105	140	-	-
Investment in subsidiaries	10	-	-	1 355	1 355
Investment in associates and joint ventures	12	1 536	252	1 477	-
Financial assets at fair value through income					
Equity securities	5.1	2 581	2 730	2 436	2 610
Debt securities	5.1	10 849	9 721	7 340	6 865
Reinsurance assets	4.1	140	164	118	147
Deposit with cell owner	9.2	163	187	-	-
Total non-current assets		16 365	14 111	13 114	11 304
Current assets					
Cell owners' interest	9.1	7	6	-	-
Investment in subsidiaries	10	-	-	538	538
Financial assets at fair value through income					
Derivatives	5.2	1	2	1	2
Short-term money market instruments	5.1	1 361	2 281	899	1 459
Reinsurance assets	4.1	4 349	3 514	3 791	3 116
Deposit with cell owner	9.2	56	67	-	-
Deferred acquisition costs	4.1, 2	469	525	437	484
Loans and receivables including insurance receivables	4.2, 5.6	3 754	3 449	3 470	3 385
Current income tax assets		19	13	-	-
Cash and cash equivalents	5.7	2 887	3 349	1 610	2 519
Non-current assets held for sale	15	8	541	-	-
Total current assets		12 911	13 747	10 746	11 503
Total assets		29 276	27 858	23 860	22 807
EQUITY					
Capital and reserves attributable to the company's equity holders					
Share capital	17	103	103	103	103
Treasury shares	17	(472)	(450)	-	-
Other reserves	19.1	(41)	548	(6)	134
Distributable reserves	19.2	7 286	7 880	6 552	7 330
Non-controlling interest	11	469	466	-	-
Total equity		7 345	8 547	6 649	7 567
LIABILITIES					
Non-current liabilities					
Deferred income tax	23	101	107	42	60
Financial liabilities at fair value through income					
Debt securities	6.1	2 005	974	2 005	974
Investment contracts	6.3	-	-	-	-
Derivatives	6.4	-	1	-	1
Cell owners' interest	9.1	1 153	980	-	-
Insurance liabilities	4.1	1 312	1 525	1 275	1 493
Reinsurance liability relating to cell owners	9.3	163	187	-	-
Total non-current liabilities		4 734	3 774	3 322	2 528
Current liabilities					
Financial liabilities at fair value through income					
Debt securities	6.1	48	24	48	24
Investment contracts	6.3	101	70	-	-
Financial liabilities at amortised cost					
Collateral guarantee contracts	6.5	123	105	123	105
Insurance liabilities	4.1	12 284	11 139	9 465	8 554
Reinsurance liability relating to cell owners	9.3	56	67	-	-
Deferred reinsurance acquisition revenue	4.1, 2	273	280	247	250
Provisions for other liabilities and charges	20	71	122	38	43
Trade and other payables including insurance payables	4.3, 6.6	4 093	3 412	3 847	3 452
Current income tax liabilities		148	318	121	284
Total current liabilities		17 197	15 537	13 889	12 712
Total liabilities		21 931	19 311	17 211	15 240
Total shareholders' equity and liabilities		29 276	27 858	23 860	22 807

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Group		Company	
		2016 R million	2015 R million	2016 R million	2015 R million
Gross written premium		25 909	24 319	22 469	21 085
Less: reinsurance written premium		6 137	5 435	4 368	4 082
Net written premium		19 772	18 884	18 101	17 003
Less: change in unearned premium					
Gross amount	4.1.1	137	528	(43)	250
Reinsurers' share	4.1.1	(191)	(167)	(21)	(108)
Net insurance premium revenue		19 826	18 523	18 165	16 861
Investment income	5.10	777	1 210	832	1 134
Income from reinsurance contracts ceded		1 337	1 236	1 103	1 066
Net gains/(losses) on financial assets and liabilities at fair value through income	5.11	42	235	(5)	260
Investment income and fair value losses on financial assets held for sale	5.12	13	-	-	-
Net income		21 995	21 204	20 095	19 321
Insurance claims and loss adjustment expenses	4.4	17 100	13 980	15 268	12 238
Insurance claims and loss adjustment expenses recovered from reinsurers	4.4	(4 189)	(2 470)	(3 435)	(1 796)
Net insurance benefits and claims		12 911	11 510	11 833	10 442
Expenses for the acquisition of insurance contracts	21	3 716	3 240	3 916	3 582
Expenses for marketing and administration	21	3 247	3 277	2 540	2 529
Expenses for investment-related activities	21	70	53	44	44
Amortisation and impairment of intangible assets	13, 21	51	117	27	17
Expenses		19 995	18 197	18 360	16 614
Results of operating activities		2 000	3 007	1 735	2 707
Finance costs	6.7	(212)	(116)	(210)	(112)
Net income from associates and joint ventures	12	67	53	-	38
Impairment on net investments and loans of subsidiaries	10	-	-	-	(119)
Profit on sale of associates	12, 14	-	413	-	485
Profit on sale of subsidiary	10, 14	-	15	-	9
Profit before tax		1 855	3 372	1 525	3 008
Income tax expense	22	(524)	(908)	(427)	(714)
Profit for the year		1 331	2 464	1 098	2 294
Other comprehensive income, net of tax					
Items that may subsequently be reclassified to income					
Currency translation differences		(197)	163	-	-
Share of associates' currency translation differences		(255)	-	-	-
Hedging reserve movement		(140)	134	(140)	134
Tax on hedging reserve movement		-	(37)	-	(37)
Total comprehensive income for the year		739	2 724	958	2 391
Profit attributable to:					
- equity holders of the company		1 212	2 348	1 098	2 294
- non-controlling interest		119	116	-	-
		1 331	2 464	1 098	2 294
Total comprehensive income attributable to:					
- equity holders of the company		620	2 608	958	2 391
- non-controlling interest		119	116	-	-
		739	2 724	958	2 391
Earnings attributable to equity holders	24				
Basic earnings per share (cents)		1 100	2 090		
Diluted earnings per share (cents)		1 088	2 065		
Weighted average number of ordinary shares (millions)		110.21	112.34		
Weighted average number of ordinary shares for diluted earnings per share (millions)		111.37	113.72		

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company					Non-controlling interest	
	Share capital	Treasury shares	Other reserves	Distributable reserves	Total	interest	Total
	R million	R million	R million	R million	R million	R million	R million
GROUP							
Balance as at 1 January 2015	107	(506)	238	7 171	7 010	430	7 440
Profit for the year	-	-	-	2 348	2 348	116	2 464
Other comprehensive income:							
Currency translation differences	-	-	163	-	163	-	163
Hedging reserve movement	-	-	134	(37)	97	-	97
Total comprehensive income for the year ended 31 December 2015	-	-	297	2 311	2 608	116	2 724
Issue of treasury shares in terms of share option schemes	-	56	-	(56)	-	-	-
Repurchase of shares (refer to note 18.1)	(4)	-	-	(797)	(801)	-	(801)
Transfer to reserves	-	-	4	(4)	-	-	-
Share-based payment costs	-	-	-	124	124	-	124
Increase in capital contribution reserve (refer to note 19.1)	-	-	9	-	9	-	9
Dividends paid	-	-	-	(869)	(869)	(82)	(951)
Interest sold to non-controlling interest	-	-	-	-	-	2	2
Balance as at 31 December 2015	103	(450)	548	7 880	8 081	466	8 547
Profit for the year	-	-	-	1 212	1 212	119	1 331
Other comprehensive income:							
Currency translation differences	-	-	(197)	-	(197)	-	(197)
Share of associates' currency translation differences	-	-	(255)	-	(255)	-	(255)
Hedging reserve movement	-	-	(140)	-	(140)	-	(140)
Total comprehensive income for the year ended 31 December 2016	-	-	(592)	1 212	620	119	739
Issue of treasury shares in terms of share option schemes	-	76	-	(76)	-	-	-
Purchase of treasury shares	-	(98)	-	-	(98)	-	(98)
Transfer to reserves	-	-	3	(3)	-	-	-
Share-based payment costs	-	-	-	79	79	-	79
Dividends paid	-	-	-	(1 806)	(1 806)	(116)	(1 922)
Balance as at 31 December 2016	103	(472)	(41)	7 286	6 876	469	7 345
COMPANY							
Balance as at 1 January 2015	107	-	-	6 715	6 822	-	6 822
Profit for the year	-	-	-	2 294	2 294	-	2 294
Other comprehensive income:							
Hedging reserve movement	-	-	134	(37)	97	-	97
Total comprehensive income for the year ended 31 December 2015	-	-	134	2 257	2 391	-	2 391
Repurchase of shares (refer to note 18.1)	(4)	-	-	(797)	(801)	-	(801)
Share-based payment costs	-	-	-	118	118	-	118
Loss on delivery of shares in terms of share scheme	-	-	-	(59)	(59)	-	(59)
Dividends paid	-	-	-	(904)	(904)	-	(904)
Balance as at 31 December 2015	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

STATEMENT OF CASH FLOWS

Notes	Group		Company		
	2016 R million	2015 R million	2016 R million	2015 R million	
Cash flows from operating activities					
Cash generated from operations	26	2 171	3 656	2 045	2 999
Interest paid		(161)	(110)	(161)	(106)
Income tax paid	27	(681)	(1 002)	(632)	(851)
Net cash from operating activities		1 329	2 544	1 252	2 042
Cash flows from investing activities					
Acquisition of financial assets		(17 594)	(14 086)	(14 530)	(10 647)
Proceeds from sale of financial assets		17 764	13 348	14 617	10 610
Settlement of fence		75	42	75	42
Acquisition of business, net of cash acquired	14	70	-	70	-
Acquisition of subsidiaries	14	-	-	-	(38)
Cash received/(disposed of) through sale of subsidiaries	14	208	(183)	72	-
Staff trust acquired	18.1	-	132	-	-
Purchases of equipment		(60)	(39)	(38)	(23)
Purchases of intangible assets		(50)	(85)	(17)	(69)
Proceeds from sale of equipment		2	-	2	-
Acquisition of associated companies and joint ventures		(1 467)	(2)	(1 467)	-
Capitalisation of associated companies		(10)	(28)	(10)	-
Proceeds from sale of associated companies		-	625	-	602
Settlement of deferred conditional right relating to non-current assets held for sale		509	-	-	-
Net cash (used in)/from investing activities		(553)	(276)	(1 226)	477
Cash flows from financing activities					
Purchase of treasury shares		(98)	-	-	-
Repurchase of shares		-	(801)	-	(801)
Proceeds from issue of unsecured subordinated callable notes		1 000	-	1 000	-
Increase/(decrease) in investment contract liabilities	6.3	31	(35)	-	-
Increase in collateral guarantee contracts	6.5	12	11	12	11
Dividends paid to company's shareholders		(1 806)	(869)	(1 887)	(904)
Dividends paid to non-controlling interest		(116)	(82)	-	-
(Decrease)/increase in cell owners' interest		(114)	16	-	-
Net cash used in financing activities		(1 091)	(1 760)	(875)	(1 694)
Net (decrease)/increase in cash and cash equivalents		(315)	508	(849)	825
Cash and cash equivalents at the beginning of the year		3 349	2 561	2 519	1 457
Exchange (losses)/gains on cash and cash equivalents		(147)	280	(60)	237
Cash and cash equivalents at the end of the year		2 887	3 349	1 610	2 519

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 presentation

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 associated companies and joint ventures.

Refer to note 32 for new standards, amendments and interpretations effective and not yet effective in 2016. The group did not early adopt any of the IFRS standards. Of the standards that are not yet effective, management expects IFRS 9 and IFRS 16 to have an impact on the group and company.

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Based on management's current assessment, the impact is not expected to be material.

IFRS 16 requires lessees to recognise assets and liabilities arising from all leases (with limited exceptions) on the statement of financial position. Lessor accounting has not substantially changed in the new standard. Based on management's current assessment, the impact 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:

- Insurance liabilities – 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, investment and strategic diversification activities.

Insurance activities are all core general insurance and reinsurance underwriting activities undertaken by the group and are analysed by insurance class. Operating segments are aggregated based on quantitative and/or qualitative significance. The performance of insurance activities is based on gross written premium as a measure of growth, with net underwriting result as measure of profitability.

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

Strategic diversification activities relate to all strategic investing activities where the purpose of the activities is to obtain certain diversification benefits. The investments in SEM target shares, associates and joint ventures are included in this segment. This segment was introduced in 2016 subsequent to the acquisition of the shareholding in SAN JV. For comparative purposes, the additional information relating to SEM was also included in the 2015 segmental report.

Growth is measured based on the gross written premium generated by the underlying businesses. The underwriting and investment return on insurance funds are provided for each of the underlying components included in the strategic diversification segment for consideration by the chief operating decision-maker. As this information is considered to be a reallocation of fair value movements recognised on the SEM target shares as well as equity-accounted earnings on the investments in associated companies and joint ventures, it is also included as reconciling items in order to reconcile to the consolidated statement of comprehensive income. Overall profitability is measured based on net investment income and fair value movements from SEM target share investments and net income from associated companies and joint ventures.

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

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (continued)

2.1 For the year ended 31 December 2016

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

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

² Amortisation of computer software included as part of management expenses.

Insurance activities	Gross written premium R million	Under- writing result R million
Accident and health	374	49
Alternative risk	2 406	16
Crop	984	69
Engineering	1 196	196
Guarantee	86	(31)
Liability	1 202	301
Miscellaneous	9	(3)
Motor	11 004	622
Property	7 972	22
Transportation	676	27
Total	25 909	1 268
Comprising:		
Commercial insurance	13 330	735
Personal insurance	10 173	517
Alternative risk	2 406	16
Total	25 909	1 268

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

For detailed analysis of investment activities refer to note 5.

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (continued)

2.2 For the year ended 31 December 2015 (restated)

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

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

² Amortisation of computer software included as part of management expenses.

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

For detailed analysis of investment activities refer to note 5.

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Dividend income R million	Net fair value gains R million	Net foreign exchange gains R million	Net income from associates and joint ventures R million	Total R million
2. SEGMENT INFORMATION (continued)					
2.2 For the year ended 31 December 2015 (restated) (continued)					
SEM target shares	22	47	105	-	174
Other ¹	-	-	-	481	481
Total	22	47	105	481	655

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

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

¹ Includes gross written premium relating to Namibia of R1 118 million (2015: R1 056 million).

² Includes gross written premium relating to China of R116 million (2015: R140 million).

³ Reconciling items relate to the underlying investments included in strategic diversification activities 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 III, 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

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. RISK AND CAPITAL MANAGEMENT (continued)

3.2 Risk assessment process (continued)

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.

	Notes	Group total		Group foreign	
		2016 R million	2015 R million	2016 R million	2015 R million
Financial and insurance assets					
Equity securities					
Quoted		1 400	1 711	28	17
Unquoted		1 181	1 019	1 138	1 017
Total equity securities	5.1, 5.4	2 581	2 730	1 166	1 034
Debt securities					
Quoted		5 980	4 739	960	952
Unquoted		4 869	4 982	84	39
Total debt securities	5.1, 5.5, 5.8	10 849	9 721	1 044	991
Derivatives	5.2, 5.5	1	2	1	2
Short-term money market instruments	5.1, 5.5, 5.8	1 361	2 281	20	144
Receivables due from contract holders/intermediaries	4.2, 4.5, 4.7	2 896	2 463	736	608
Reinsurance receivables	4.2, 4.6, 4.7	305	209	14	9
Other loans and receivables	5.6, 5.8	553	777	9	24
Total loans and receivables including insurance receivables		3 754	3 449	759	641
Cell owners' interest	9.1	7	6	-	-
Reinsurance assets	4.1, 4.6	4 489	3 678	1 072	884
Deposit with cell owner	9.2	219	254	-	-
Deferred acquisition costs	4.1.2, 4.5	469	525	-	-
Cash and cash equivalents	5.5, 5.7, 5.8	2 887	3 349	1 673	2 381
Total financial and insurance assets		26 617	25 995	5 735	6 077
Investment in associates and joint ventures		1 536	252	1 401	168
Non-current assets held for sale		8	541	8	541
Total assets with direct or indirect foreign currency exposure		28 161	26 788	7 144	6 786
Financial and insurance liabilities					
Debt securities	6.1, 6.2	2 053	998	-	-
Investment contracts	6.3	101	70	-	-
Derivatives	6.2, 6.4	-	1	-	-
Cell owners' interest	9.1	1 153	980	-	-
Collateral guarantee contracts	6.5	123	105	-	-
Insurance liabilities	4.1, 4.5	13 596	12 664	2 494	2 090
Reinsurance liability relating to cell owners	9.3	219	254	-	-
Deferred reinsurance acquisition revenue	4.1.2, 4.6	273	280	-	-
Payables due to contract holders/intermediaries	4.3	2 488	1 967	836	621
Other payables	6.6	1 605	1 445	-	-
Total trade and other payables including insurance payables		4 093	3 412	836	621
Total financial and insurance liabilities		21 611	18 764	3 330	2 711

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Notes	Company total		Company foreign	
		2016 R million	2015 R million	2016 R million	2015 R million
Financial and insurance assets					
Equity securities					
Quoted		1 255	1 591	-	-
Unquoted		1 181	1 019	1 138	1 017
Total equity securities	5.1, 5.4	2 436	2 610	1 138	1 017
Debt securities					
Quoted		4 617	3 709	892	896
Unquoted		2 723	3 156	-	-
Total debt securities	5.1, 5.5, 5.8	7 340	6 865	892	896
Derivatives	5.2, 5.5	1	2	1	2
Short-term money market instruments	5.1, 5.5, 5.8	899	1 459	-	-
Receivables due from contract holders/intermediaries	4.2, 4.5, 4.7	2 744	2 258	696	568
Reinsurance receivables	4.2, 4.6, 4.7	64	134	9	-
Other loans and receivables	5.6, 5.8	662	993	-	-
Total loans and receivables including insurance receivables		3 470	3 385	705	568
Reinsurance assets	4.1, 4.6	3 909	3 263	824	600
Deferred acquisition costs	4.1.2, 4.5	437	484	-	-
Cash and cash equivalents	5.5, 5.7, 5.8	1 610	2 519	943	2 065
Total financial and insurance assets		20 102	20 587	4 503	5 148
Investment in associates and joint ventures		1 477	-	1 201	-
Total assets with direct and indirect foreign currency exposure		21 579	20 587	5 704	5 148
Financial and insurance liabilities					
Debt securities	6.1, 6.2	2 053	998	-	-
Derivatives	6.2, 6.4	-	1	-	-
Collateral guarantee contracts	6.5	123	105	-	-
Insurance liabilities	4.1, 4.5	10 740	10 047	2 076	1 624
Deferred reinsurance acquisition revenue	4.1.2, 4.6	247	250	-	-
Payables due to contract holders/intermediaries	4.3	2 018	1 762	565	466
Other payables	6.6	1 829	1 690	429	581
Total trade and other payables including insurance payables		3 847	3 452	994	1 047
Total financial and insurance liabilities		17 010	14 853	3 070	2 671

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. RISK AND CAPITAL MANAGEMENT (continued)

3.2 Risk assessment process (continued)

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.

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' 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 economic capital internal 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 economic capital internal 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.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. RISK AND CAPITAL MANAGEMENT (continued)

3.2 Risk assessment process (continued)

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 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 the overall amount of capital held and the adequacy of contingency arrangements. Comprehensive scenario testing, involving senior and executive management, is conducted every three years with more focused testing done annually.

Although conduct risk is regarded as an operational risk, we have included it in our updated risk universe as a separate risk category, given the importance and potential risk exposure. In the 2011 Retail Conduct Risk Outlook, the Financial Conduct Authority (previously known as the Financial Services Authority) defined conduct risk as the risk that a firm's behaviour will result in poor outcomes for clients. For example: repudiation of claims without due consideration of the circumstances of the loss and selling insurance products to clients that do not meet the clients' insurance needs.

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.

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 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 in 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 2016, the regulator's focus on customer protection continued. Towards the end of 2016 progress on a number of regulatory developments have taken place. Some of the more material developments that have taken place include the revision of the Retail Distribution Review (RDR) proposals, which provides, among others, redefining of intermediaries operating in the financial services industry. Together with the release of the RDR proposals, the draft Short-term Insurance Act, 53 of 1998, and Long-term Insurance Act, 52 of 1998, Policyholder Protection Rules (PPR) was also released for public comment. The PPR supports and seeks to address the conduct risks identified by the regulator.

Finality in respect of the Conduct of Business Return (CBR) in respect of personal lines business was released on 15 December 2016 and the first return is due by 31 April 2017. The CBR requires insurers to provide information at class, sub-class and cover type levels.

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.

The final version of the Demarcation Regulations was also released in December 2016 which provides greater certainty on the process and classifications of accident and health policies which may be regarded as medical schemes business.

Other legislation that have not been finalised but which also received attention in 2016 include the Financial Sector Regulation Bill and the Insurance Bill. These bills are currently before the Standing Committee of Finance for deliberation. Engagements with the regulator and the SAIA will continue in 2017.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. RISK AND CAPITAL MANAGEMENT (continued)

3.4 Regulatory and compliance risk management (continued)

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 all the local solvency regulations. The group complied with all statutory solvency regulations within all regulated entities.

The group economic capital requirement at 31 December 2016 based on the internal model amounted to R5.8 billion (2015: R5.1 billion) or an economic capital coverage ratio of 155% (2015: 177%).

The group solvency margin was previously calculated as the ratio of capital and reserves (total statutory shareholders' funds) to net written premium (for the past 12 months) per the international method. Management regarded share capital, retained earnings and subordinated debt as capital for regulatory solvency purposes. This method differs from the statutory solvency calculation in that it takes into account all reinsurance, whereas the statutory solvency calculation allows only approved reinsurance, as defined in the Short-term Insurance Act, to be taken into account.

	Group	
	2016	2015
Group capital and reserves attributable to equity holders (R million)	6 876	8 081
Debt securities (R million)	2 053	998
	<u>8 929</u>	<u>9 079</u>
Net written premium (R million)	19 772	18 884
Group solvency margin (%)	45.2	48.1

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 board on the progress of TCF initiatives within the group.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Notes	Group		Company	
		2016 R million	2015 R million	2016 R million	2015 R million
4. INSURANCE LIABILITIES AND REINSURANCE ASSETS					
Insurance liabilities	4.1	13 596	12 664	10 740	10 047
Reinsurance assets	4.1	(4 489)	(3 678)	(3 909)	(3 263)
Receivables arising from insurance and reinsurance contracts	4.2	(3 201)	(2 672)	(2 808)	(2 392)
Payables arising from insurance and reinsurance contracts	4.3	2 488	1 967	2 018	1 762
		8 394	8 281	6 041	6 154

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

Gross

Long-term insurance contracts					
– claims reported and loss adjustment expenses		25	6	–	–
– claims incurred but not reported		42	30	–	–
General insurance contracts					
– claims reported and loss adjustment expenses		6 789	6 273	6 190	5 675
– claims incurred but not reported		1 873	1 567	1 631	1 351
– unearned premiums		4 867	4 788	2 919	3 021
Total insurance liabilities – gross		13 596	12 664	10 740	10 047
Non-current		1 312	1 525	1 275	1 493
Current		12 284	11 139	9 465	8 554

Recoverable from reinsurers

Long-term insurance contracts					
– claims reported and loss adjustment expenses		6	3	–	–
– claims incurred but not reported		12	7	–	–
General insurance contracts					
– claims reported and loss adjustment expenses		2 835	2 220	2 620	2 019
– claims incurred but not reported		329	272	246	200
– unearned premiums		1 307	1 176	1 043	1 044
Total reinsurers' share of insurance liabilities		4 489	3 678	3 909	3 263
Non-current		140	164	118	147
Current		4 349	3 514	3 791	3 116

Net

Long-term insurance contracts					
– claims reported and loss adjustment expenses		19	3	–	–
– claims incurred but not reported		30	23	–	–
General insurance contracts					
– claims reported and loss adjustment expenses		3 954	4 053	3 570	3 656
– claims incurred but not reported		1 544	1 295	1 385	1 151
– unearned premiums		3 560	3 612	1 876	1 977
Total insurance liabilities – net		9 107	8 986	6 831	6 784

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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	Gross R million	2016 Re- insurance R million	Net R million	Gross R million	2015 Re- insurance R million	Net R million
GROUP						
Notified claims	6 279	(2 223)	4 056	6 240	(2 272)	3 968
Incurred but not reported	1 597	(279)	1 318	1 540	(242)	1 298
Total at the beginning of the year	7 876	(2 502)	5 374	7 780	(2 514)	5 266
Cash paid for claims settled in the year	(16 112)	3 304	(12 808)	(14 019)	2 543	(11 476)
Increase in liabilities						
– arising from current year claims	17 100	(4 189)	12 911	13 980	(2 470)	11 510
– arising from foreign currency adjustments	(202)	165	(37)	135	(58)	77
– business combinations	67	–	67	–	–	–
Transfer to cell owners' interest	–	40	40	–	(3)	(3)
Total at the end of the year	8 729	(3 182)	5 547	7 876	(2 502)	5 374
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 end of the year	8 729	(3 182)	5 547	7 876	(2 502)	5 374
COMPANY						
Notified claims	5 675	(2 019)	3 656	5 711	(2 155)	3 556
Incurred but not reported	1 351	(200)	1 151	1 296	(167)	1 129
Total at the beginning of the year	7 026	(2 219)	4 807	7 007	(2 322)	4 685
Cash paid for claims settled in the year	(14 338)	2 624	(11 714)	(12 335)	1 936	(10 399)
Increase in liabilities						
– arising from current year claims	15 268	(3 435)	11 833	12 238	(1 796)	10 442
– arising from foreign currency adjustments	(202)	164	(38)	116	(37)	79
– business combinations	67	–	67	–	–	–
Total at the end of the year	7 821	(2 866)	4 955	7 026	(2 219)	4 807
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 end of the year	7 821	(2 866)	4 955	7 026	(2 219)	4 807

b) Provision for unearned premiums

GROUP						
At the beginning of the year	4 788	(1 176)	3 612	4 262	(1 002)	3 260
Charged to the statement of comprehensive income	137	(191)	(54)	528	(167)	361
Foreign currency movement	(74)	21	(53)	(2)	6	4
Business combinations	16	–	16	–	–	–
Transfer to cell owners' interest	–	39	39	–	(13)	(13)
Total at the end of the year	4 867	(1 307)	3 560	4 788	(1 176)	3 612
COMPANY						
At the beginning of the year	3 021	(1 044)	1 977	2 763	(931)	1 832
Charged to the statement of comprehensive income	(43)	(21)	(64)	250	(108)	142
Foreign currency movement	(75)	22	(53)	8	(5)	3
Business combinations	16	–	16	–	–	–
Total at the end of the year	2 919	(1 043)	1 876	3 021	(1 044)	1 977

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
4.1.2 Movements in deferred acquisition costs and deferred reinsurance acquisition revenue				
<i>a) Deferred acquisition costs</i>				
At the beginning of the year	525	447	484	408
Movement for the period (included in "Expenses for the acquisition of insurance contracts")	(56)	78	(47)	76
Total at the end of the year	469	525	437	484
<i>b) Deferred reinsurance acquisition revenue</i>				
At the beginning of the year	280	232	250	215
Movement for the period (included in "Income from reinsurance contracts ceded")	(7)	48	(3)	35
Total at the end of the year	273	280	247	250

Critical accounting estimates and judgements

a) Insurance liabilities

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)

Critical accounting estimates and judgements (continued)

a) Insurance liabilities (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 R68 million (2015: R66 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 R62 million (2015: R56 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	
	2016 R million	2015 R million	2016 R million	2015 R million
4.2 Receivables arising from insurance and reinsurance contracts				
Due from contract holders/intermediaries	2 896	2 463	2 744	2 258
Due from reinsurers	357	269	112	193
Less provision for impairment of receivables from reinsurers	(52)	(60)	(48)	(59)
Total	3 201	2 672	2 808	2 392
Reconciliation of provisions for impairment of receivables from reinsurers				
At the beginning of the year	60	41	59	41
Charge to the statement of comprehensive income:				
- Increase in provisions	3	19	-	18
- Provisions reversed	(11)	-	(11)	-
Total at the end of the year	52	60	48	59

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.

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
4.3 Payables arising from insurance and reinsurance contracts				
Amounts due to intermediaries	642	435	614	408
Amounts due to reinsurers	1 731	1 411	1 404	1 346
Amounts due to policyholders	115	121	–	8
Total	2 488	1 967	2 018	1 762

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.

	Gross R million	Reinsurance R million	Net R million
4.4 Insurance benefits and claims			
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
2015			
GROUP			
Claims paid	14 019	(2 543)	11 476
Movement in the expected cost of outstanding claims	(39)	73	34
Total claims and loss adjustment expenses	13 980	(2 470)	11 510
COMPANY			
Claims paid	12 335	(1 936)	10 399
Movement in the expected cost of outstanding claims	(97)	140	43
Total claims and loss adjustment expenses	12 238	(1 796)	10 442

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									
	Total	2016	2015	2014	2013	2012	2011	2010	2009	2008
- General insurance claims – gross	R million	R million	R million	R million	R million	R million	R million	R million	R million	and prior R million
Reporting year										
Actual claims costs:										
- 2016	16 112	11 087	3 909	506	380	111	93	18	8	-
- 2015	14 019	-	9 786	3 388	354	247	112	86	14	32
- 2014	13 556	-	-	9 031	3 578	493	173	188	64	29
- 2013	13 148	-	-	-	9 152	3 411	250	154	106	75
- 2012	11 340	-	-	-	-	8 176	2 366	370	171	257
- 2011	10 327	-	-	-	-	-	7 767	2 141	247	172
- 2010	9 999	-	-	-	-	-	-	7 144	2 236	619
- 2009	10 016	-	-	-	-	-	-	-	7 702	2 314
- 2008	8 996	-	-	-	-	-	-	-	-	8 996
- 2007	7 971	-	-	-	-	-	-	-	-	7 971
- 2006	6 988	-	-	-	-	-	-	-	-	6 988
Cumulative payments to date		11 087	13 695	12 925	13 464	12 438	10 761	10 101	10 548	27 453

GROUP										
- General insurance claims – net										
Reporting year										
Actual claims costs:										
- 2016	12 808	9 865	2 386	212	153	98	85	7	2	-
- 2015	11 476	-	8 734	2 239	171	172	75	71	7	7
- 2014	11 040	-	-	7 927	2 489	323	131	108	50	12
- 2013	11 335	-	-	-	8 423	2 493	168	127	79	45
- 2012	9 904	-	-	-	-	7 616	1 743	250	116	179
- 2011	8 989	-	-	-	-	-	7 082	1 673	148	86
- 2010	8 710	-	-	-	-	-	-	6 401	1 816	493
- 2009	8 805	-	-	-	-	-	-	-	6 928	1 877
- 2008	7 727	-	-	-	-	-	-	-	-	7 727
- 2007	6 672	-	-	-	-	-	-	-	-	6 672
- 2006	6 020	-	-	-	-	-	-	-	-	6 020
Cumulative payments to date		9 865	11 120	10 378	11 236	10 702	9 284	8 637	9 146	23 118

COMPANY										
- General insurance claims – gross										
Reporting year										
Actual claims costs:										
- 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	51	6
- 2013	11 525	-	-	-	8 539	2 576	184	107	84	35
- 2012	9 755	-	-	-	-	7 505	1 744	226	114	166
- 2011	8 917	-	-	-	-	-	7 106	1 575	160	76
- 2010	8 996	-	-	-	-	-	-	6 333	2 065	598
- 2009	8 833	-	-	-	-	-	-	-	6 777	2 056
- 2008	7 673	-	-	-	-	-	-	-	-	7 673
- 2007	6 740	-	-	-	-	-	-	-	-	6 740
- 2006	6 110	-	-	-	-	-	-	-	-	6 110
Cumulative payments to date		10 414	12 005	11 647	11 789	10 722	9 345	8 484	9 257	23 460

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									
	Total	2016	2015	2014	2013	2012	2011	2010	2009	2008 and prior
– General insurance claims – net	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Reporting year										
Actual claims costs:										
– 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	47	5
– 2013	10 446	–	–	–	7 740	2 335	167	97	77	30
– 2012	9 157	–	–	–	–	7 173	1 563	157	103	161
– 2011	8 308	–	–	–	–	–	6 681	1 424	138	65
– 2010	8 199	–	–	–	–	–	–	6 010	1 719	470
– 2009	8 188	–	–	–	–	–	–	–	6 434	1 754
– 2008	7 124	–	–	–	–	–	–	–	–	7 124
– 2007	6 142	–	–	–	–	–	–	–	–	6 142
– 2006	5 614	–	–	–	–	–	–	–	–	5 614
Cumulative payments to date		9 208	10 085	9 413	10 147	10 038	8 682	7 851	8 523	21 365

4.4.2 Reporting development

GROUP	Financial year in which claim occurred									
	Total	2016	2015	2014	2013	2012	2011	2010	2009	2008 and prior
– General insurance claims provision – gross	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Reporting year										
Provision raised:										
– 2016	6 814	3 870	1 143	895	297	171	135	181	122	–
– 2015	6 279	–	3 100	1 577	758	208	193	223	109	111
– 2014	6 240	–	–	4 069	844	410	206	257	212	242
– 2013	5 523	–	–	–	3 267	788	376	462	195	435
– 2012	4 948	–	–	–	–	3 133	599	434	304	478
– 2011	4 192	–	–	–	–	–	2 448	652	333	759
– 2010	3 777	–	–	–	–	–	–	2 325	556	896
– 2009	4 288	–	–	–	–	–	–	–	2 617	1 671
– 2008	4 075	–	–	–	–	–	–	–	–	4 075
– 2007	3 774	–	–	–	–	–	–	–	–	3 774
– 2006	3 922	–	–	–	–	–	–	–	–	3 922
– General insurance claims provision – net										
Reporting year										
Provision raised:										
– 2016	3 973	2 334	512	312	234	157	173	138	113	–
– 2015	4 056	–	2 291	581	348	197	257	193	103	86
– 2014	3 968	–	–	2 337	448	325	239	221	191	207
– 2013	4 207	–	–	–	2 459	568	331	298	172	379
– 2012	3 971	–	–	–	–	2 550	466	326	241	388
– 2011	3 273	–	–	–	–	–	1 919	509	260	585
– 2010	2 896	–	–	–	–	–	–	1 813	402	681
– 2009	2 952	–	–	–	–	–	–	–	1 861	1 091
– 2008	2 699	–	–	–	–	–	–	–	–	2 699
– 2007	2 444	–	–	–	–	–	–	–	–	2 444
– 2006	2 484	–	–	–	–	–	–	–	–	2 484

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

COMPANY	Financial year in which claim occurred									
		2016	2015	2014	2013	2012	2011	2010	2009	2008 and prior
- General insurance claims provision – gross	Total R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Reporting year										
Provision raised:										
- 2016	6 190	3 430	1 068	890	269	164	161	122	86	-
- 2015	5 675	-	2 782	1 442	705	191	217	170	110	58
- 2014	5 711	-	-	3 768	741	375	231	203	206	187
- 2013	5 038	-	-	-	3 101	676	389	326	185	361
- 2012	4 523	-	-	-	-	2 915	586	370	265	387
- 2011	3 711	-	-	-	-	-	2 256	508	296	651
- 2010	3 360	-	-	-	-	-	-	2 023	487	850
- 2009	3 842	-	-	-	-	-	-	-	2 312	1 530
- 2008	3 492	-	-	-	-	-	-	-	-	3 492
- 2007	3 371	-	-	-	-	-	-	-	-	3 371
- 2006	2 961	-	-	-	-	-	-	-	-	2 961
- General insurance claims provision – net										
Reporting year										
Provision raised:										
- 2016	3 570	2 208	405	250	209	135	199	99	65	-
- 2015	3 656	-	2 104	487	317	174	280	153	93	48
- 2014	3 556	-	-	2 122	374	289	256	177	178	160
- 2013	3 865	-	-	-	2 279	502	354	245	159	326
- 2012	3 696	-	-	-	-	2 391	468	278	226	333
- 2011	2 953	-	-	-	-	-	1 795	404	236	518
- 2010	2 611	-	-	-	-	-	-	1 607	356	648
- 2009	2 681	-	-	-	-	-	-	-	1 666	1 015
- 2008	2 446	-	-	-	-	-	-	-	-	2 446
- 2007	2 261	-	-	-	-	-	-	-	-	2 261
- 2006	1 766	-	-	-	-	-	-	-	-	1 766

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 premium 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 model. Assumptions for each line of business are determined based on more than 10 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	2016	2015	2014	2013	2012	2011	2010
Net claims paid and provided % ¹	65.1	62.1	63.1	69.3	68.3	64.2	64.1

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 comprise:

- 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 1.3% of the total exposure of the significant geographical areas, amounting to protection of up to R8.8 billion (2015: R8.4 billion) per event with an attachment point of R100 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 R50 million where such aggregated losses exceed R100 million was put in place in 2013. This cover expires on 30 April 2017 and the group will purchase this cover subject to acceptable commercial terms. The cover is for an amount of R100 million in excess of a R100 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 with a gross attachment point of US\$10 million. For exposures in South Africa and Africa a per risk protection is in place.

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 terms of these arrangements, Santam has facilitated the use of an international insurer's AA-rated licence for such business, if required. As part of the arrangement with the international insurer, Santam entered into an alternative risk transfer quota share agreement effective from 1 January 2014, which reduced net earned premiums by R1 billion per year. The agreement generated dollar-denominated collateral to support Santam's use of the international insurer's AA-rated licence. During 2015, the collateral was replaced with an unsecured letter of credit and the cash was repaid to Santam.

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 AA- 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 now participate 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 48.3% (2015: 48.2%). For the company, this amounts to 48.3% (2015: 50.7%). 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 Allianz (2015: 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 2016

GROUP	AA R million	AA- R million	A+ R million	A R million	A- R million	BBB+ 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

31 December 2015

GROUP	AA+ R million	AA- R million	A+ R million	A R million	A- R million	BBB+ R million	BBB R million	BBB- R million	Not rated R million	Carrying value R million
Receivables due from contract holders/intermediaries	5	38	5	-	28	5	28	39	2 315	2 463
Reinsurance receivables	-	28	8	33	12	-	-	-	128	209
Total	5	66	13	33	40	5	28	39	2 443	2 672

COMPANY

Receivables due from contract holders/intermediaries	5	25	5	-	28	5	28	39	2 123	2 258
Reinsurance receivables	-	2	-	5	6	-	-	-	121	134
Total	5	27	5	5	34	5	28	39	2 244	2 392

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.7 Insurance-related credit risk (continued)

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.

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.

31 December 2016	Financial assets that are past due but not impaired					Greater than 1 year	Financial assets that have been impaired	Impairment	Carrying value
	Neither past due nor impaired	0 – 3 months	3 – 6 months	6 months – 1 year	R million				
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	
31 December 2015									
GROUP									
Receivables due from contract holders/intermediaries	2 207	182	48	26	–	–	–	2 463	
Reinsurance receivables	129	51	23	1	5	60	(60)	209	
Total	2 336	233	71	27	5	60	(60)	2 672	
COMPANY									
Receivables due from contract holders/intermediaries	1 964	183	37	74	–	–	–	2 258	
Reinsurance receivables	128	–	–	1	5	59	(59)	134	
Total	2 092	183	37	75	5	59	(59)	2 392	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Notes	Group		Company	
		2016 R million	2015 R million	2016 R million	2015 R million
5. FINANCIAL ASSETS					
The group's financial assets are summarised below.					
Financial assets at fair value through income (excluding derivatives)					
	5.1	14 791	14 732	10 675	10 934
Derivative assets	5.2	1	2	1	2
Loans and receivables excluding insurance receivables	5.6	553	777	662	993
Cash and cash equivalents	5.7	2 887	3 349	1 610	2 519
Financial assets		18 232	18 860	12 948	14 448

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.

Equity securities					
- quoted		1 323	1 645	1 199	1 541
- quoted unit-linked investments		77	66	56	50
- unquoted SEM target shares		1 127	1 005	1 127	1 005
- unquoted other		54	14	54	14
		2 581	2 730	2 436	2 610
Debt securities					
- quoted					
government and other bonds		2 469	2 536	2 064	1 993
collateralised securities		407	190	303	190
money market instruments (long-term instruments)		2 592	1 799	1 828	1 313
unit-linked investments		268	214	178	213
equity-linked notes		244	-	244	-
		5 980	4 739	4 617	3 709
- unquoted					
government and other bonds		151	132	134	119
collateralised securities		10	-	10	-
money market instruments (long-term instruments)		4 516	4 459	2 416	2 675
redeemable preference shares		192	130	163	101
equity-linked notes		-	261	-	261
		4 869	4 982	2 723	3 156
Total debt securities		10 849	9 721	7 340	6 865
Short-term money market instruments		1 361	2 281	899	1 459
Financial assets at fair value through income		14 791	14 732	10 675	10 934

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 127 million (2015: R1 005 million). The shares were classified as unquoted equity securities.

	Incorporated in	Type of business	Santam effective holding 2016 %	Santam effective holding 2015 %
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	SGIC is the general insurance business of the Shriram group, a financial conglomerate based in India.	15.0	7.0
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	20.5
NICO Holdings general insurance subsidiaries	Malawi, Zambia	The NICO subsidiaries offer predominantly personal and commercial insurance products.	19.8	21.6
NICO Holdings general insurance subsidiaries	Uganda	The NICO subsidiaries offer predominantly personal and commercial insurance products.	28.6	29.3
NICO Holdings general insurance subsidiaries	Tanzania	The NICO subsidiaries offer predominantly personal and commercial insurance products.	17.4	18.1
SORAS Assurance Générales Ltd	Rwanda	The group offers motor, medical, fire, goods in transit, weather index and other miscellaneous insurance products.	26.1	22.1
SOCAR s.a. Burundi	Burundi	Forms part of the SORAS group and offers general insurance products.	8.6	7.3
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	14.0
Sanlam General Insurance Ltd (previously Gateway Insurance Company Ltd)	Kenya	Sanlam General Insurance Ltd offers a wide range of general insurance products.	10.9	10.9
Zimnat Lion Insurance Company Ltd	Zimbabwe	Zimnat Lion Insurance Company Ltd offers a wide range of general insurance products.	14.0	–
Grand Reinsurance Company (Private) Ltd (Grand Re)	Zimbabwe	Grand Re provides reinsurance solutions to cover all general insurance business.	14.0	–
Botswana Insurance Company Ltd	Botswana	Botswana Insurance Company Ltd offers a wide range of general insurance products.	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. Collective investment schemes and other unit-linked investments are included in equity and debt securities. 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

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
5. FINANCIAL ASSETS (continued)				
5.1 Financial assets at fair value through income (excluding derivatives) (continued)				
Collective investment schemes				
Local and foreign				
Property ¹	77	46	56	40
Money market ²	254	214	178	214
Equity ³	40	-	40	-
Mixed ²	14	10	-	-
Total investment in unconsolidated structured entities	385	270	274	254
5.2 Derivative assets				
Financial assets – at fair value through income				
Exchange traded futures	1	2	1	2
Over the counter				
Interest rate swaps ¹	-	-	-	-
	1	2	1	2

¹ Included in quoted unit-linked equity securities.

² Included in quoted debt securities.

³ Included in unquoted unit-linked equity securities.

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

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

At 31 December 2016, 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 R27 million (2015: R31 million) and R27 million (2015: R31 million) respectively.

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

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 2015.

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).

All government and corporate bonds were transferred from level 1 to level 2 based on management's current assessment of an active market for debt instruments. There were no significant transfers between level 1 and level 2 during the prior year. 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 2016

GROUP	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Financial assets				
Equity securities				
Quoted				
Listed	1 321	-	-	1 321
Unitised funds	-	77	-	77
Irredeemable preference shares	2	-	-	2
Unquoted	-	-	1 181	1 181
Total equity securities	1 323	77	1 181	2 581
Debt securities				
Quoted				
Government and other bonds	-	2 469	-	2 469
Collateralised securities	-	407	-	407
Money market instruments > 1 year	-	2 592	-	2 592
Unit-linked investments	-	268	-	268
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	-	10 820	29	10 849
Derivatives				
Exchange traded futures	-	1	-	1
Total derivatives	-	1	-	1
Short-term money market instruments	-	1 361	-	1 361
	1 323	12 259	1 210	14 792

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (continued)

5.3 Fair value (continued)

31 December 2016

COMPANY	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Financial assets				
Equity securities				
Quoted				
Listed	1 197	-	-	1 197
Unitised funds	-	56	-	56
Irredeemable preference shares	2	-	-	2
Unquoted	-	-	1 181	1 181
Total equity securities	1 199	56	1 181	2 436
Debt securities				
Quoted				
Government and other bonds	-	2 064	-	2 064
Collateralised securities	-	303	-	303
Money market instruments > 1 year	-	1 828	-	1 828
Unit-linked investments	-	178	-	178
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	-	7 340	-	7 340
Derivatives				
Exchange traded futures	-	1	-	1
Total derivatives	-	1	-	1
Short-term money market instruments	-	899	-	899
	1 199	8 296	1 181	10 676

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 December 2015

GROUP	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Financial assets				
Equity securities				
Quoted				
Listed	1 643	-	-	1 643
Unitised funds	-	66	-	66
Irredeemable preference shares	2	-	-	2
Unquoted	-	-	1 019	1 019
Total equity securities	1 645	66	1 019	2 730
Debt securities				
Quoted				
Government and other bonds	1 378	1 122	36	2 536
Collateralised securities	-	190	-	190
Unit-linked investments	-	214	-	214
Money market instruments > 1 year	-	1 799	-	1 799
Unquoted				
Government and other bonds	-	132	-	132
Money market instruments > 1 year	-	4 459	-	4 459
Redeemable preference shares	-	101	29	130
Equity-linked notes	-	261	-	261
Total debt securities	1 378	8 278	65	9 721
Derivatives				
Exchange traded futures	-	2	-	2
Total derivatives	-	2	-	2
Short-term money market instruments	-	2 237	44	2 281
	3 023	10 583	1 128	14 734

COMPANY

Financial assets				
Equity securities				
Quoted				
Listed	1 539	-	-	1 539
Unitised funds	-	50	-	50
Irredeemable preference shares	2	-	-	2
Unquoted	-	-	1 019	1 019
Total equity securities	1 541	50	1 019	2 610
Debt securities				
Quoted				
Government and other bonds	1 052	906	35	1 993
Collateralised securities	-	190	-	190
Unit-linked investments	-	213	-	213
Money market instruments > 1 year	-	1 313	-	1 313
Unquoted				
Government and other bonds	-	119	-	119
Money market instruments > 1 year	-	2 675	-	2 675
Redeemable preference shares	-	101	-	101
Equity-linked notes	-	261	-	261
Total debt securities	1 052	5 778	35	6 865
Derivatives				
Exchange traded futures	-	2	-	2
Total derivatives	-	2	-	2
Short-term money market instruments	-	1 423	36	1 459
	2 593	7 253	1 090	10 936

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 and debt instruments classified as trading securities that are listed on the JSE or Namibian Stock Exchange and debt instruments listed on the Bond Exchange. Listed bonds that did not trade actively during a financial reporting period are classified as level 2 financial instruments.

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 R139 million (2015: R114 million) or increase by R213 million (2015: R172 million), respectively. If the relative foreign exchange rates increase or decrease by 10%, the cumulative fair values will increase or decrease by R85 million (2015: R73 million). Should the net insurance margin profile (projected over a period of 10 years) increase or decrease by 10%, the cumulative fair values will increase by R91 million (2015: R79 million) or decrease by R90 million (2015: R78 million), respectively.
- Debt securities and short-term money market instruments
 - The debt securities and money market instruments classified as level 3 in 2015 predominantly consisted of African Bank Investments Ltd and African Bank Ltd instruments. These instruments were valued at the closing market price as listed on the JSE. They were transferred out of level 3 in 2016.
- Derivatives
 - The fence 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 fence structures.
 - Refer to pages 60 and 69 for the sensitivity analysis on the key assumptions used in the valuation of derivative instruments.

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 and debt instruments classified as trading securities that are listed on the JSE or Namibian Stock Exchange and debt instruments listed on the Bond Exchange. Listed bonds that did not trade actively during a financial reporting period are classified as level 2 financial instruments.

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 2016:

	Equity securities R million	Debt securities R million	Short-term money market instruments R million	Total R million
31 December 2016				
GROUP				
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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (continued)

5.3 Fair value (continued)

Santam increased its participatory interest in SGI during the second half of 2016 by 8% to 15% at a cost of R251 million. Of the R212 million loss recognised on equity securities for both group and company, R212 million relates to SEM target shares, of which R145 million relates to foreign exchange losses, and 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 P&O business in Malaysia of R88 million due to lower premium growth in competitive market conditions. There is a significant focus on expanding the current P&O product offering, and growth reported on non-motor business lines was positive.
- A reduction in the value of the investment in SORAS Assurance Générales Ltd (SORAS) in Rwanda of R47 million following financial irregularities identified during 2016 relating to prior years. Corrective measures were taken to address these irregularities, and the business was recapitalised during the second half of 2016.
- An increase in the value of SGI of R51 million was mainly attributed to good growth achieved in the Indian insurance market.

The following table presents the changes in level 3 instruments for the year ended 31 December 2015:

31 December 2015	Equity securities R million	Debt securities R million	Short-term money market instruments R million	Total R million
GROUP				
Opening balance	820	56	38	914
Acquisitions	51	-	1	52
Disposals	(5)	-	(2)	(7)
Transfers between asset classes	-	(4)	4	-
Gains/(losses) recognised in profit or loss	153	13	3	169
Closing balance	1 019	65	44	1 128
COMPANY				
Opening balance	820	20	38	878
Acquisitions	51	-	-	51
Disposals	(5)	-	(1)	(6)
Transfers between asset classes	-	4	(4)	-
Gains/(losses) recognised in profit or loss	153	11	3	167
Closing balance	1 019	35	36	1 090

Of the R153 million gain recognised on equity securities for both group and company, R152 million relates to SEM target shares, of which R105 million relates to foreign exchange gains, and R47 million to an increase in fair value in local currency terms.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 quoted 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			
	2016		2015		2016		2015	
	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
Listed								
Naspers Ltd	102 230	206	124 226	263	91 314	184	115 080	244
British American Tobacco Plc	98 993	77	128 793	112	88 863	69	119 958	105
Steinhoff International Holdings Ltd	931 450	66	1 225 693	96	855 029	61	1 159 942	91
MTN Group Ltd	477 613	60	608 077	81	426 673	54	565 007	75
Sasol Ltd	149 746	60	181 404	76	133 255	53	167 358	70
Standard Bank Group Ltd	375 480	57	479 492	54	335 834	51	444 716	50
Old Mutual Plc	1 259 691	43	1 768 453	73	1 259 691	43	1 668 102	69
Remgro Ltd	182 421	41	196 827	48	165 830	37	182 271	45
Anglo American Plc	190 485	37	264 439	18	171 738	34	248 312	17
Intuprop Plc	773 577	36	576 803	43	773 577	36	568 380	42
BHP Billiton Plc	154 559	34	168 015	29	141 970	31	157 966	27
Bid Corporation Ltd	116 724	29	-	-	106 800	26	-	-
Barclays Group Africa Ltd	164 883	28	189 509	27	150 414	25	178 280	26
RMB Holdings Ltd	399 254	27	525 394	29	390 913	26	517 653	29
Compagnie Financière Richemont SA	279 795	25	396 300	44	251 858	23	371 083	41
Woolworths Holdings Ltd	324 990	23	418 956	42	300 406	21	397 802	40
Investec Plc	251 996	23	353 350	39	231 435	21	335 669	37
FirstRand Bank Ltd	399 297	21	491 285	21	318 518	17	421 786	18
The Bidvest Group Ltd	116 780	21	152 940	50	106 800	19	141 426	46
Mondi Ltd	74 839	21	98 331	30	73 116	20	96 821	30
Other		386		468		346		437
		<u>1 321</u>		<u>1 643</u>		<u>1 197</u>		<u>1 539</u>
Listed								
Unitised funds		77		66		56		50
Irredeemable preference shares		2		2		2		2
		<u>1 400</u>		<u>1 711</u>		<u>1 255</u>		<u>1 591</u>

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 14.7% (2015: 15.4%) of the total quoted equities and 0.7% (2015: 0.9%) of the total assets. The company's largest investment in any one company comprises 14.7% (2015: 15.3%) of the total quoted equities and 0.8% (2015: 1.1%) of the total assets.

Sensitivity analysis on listed equity securities and derivatives

At 31 December 2016, the group's quoted equities were recorded at their fair value of R1 400 million (2015: R1 711 million). A 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R140 million (2015: R171 million).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (continued)

5.4 Price risk (continued)

Sensitivity analysis on listed equity securities and derivatives (continued)

The company's quoted equities were recorded at their fair value of R1 255 million (2015: R1 591 million). A 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R126 million (2015: R159 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 result in an insignificant increase (2015: R1 million increase) in the fair value of these instruments, but a 1% decrease in the discount rate would result in an insignificant decrease (2015: R1 million 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 2016 (2015: 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:

GROUP	2016		2015	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
Financial assets – fixed rate				
Debt securities				
Quoted	(66)	66	(96)	98
Unquoted	(30)	31	(36)	36
Short-term money market instruments	(1)	1	(2)	2
Derivative instruments	13	(14)	22	(25)
Financial assets – variable rate				
Cash and cash equivalents	21	(21)	15	(15)
Debt securities				
Quoted	25	(24)	19	(19)
Unquoted	19	(19)	21	(21)
Short-term money market instruments	8	(8)	11	(11)
Total change in investment income, finance cost and net fair value movements before tax	(11)	12	(46)	45
COMPANY				
Financial assets – fixed rate				
Debt securities				
Quoted	(50)	52	(78)	78
Unquoted	(19)	20	(28)	28
Short-term money market instruments	–	–	(1)	1
Derivative instruments	13	(14)	22	(25)
Financial assets – variable rate				
Cash and cash equivalents	8	(8)	7	(7)
Debt securities				
Quoted	22	(22)	15	(15)
Unquoted	18	(18)	19	(19)
Short-term money market instruments	8	(8)	11	(11)
Total change in investment income, finance cost and net fair value movements before tax	–	2	(33)	30

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	
	2016 R million	2015 R million	2016 R million	2015 R million
5.6 Loans and receivables excluding insurance receivables				
Loans and receivables	668	878	424	568
Less provision for impairment	(115)	(101)	(102)	(88)
Loans to subsidiaries (refer to note 10.1)	-	-	378	551
Less provision for impairment of loans to subsidiaries	-	-	(38)	(38)
Total	553	777	662	993
Reconciliation of provisions for impairment of other receivables				
At the beginning of the year	101	99	126	128
Charge to the statement of comprehensive income:				
- Increase in provisions	14	2	14	-
- Provisions utilised	-	-	-	(2)
Total at the end of the year	115	101	140	126

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

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
5. FINANCIAL ASSETS (continued)				
5.7 Cash and cash equivalents				
Cash at bank and in hand	2 887	3 349	1 610	2 519
	<u>2 887</u>	<u>3 349</u>	<u>1 610</u>	<u>2 519</u>

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 2015 was an amount of US\$100 million (R1 549 million) that was designated to fund the acquisition of SAN JV. At 31 December 2016, it includes an amount of US\$10 million (R135 million) that is 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, except for Absa where the total exposure amounted to 16.1% (2015: 22.8%). In 2015, this was mainly due to the designated foreign bank balance held in anticipation of the acquisition of the SAN JV investment.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 December 2016

GROUP	Credit rating											Not rated	Carrying value
	AA	AA-	A+	A	BBB+	BBB	BBB-	BB+	BB	BB-	B+		
	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million		
Debt securities													
Quoted	-	-	-	244	61	3 399	1 644	256	188	24	63	101	5 980
Unquoted	-	15	-	-	-	4 193	266	215	20	75	45	40	4 869
Total debt securities	-	15	-	244	61	7 592	1 910	471	208	99	108	141	10 849
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	1 295	199	130	24	53	7	4 617
Unquoted	-	15	-	-	-	2 292	149	95	20	67	45	40	2 723
Total debt securities	-	15	-	244	33	4 924	1 444	294	150	91	98	47	7 340
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

31 December 2015

GROUP	Credit rating											Not rated	Carrying value
	AA+	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-		
	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million		
Debt securities													
Quoted	-	-	-	180	3	791	2 196	1 265	138	24	14	128	4 739
Unquoted	-	-	16	-	-	1 266	153	3 435	77	-	22	13	4 982
Total debt securities	-	-	16	180	3	2 057	2 349	4 700	215	24	36	141	9 721
Short-term money market instruments	-	-	-	1	44	415	336	1 251	86	5	56	87	2 281
Other loans and receivables	9	11	4	17	-	25	85	54	2	2	-	568	777
Cash and cash equivalents	-	353	207	-	-	-	2 350	413	-	-	-	26	3 349
Total	9	364	227	198	47	2 497	5 120	6 418	303	31	92	822	16 128
COMPANY													
Debt securities													
Quoted	-	-	-	145	-	571	1 783	943	134	19	-	114	3 709
Unquoted	-	-	16	-	-	854	102	2 095	77	-	-	12	3 156
Total debt securities	-	-	16	145	-	1 425	1 885	3 038	211	19	-	126	6 865
Short-term money market instruments	-	-	-	-	30	283	148	868	86	-	-	44	1 459
Other loans and receivables	-	1	1	1	-	17	24	54	2	-	-	893	993
Cash and cash equivalents	-	344	178	-	-	-	1 901	90	-	-	-	6	2 519
Total	-	345	195	146	30	1 725	3 958	4 050	299	19	-	1 069	11 836

Included in the "Not rated" category is Rnil (group) [2015: R86 million] and Rnil (company) [2015: R77 million] relating to African Bank Investments Ltd and African Bank Ltd investments.

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 2016	Financial assets that are past due but not impaired					Financial assets that have been impaired	Impairment	Carrying value
	Neither past due nor impaired	0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year			
GROUP	R million	R million	R million	R million	R million	R million	R million	R million
Debt securities								
Quoted	5 980	–	–	–	–	–	–	5 980
Unquoted	4 869	–	–	–	–	–	–	4 869
Total debt securities	10 849	–	–	–	–	–	–	10 849
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	4 617	–	–	–	–	–	–	4 617
Unquoted	2 723	–	–	–	–	–	–	2 723
Total debt securities	7 340	–	–	–	–	–	–	7 340
Short-term money market instruments	899	–	–	–	–	–	–	899
Other loans and receivables	662	–	–	–	–	140	(140)	662
Cash and cash equivalents	1 610	–	–	–	–	–	–	1 610

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 December 2015	Financial assets that are past due but not impaired					Financial assets that have been impaired		Carrying value R million
	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	R million	Impair- ment R million	
GROUP								
Debt securities								
Quoted	4 739	–	–	–	–	–	–	4 739
Unquoted	4 978	–	–	–	4	–	–	4 982
Total debt securities	9 717	–	–	–	4	–	–	9 721
Short-term money market instruments	2 281	–	–	–	–	–	–	2 281
Other loans and receivables	774	2	1	–	–	101	(101)	777
Cash and cash equivalents	3 349	–	–	–	–	–	–	3 349
COMPANY								
Debt securities								
Quoted	3 709	–	–	–	–	–	–	3 709
Unquoted	3 156	–	–	–	–	–	–	3 156
Total debt securities	6 865	–	–	–	–	–	–	6 865
Short-term money market instruments	1 459	–	–	–	–	–	–	1 459
Other loans and receivables	993	–	–	–	–	126	(126)	993
Cash and cash equivalents	2 519	–	–	–	–	–	–	2 519

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
5.10 Investment income				
Dividend income	64	119	115	306
Quoted	59	91	42	84
Unquoted	5	28	73	222
Interest income	941	729	788	617
Quoted	440	286	395	200
Unquoted	501	443	393	417
Foreign exchange differences	(228)	362	(71)	211
	777	1 210	832	1 134
5.11 Net gains/(losses) on financial assets and liabilities at fair value through income				
Net realised gains on financial assets	284	1 010	267	998
Net fair value losses on financial assets at fair value through income	(300)	(850)	(325)	(813)
Net realised/fair value gains on derivatives	75	43	75	43
Net fair value gains on short-term money market instruments	14	7	9	7
Net gains on financial assets at fair value through income	73	210	26	235
Net fair value (losses)/gains on financial liabilities designated as at fair value through income	(31)	25	(31)	25
Net fair value (losses)/gains on debt securities	(31)	25	(31)	25
	42	235	(5)	260

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		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
5.12 Investment income and net losses on financial assets held for sale				
Dividend income	394	-	-	-
Net fair value losses	(381)	-	-	-
	<u>13</u>	<u>-</u>	<u>-</u>	<u>-</u>

Dividend income for the group includes a dividend of R394 million resulting from the realisation of the value in the non-current assets held for sale relating to Cardrow. This resulted in the net fair value of the related investment being reduced by R381 million. Refer to note 15 for more detail.

6. FINANCIAL LIABILITIES

The group’s financial liabilities are summarised below.

Financial liabilities at fair value through income

Debt securities	6.1	2 053	998	2 053	998
Investment contracts	6.3	101	70	-	-
Derivative liabilities	6.4	-	1	-	1
Financial liabilities at amortised cost					
Collateral guarantee contracts	6.5	123	105	123	105
Trade and other payables excluding insurance payables	6.6	1 605	1 445	1 829	1 690
Financial liabilities		<u>3 882</u>	<u>2 619</u>	<u>4 005</u>	<u>2 794</u>

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

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
6.1 Debt securities				
At the beginning of the year	974	999	974	999
New debt securities issued	1 000	–	1 000	–
Net fair value losses/(gains) on debt securities	31	(25)	31	(25)
	<u>2 005</u>	<u>974</u>	<u>2 005</u>	<u>974</u>
Accrued interest	48	24	48	24
	<u>2 053</u>	<u>998</u>	<u>2 053</u>	<u>998</u>
Non-current liabilities	2 005	974	2 005	974
Current liabilities	48	24	48	24
Estimated redemption value on maturity date	<u>2 000</u>	<u>1 000</u>	<u>2 000</u>	<u>1 000</u>

During 2007, the company issued unsecured subordinated callable notes to the value of R1 billion in two tranches. The fixed effective rate for the R600 million issue was 8.6% and 9.6% for the second tranche of R400 million, representing the R203 companion bond plus an appropriate credit spread at the time of the issues. The fixed coupon rate, based on the nominal value of the issues, amounts to 8.25% and for both tranches the optional redemption date is 15 September 2017. Between the optional redemption date and final maturity date of 15 September 2022, a variable interest rate (JIBAR-based plus additional margin) will apply.

During April 2016, the company issued additional unsecured subordinated callable notes to the value of R1 billion in two equal tranches of fixed and floating rate notes. The effective rate for the floating rate notes amounted to 9.81%, representing the three-month JIBAR (as at 31 December 2016) plus 245 basis points at the time of the issue, while the rate for the fixed rate notes amounted to 11.77%. The floating rate notes have a call date of 12 April 2021 with a final maturity date of 12 April 2026, and the fixed rate notes a call date of 12 April 2023 with a final maturity date of 12 April 2028.

Per the conditions set by the Regulator, Santam is required to maintain liquid assets equal to the value of the callable notes until 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 (2015: level 1) in the fair value hierarchy.

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.

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

	Number of debt security holders	% of total debt security holders	Number of units	% Interest
6. FINANCIAL LIABILITIES (continued)				
6.1 Debt securities (continued)				
6.1.1 Analysis of debt security holders				
1 – 50 000 units	24	11.65%	166 622	0.01%
50 001 – 100 000 units	9	4.37%	841 656	0.04%
100 001 – 1 000 000 units	57	27.67%	30 065 378	1.50%
1 000 001 – 10 000 000 units	78	37.86%	342 149 448	17.11%
More than 10 000 000 units	38	18.45%	1 626 776 896	81.34%
Total	206	100.00%	2 000 000 000	100.00%
Type of debt security holder				
Banks	4	1.94%	74 300 000	3.72%
Brokers	2	0.97%	53 566 656	2.68%
Endowment funds	6	2.91%	14 909 830	0.75%
Insurance companies	15	7.28%	196 318 583	9.82%
Investment companies	6	2.91%	164 873 400	8.24%
Medical aid schemes	9	4.37%	36 684 000	1.83%
Mutual funds	101	49.04%	802 611 038	40.13%
Nominees and trusts	2	0.97%	1 490 000	0.07%
Pension funds	55	26.70%	581 442 493	29.07%
Private companies	4	1.94%	64 442 000	3.22%
Public companies	2	0.97%	9 362 000	0.47%
Total	206	100.00%	2 000 000 000	100.00%
Debt security holder spread			Nominal number	% Interest
Government Employees Pension Fund			365 996 877	18.30%
MMI Group Ltd			158 663 400	7.93%
Investec Cautious Managed Fund			107 400 000	5.37%
Other			1 367 939 723	68.40%
Total			2 000 000 000	100.00%

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 represent the fair value of interest rate swaps effected on a total of R100 million (2015: R100 million) of fixed interest securities held in the investment portfolio underlining the subordinated callable note. The interest rate swaps have the effect of swapping a variable interest rate for a fixed interest rate on these assets to eliminate interest rate risk on assets supporting the bond liability. The derivatives mature on 12 June 2017.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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:

GROUP	2016		2015	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
Financial liabilities – fixed rate				
Debt securities – quoted	28	(29)	15	(15)
Derivative instruments	-	-	(1)	1
Financial liabilities – variable rate				
Debt securities – quoted	(5)	5	-	-
Total change in finance cost and net fair value movements before tax	23	(24)	14	(14)
COMPANY				
Financial liabilities – fixed rate				
Debt securities – quoted	28	(29)	15	(15)
Derivative instruments	-	-	(1)	1
Financial liabilities – variable rate				
Debt securities – quoted	(5)	5	-	-
Total change in finance cost and net fair value movements before tax	23	(24)	14	(14)

6.3 Investment contracts

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
At the beginning of the year	70	105		
Investment contracts issued	84	32		
Investment contracts sold/matured	(53)	(67)		
Investment contracts	101	70		
Non-current liabilities	-	-		
Current liabilities	101	70		

The net fair value gains on investment contracts are equal to the net fair value gains 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 a single contract there is no significant risk transfer and 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

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
6. FINANCIAL LIABILITIES (continued)				
6.4 Derivative liabilities				
Financial liabilities – at fair value through income				
Over the counter				
Interest rate swaps ¹	-	1	-	1
	-	1	-	1

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

The interest rate derivatives represent the fair value of interest rate swaps effected on a portion R100 million (2015: 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 have the effect of swapping a variable interest rate for a fixed interest rate on these assets to eliminate interest rate risk on assets supporting the bond liability. The derivatives mature on 12 June 2017.

The interest rate swaps are 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 is the sum of these two present values. 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 R3 million (2015: R10 million) and R3 million (2015: R11 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
6.5 Collateral guarantee contracts				
At the beginning of the year	105	88	105	88
New contracts entered into	30	29	30	29
Contracts ended	(18)	(18)	(18)	(18)
Interest	6	6	6	6
	<u>123</u>	<u>105</u>	<u>123</u>	<u>105</u>

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 R123 million (2015: R105 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				
Amounts due to subsidiaries (refer to note 10.1)	–	–	899	928
Trade payables and accrued expenses	1 477	1 335	838	683
Employee benefits	128	110	92	79
Total	<u>1 605</u>	<u>1 445</u>	<u>1 829</u>	<u>1 690</u>

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				
Interest expense				
– interest on collateral guarantee	6	6	6	6
– banks and other	45	26	43	23
– subordinated callable note	160	83	160	83
– revenue authorities	1	1	1	–
	<u>212</u>	<u>116</u>	<u>210</u>	<u>112</u>

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 when the investment in SAN JV is 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 (2015: R134 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 December 2016, SEM and Santam announced a further investment in SAN JV, for the purpose of SAN JV acquiring a further 16.6% interest in Saham Finances via a subscription for new shares for US\$325 million, which is still subject to regulatory approval. Santam's share of the purchase price is US\$7.35 million plus transaction costs. Santam therefore decided to implement another hedging arrangement similar to the one applied in 2015 by purchasing US\$10 million before year-end. The currency losses recognised as part of the cash flow hedge reserve amounted to R6 million as at 31 December 2016.

The tables presented on pages 73 and 74 provide a summary of the foreign exposures 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 investments in SEM and SAN JV has been included from 2016.

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 2016	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
GROUP								
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

7. CURRENCY RISK (continued)

31 December 2015		United States	British	Chinese	Indian	South	Total
GROUP	Euro € million	dollar US\$ million	pound £ million	yuan CNY million	rupee INR million	won KRW million	exposure R million
Debentures, insurance policies, public sector stocks and other loans	-	57.97	-	-	-	-	897.83
Cash, deposits and similar securities	2.00	30.03	1.04	-	-	-	515.64
Reinsurance assets	0.18	38.71	0.03	-	-	-	599.91
Trade and other receivables	0.54	22.35	0.44	6.16	387.11	2 913.47	567.86
Insurance liabilities	(0.95)	(74.24)	(2.35)	(27.55)	(583.93)	(6 109.07)	(1 624.15)
Trade and other payables	(0.18)	(26.61)	(0.09)	(2.11)	(162.98)	(598.68)	(465.83)
Total foreign currency exposure relating to insurance business (excluding alternative risk)	1.59	48.21	(0.93)	(23.50)	(359.80)	(3 794.28)	491.26
Cash, deposits and similar securities:							
- designated for hedging purposes	-	100.00	-	-	-	-	1 549.00
- relating to alternative risk business	-	8.93	-	-	-	-	132.76
- relating to net investment in Santam International	-	-	1.90	-	-	-	43.38
Trade and other payables:							
- relating to alternative risk business	-	(8.93)	-	-	-	-	(132.76)
- relating to net investment in Santam International	-	-	(25.80)	-	-	-	(580.73)
Trade and other receivables relating to net investment in Santam International	-	-	25.80	-	-	-	580.73
Non-current assets held for sale	-	-	23.69	-	-	-	540.91
Foreign currency exposure	1.59	148.21	24.66	(23.50)	(359.80)	(3 794.28)	2 624.55
COMPANY							
Debentures, insurance policies, public sector stocks and other loans	-	57.97	-	-	-	-	897.83
Cash, deposits and similar securities	2.00	30.03	1.04	-	-	-	515.64
Reinsurance assets	0.18	38.71	0.03	-	-	-	599.91
Trade and other receivables	0.54	22.35	0.44	6.16	387.11	2 913.47	567.86
Insurance liabilities	(0.95)	(74.24)	(2.35)	(27.55)	(583.93)	(6 109.07)	(1 624.15)
Trade and other payables	(0.18)	(26.61)	(0.09)	(2.11)	(162.98)	(598.68)	(465.83)
Total foreign currency exposure relating to insurance business	1.59	48.21	(0.93)	(23.50)	(359.80)	(3 794.28)	491.26
Cash, deposits and similar securities:							
- designated for hedging purposes	-	100.00	-	-	-	-	1 549.00
Trade and other payables:							
- relating to net investment in Santam International	-	-	(25.80)	-	-	-	(580.73)
Foreign currency exposure	1.59	148.21	(26.73)	(23.50)	(359.80)	(3 794.28)	1 459.53
Exchange rates:							
Closing rate	16.84	15.49	22.83	2.40	0.24	0.01	
Average rate	14.09	12.69	19.40	2.04	0.20	0.01	

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 INR, USD and GBP would have the following impact on income before taxation:

	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
31 December 2016				
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
	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
31 December 2015				
GROUP				
Impact on profit or loss	(2.12)	2.12	74.68	(74.68)
COMPANY				
Impact on profit or loss	(2.12)	2.12	74.68	(74.68)

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 (2015) and South Korean won is not disclosed as it is not material for the group or the company. The impact of a 10% change in the rand exchange rate against the Moroccan dirham would only impact other comprehensive income. It has no impact on profit or loss.

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 note 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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	-	-	-	1 400	1 400
Unquoted	-	-	-	1 181	1 181
Total	-	-	-	2 581	2 581
Debt securities					
Quoted	530	4 404	778	268	5 980
Unquoted	101	4 726	11	31	4 869
Total	631	9 130	789	299	10 849
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' 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' 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

COMPANY	< 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	-	-	-	1 255	1 255
Unquoted	-	-	-	1 181	1 181
Total	-	-	-	2 436	2 436
Debt securities					
Quoted	507	3 453	479	178	4 617
Unquoted	93	2 592	7	31	2 723
Total	600	6 045	486	209	7 340
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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

8. LIQUIDITY RISK (continued)

31 December 2015

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	-	-	-	1 711	1 711
Unquoted	-	-	-	1 019	1 019
Total	-	-	-	2 730	2 730
Debt securities					
Quoted	190	3 345	990	214	4 739
Unquoted	36	4 845	-	101	4 982
Total	226	8 190	990	315	9 721
Short-term money market instruments	2 281	-	-	-	2 281
Receivables due from contract holders/intermediaries	2 463	-	-	-	2 463
Reinsurance receivables	209	-	-	-	209
Cell owners' interest	6	-	-	-	6
Other loans and receivables	760	17	-	-	777
Reinsurance assets (incl DAC)	3 548	573	82	-	4 203
Deposit with cell owner	67	143	44	-	254
Total	7 053	733	126	-	7 912
Cash and cash equivalents	3 349	-	-	-	3 349
Total financial and insurance assets	12 909	8 923	1 116	3 045	25 993

	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		83	1 083	1 166
Investment contracts		70	-	70
Cell owners' interest		-	980	980
Collateral guarantee contracts		105	-	105
Insurance liabilities (incl Reinsurance DAC)		10 791	1 886	12 944
Reinsurance liability relating to cell owners		67	143	254
Trade and other payables		3 252	53	3 412
Total		14 368	4 145	18 931

COMPANY	< 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	-	-	-	1 591	1 591
Unquoted	-	-	-	1 019	1 019
Total	-	-	-	2 610	2 610
Debt securities					
Quoted	190	2 567	738	214	3 709
Unquoted	36	3 019	-	101	3 156
Total	226	5 586	738	315	6 865
Short-term money market instruments	1 459	-	-	-	1 459
Receivables due from contract holders/intermediaries	2 258	-	-	-	2 258
Reinsurance receivables	134	-	-	-	134
Other loans and receivables	993	-	-	-	993
Reinsurance assets (incl DAC)	3 082	582	83	-	3 747
Total	6 467	582	83	-	7 132
Cash and cash equivalents	2 519	-	-	-	2 519
Total financial and insurance assets	10 671	6 168	821	2 925	20 585

	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		83	1 083	1 166
Collateral guarantee contracts		105	-	105
Insurance liabilities (incl Reinsurance DAC)		8 190	1 843	10 297
Trade and other payables		3 452	-	3 452
Total		11 830	2 926	15 020

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
9. CELL OWNERS' INTEREST AND OTHER ASSETS AND LIABILITIES RELATING TO CELLS				
9.1 Reconciliation of cell owners' interest				
At the beginning of the year	974	915		
Net increase in cell owners' interest	231	175		
Preference shares issued by subsidiary	13	1		
Redemption of preference shares	(1)	(13)		
Dividends paid to preference shareholders	(71)	(104)		
	1 146	974		
Amounts owed by cell owners	7	6		
	1 153	980		

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Group	
	2016 R million	2015 R million
9. CELL OWNERS' INTEREST AND OTHER ASSETS AND LIABILITIES RELATING TO CELLS (continued)		
9.2 Reconciliation of deposit with cell owner		
At the beginning of the year	254	-
New contracts entered into	-	254
Movement for the year (refer to note 9.3)	(35)	-
	<u>219</u>	<u>254</u>
Non-current assets	<u>163</u>	<u>187</u>
Current assets	<u>56</u>	<u>67</u>
9.3 Reconciliation of reinsurance liability relating to cell owners		
At the beginning of the year	254	-
New contracts entered into	-	254
Impact of discounting over the period (unwinding)	21	-
Exits during the period (lapses and death)	(51)	-
Repayments	(57)	-
New tranches written during the period	55	-
Other	(3)	-
	<u>219</u>	<u>254</u>
Non-current liabilities	<u>163</u>	<u>187</u>
Current liabilities	<u>56</u>	<u>67</u>

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.

	Company	
	2016 R million	2015 R million
10. INVESTMENT IN SUBSIDIARIES		
At the beginning of the year	1 893	2 037
Acquisitions	-	38
Disposals	-	(63)
Impairment	-	(119)
Unlisted shares at cost price less impairment	<u>1 893</u>	<u>1 893</u>
Non-current assets	<u>1 355</u>	<u>1 355</u>
Current assets	<u>538</u>	<u>538</u>

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

On 15 December 2015, Santam Ltd acquired one share in Riscor Underwriting Managers (Pty) Ltd for R38 million.

On 31 December 2015, the Santam group sold 76% of its effective 100% shareholding in Indwe Broker Holdings Group (Pty) Ltd. Santam Ltd held 26.34% of the total shareholding that was sold, directly. Refer to note 14 for further details. The remaining 24%, held by Swanvest 120 (Pty) Ltd, was classified as a joint venture.

Management performed an impairment review on all investments in subsidiaries. No impairments were required in the current year. In the prior year, the carrying values of dormant companies were adjusted to align with the current net asset values.

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 2016	Proportion held by the company 2015	Book value R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
Direct								
Aegis Insurance Company Ltd	Insurance	RSA	179 195 142	100.0%	100.0%	186	188	-
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	134	-
Main Street 409 (Pty) Ltd	Holding co.	RSA	850	100.0%	100.0%	84	50	-
Mirabilis Engineering Underwriting Managers (Pty) Ltd	Underwriting	RSA	84 000 850	55.0%	55.0%	84	-	-
Riscor Underwriting Managers (Pty) Ltd ²	Underwriting	RSA	37 500 100	100.0%	100.0%	-	-	-
Santam International Ltd	Holding co.	Guernsey	692 505 672	100.0%	100.0%	538	429	-
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%	-	-	297
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
						1 893	859	322
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 ⁴	Insurance	RSA	200	87.5%	87.5%	15	-	-
Brolink (Pty) Ltd	Admini- stration 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 ⁵	Insurance	RSA	15 000 000	100.0%	100.0%	16	-	-
C-Sure Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	100.0%	100.0%	-	-	3
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%	1	-	-
Insurance Broker Resource Centre (Pty) Ltd	Underwriting	RSA	85 000	100.0%	100.0%	-	-	38
Isure Services (Pty) Ltd ²	IT Services	RSA	100	0.0%	100.0%	-	-	-
Isure Systems (Pty) Ltd ²	IT Services	RSA	100	0.0%	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 ¹	Holding co.	RSA	20 700	100.0%	0.0%	-	-	3
Namibian National Insurance Company Ltd ²	Insurance	Namibia	3 100 000	0.0%	100.0%	-	-	-
Nautical Underwriting Managers (Pty) Ltd ⁶	Underwriting	RSA	200	62.0%	62.0%	4	-	-
Nova Risk Partners Ltd	Insurance	RSA	3 000 000	100.0%	100.0%	3	-	-
Santam Namibia Ltd	Insurance	Namibia	445 000 001	60.0%	60.0%	5	12	-
Santam UK Ltd	Holding co.	United Kingdom	100 006 588	100.0%	100.0%	75	-	-
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%	-	-	-
						687	40	56
TOTAL INVESTMENTS IN SUBSIDIARIES						2 580	899	378

¹ On 14 June 2016, Swanvest 120 (Pty) Ltd purchased 100% shareholding in Multiplex Investment Holding Company (Pty) Ltd.

² These entities were deregistered during the 2016 year.

³ On 15 December 2015, Riscor Underwriting Managers (Pty) Ltd issued 1 ordinary share to Santam Ltd for R37.5 million. The group has an effective 100% shareholding before and after the transaction.

⁴ On 1 December 2015, Centriq Insurance Holdings Ltd sold 12.5% of its shareholding in Beyonda Group (Pty) Ltd.

⁵ On 29 June 2015, Centriq Life Insurance Company Ltd had a capital reduction of R8 million, reducing its carrying value in Centriq Insurance Holdings Ltd to R16 million.

⁶ On 9 June 2015, Centriq Insurance Holdings Ltd sold 25% of its shareholding in Nautical Underwriting Managers (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 capital levels for the future implementation of the Financial Services Board's new solvency regime, Solvency Assessment and Management (SAM). The contingent capital facility remained in place for 2016.

	Company	
	2016	2015
	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)	1 888	1 589
– Centriq Insurance Holdings Ltd (for insurance premiums)	102	59
– Santam Namibia Ltd (for insurance premiums)	65	77
– other subsidiaries (for administration services)	23	19
– subsidiaries (for administration services)	(361)	(500)
– subsidiaries (for brokerage commission)	(623)	(671)
– MiWay Group Holdings Ltd (for insurance claims paid)	(1 225)	(943)
– Centriq Insurance Holdings Ltd (for insurance claims paid)	(96)	(43)
– Santam Namibia Ltd (for insurance claims paid)	(172)	(37)
– Santam Namibia Ltd (for reinsurance services)	(63)	(66)
– Santam Namibia Ltd (for reinsurance claims)	54	56
– Santam Namibia Ltd (for reinsurance commission)	18	20
b) Year-end balances with related parties		
Emthunzini Black Economic Empowerment Staff Trust	11	123
	Group	
	2016	2015
	R million	R million

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.

Santam Namibia Ltd	454	446
Mirabilis Engineering Underwriting Managers (Pty) Ltd	19	25
Other	(4)	(5)
Total	469	466

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Mirabilis Engineering Underwriting Managers (Pty) Ltd		Santam Namibia Ltd	
	2016 R million	2015 R million	2016 R million	2015 R million
11. NON-CONTROLLING INTEREST IN SUBSIDIARIES				
(continued)				
Ownership and voting right	45.0%	45.0%	40.0%	40.0%
Target share interest			37.4%	37.4%
Current assets	43	57	563	719
Non-current assets	7	9	427	294
Current liabilities	8	11	614	664
Non-current liabilities	-	-	19	17
Net assets	42	55	357	332
Carrying amount of NCI	19	25	454	446
SEM target shares	-	-	311	314
Ordinary shareholders	19	25	143	132
Revenue	90	110	1 118	1 056
Profit after tax	31	47	134	122
Total comprehensive income	31	47	134	122
Profit allocated to NCI	14	21	104	95
Cash flows from operating activities	43	26	127	176
Cash flows from investing activities	-	-	13	(6)
Cash flows from financing activities, before dividends to NCI	(23)	(15)	(66)	(63)
Cash flows from financing activities – cash dividends to NCI	(19)	(12)	(44)	(42)
Net increase/(decrease) in cash and cash equivalents	1	(1)	30	65

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.

	Group	
	2016 R million	2015 R million
12. INVESTMENT IN ASSOCIATES AND JOINT VENTURES		
At the beginning of the year	252	355
Capitalisation	10	28
Acquisitions	1 467	68
Share of results after tax	67	53
Share of results before tax	80	71
Share of tax	(13)	(18)
Dividends received from associated companies and joint ventures	(5)	(40)
Disposals	-	(212)
Foreign currency translation	(255)	-
At the end of the year	1 536	252

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).

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.

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On 26 February 2015, a further capital contribution of R28 million was made to Western Group Holdings Ltd.

On 31 May 2015, Swanvest 120 (Pty) Ltd, a wholly-owned subsidiary of Santam Ltd, sold its 37.5% shareholding in Censeo (Pty) Ltd.

On 9 October 2015, Santam Ltd sold its 33.6% shareholding in Credit Guarantee Insurance Corporation of Africa Ltd.

On 26 October 2015, Swanvest 120 (Pty) Ltd acquired an additional 15.6% of the shareholding in Vulindlela Underwriting Managers (Pty) Ltd for R2.3 million, increasing its shareholding from 31.4% to 47%.

On 31 December 2015, the Santam group sold 76% of its 100% shareholding in Indwe Broker Holdings Group (Pty) Ltd. Refer to note 14 for further details. The remaining 24%, held by Swanvest 120 (Pty) Ltd, was reclassified as a joint venture at the fair value of R66 million.

	Company	
	2016 R million	2015 R million
At the beginning of the year	-	117
Capitalisation	10	-
Acquisitions	1 467	-
Disposals	-	(117)
At the end of the year	1 477	-
Dividend income received from associates	-	38
Total income from associates	-	38

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
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
2015						
Revenue	128	-	-	463	32	623
Depreciation and amortisation	10	-	-	-	1	11
Interest income	12	-	-	16	-	28
Interest expense	-	-	-	-	-	-
Income tax expense	5	-	-	(9)	-	(4)
Profit/(loss) from continuing operations	19	-	-	28	1	48
Total comprehensive income	19	-	-	28	1	48
Current assets	189	-	-	418	5	612
Non-current assets	131	-	-	432	17	580
Current liabilities	(181)	-	-	(63)	(8)	(252)
Non-current liabilities	(2)	-	-	(482)	(3)	(487)
Net asset value	137	-	-	305	11	453
Calculated carrying value	66	-	-	114	10	190
Intangible assets recognised in the carrying value of associates	-	-	-	54	8	62
Carrying value	66	-	-	168	18	252

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 2016 (2015: six months ended 31 August 2015).

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Indwe Broker
Holdings
Group
(Pty) Ltd
R million

Additional information regarding joint ventures is as follows:

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

2015

Cash and cash equivalents	183
Current liabilities (excluding trade and other payables and provisions)	10
Non-current liabilities (excluding trade and other payables and provisions)	2

Up to 1 year R million	Between 1 to 5 years R million	More than 5 years R million	Total R million
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The group's share of future aggregate minimum lease payments under operating leases of joint ventures are as follows:

2016

Offices	3	4	-	7
	3	4	-	7

2015

Offices	2	2	-	4
	2	2	-	4

12.1 Analysis of investments in associates and joint ventures

Investment in associated companies and joint ventures

Unlisted companies

	Nature of business	Country of incorporation	Issued capital R	Proportion held by the company 2016	Proportion held by the company 2015	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	37 000	49.0%	0.0%	50	-	-
SAN JV (RF) (Pty) Ltd ²								
	Insurance	RSA	6 219 331 000	25.0%	0.0%	1 201	-	-
South African Nuclear Pool Administrators (Pty) Ltd								
	Insurance	RSA	120	25.0%	25.0%	-	-	-
						1 251	-	-
Indirect								
STRIDE South Africa (RF) (Pty) Ltd								
	IT company	RSA	25 140 000	33.3%	33.3%	-	-	-
Indwe Broker Holdings Group (Pty) Ltd ³								
	Intermediary	RSA	28 552 225	24.0%	24.0%	65	-	-
Paladin Underwriting Managers (Pty) Ltd								
	Insurance	RSA	3 008 000	40.0%	40.0%	17	-	-
Vulindlela Underwriting Managers (Pty) Ltd ⁴								
	Underwriting	RSA	800	47.0%	47.0%	3	-	-
Western Group Holdings Ltd								
	insurance	Namibia	31 919 643	40.0%	40.0%	200	-	-
						285	-	-
TOTAL INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES						1 536	-	-

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.

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.

³ On 31 December 2015, the Santam group sold 76% of its 100% shareholding in Indwe Broker Holdings Group (Pty) Ltd. The remaining 24%, held by Swanvest 120 (Pty) Ltd, was classified as a joint venture.

⁴ On 26 October 2015, Swanvest 120 (Pty) Ltd acquired an additional 15.6% of the shareholding in Vulindlela Underwriting Managers (Pty) Ltd.

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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 associated companies and joint ventures.

	Company	
	2016 R million	2015 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)	(64)	(33)
– associates and joint ventures (for brokerage commission)	(92)	–
– associates (for outward reinsurance contracts)	(177)	(170)
– associates (for outward reinsurance claims covered)	108	96
– associates (for outward reinsurance commissions covered)	20	19
– associates (for inward reinsurance contracts)	74	127
– associates (for inward reinsurance claims covered)	(51)	(96)
– associates (for inward reinsurance commissions covered)	(21)	(34)
b) Year-end balances with related parties		
Western National Insurance	(1)	(2)

	Goodwill R million	Computer software R million	Brand, trademark and trade names R million	Key business relationships R million	Total R million
13. INTANGIBLE ASSETS					
GROUP					
At 1 January 2015					
Cost	955	311	41	268	1 575
Accumulated impairment/amortisation	(122)	(155)	(40)	(172)	(489)
Net book amount	833	156	1	96	1 086
Year ended 31 December 2015					
Opening net book amount	833	156	1	96	1 086
Acquisitions	–	78	–	7	85
Disposals	–	–	–	(4)	(4)
Impairment	(47)	–	–	(5)	(52)
Amortisation	–	(24)	(1)	(40)	(65)
Disposal of subsidiary	(188)	–	–	(35)	(223)
Closing net book amount	598	210	–	19	827
At 31 December 2015					
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

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 2015					
Cost	76	182	1	33	292
Accumulated amortisation	-	(45)	(1)	(23)	(69)
Net book amount	76	137	-	10	223
Year ended 31 December 2015					
Opening net book amount	76	137	-	10	223
Acquisitions	-	62	-	7	69
Amortisation	-	(10)	-	(7)	(17)
Closing net book amount	76	189	-	10	275
At 31 December 2015					
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

Computer software

Additional software acquired by the group during the year consists of external software of R33 million (2015: R20 million) and internally developed software of R17 million (2015: R58 million). Additional software acquired by the company 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. 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 Rnil (2015: R5 million) and key intermediary or other relationships R60 million (2015: R14 million) acquired as part of business combinations. Refer to note 14 for details of the acquisition of the Absa Intermediated Commercial Lines Business.

The valuation of key intermediary or other relationships is based on discounted cash flow models. Discount rates between 15% and 17% (2015: 17% and 19%) are used as significant input. In 2015, cancellation rates of between 15% and 35% were 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 table on the previous page 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	
	2016 R million	2015 R million
Crop	19	19
Alternative risk	17	17
Policy administration	46	46
Engineering	28	28
MiWay group	319	319
Liability	90	93
Accident and health	76	76
	<u>595</u>	<u>598</u>

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

The nature of goodwill mainly relates to employee skill and industry knowledge. In 2016, goodwill on dormant companies amounting to R3 million was impaired. In 2015, the group's policy administration and brokerage businesses were reorganised resulting in the following: Original Co-Sourcing SA (Pty) Ltd (Orico), previously held by Indwe Broker Holdings (Pty) Ltd (Indwe), was sold to Brolink (Pty) Ltd. The goodwill relating to Orico (R64 million) was therefore transferred from brokerage to policy administration. The remaining goodwill included under brokerage of R188 million related to Indwe and was sold (refer to note 14). The goodwill balance relating to the policy administration business was reviewed for impairment and it was concluded that R45 million of the balance needs to be impaired. Goodwill on dormant companies amounting to R2 million was also impaired.

Discount rates between 15% and 19% (2015: 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% (2015: 12%). Should the discount rates decrease by 10% the valuations would increase on average by 11% (2015: 15%). 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

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 (2015: R134 million) recognised on the designated cash balances since implementation date were not recognised in the statement of comprehensive income, but were accounted for as part of the investment in SAN JV. Therefore, the cost price of the investment, net of the cash flow hedge impact, was R1 412 million.

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

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

Absa Intermediated Commercial Lines Business

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2015

Disposals

Indwe Broker Holdings Group (Pty) Ltd

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

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

The purchase consideration was received in 2016.

Credit Guarantee Insurance Corporation of Africa Ltd

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

Censeo (Pty) Ltd

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

Additions

Riscor Underwriting Managers (Pty) Ltd

On 15 December 2015, Santam Ltd acquired one share in Riscor Underwriting Managers (Pty) Ltd, in which the group has an effective 100% shareholding before and after the transaction, for R38 million.

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

	Group	
	2016 R million	2015 R million
15. NON-CURRENT ASSETS HELD FOR SALE		
Group assets that are classified as held for sale		
Financial assets – at fair value through income		
Equity securities	–	390
Loans and receivables including insurance receivables	8	151
	8	541
Opening balance	541	428
Settlements	(509)	–
Dividend income	394	–
Foreign exchange (losses)/gains	(37)	113
Net fair value losses	(381)	–
Closing balance	8	541

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

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

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and other assets R million	Total R million
16. PROPERTY AND EQUIPMENT GROUP				
At 1 January 2015				
Cost or valuation	2	176	166	344
Accumulated depreciation	(1)	(126)	(100)	(227)
Net book amount	1	50	66	117
Year ended 31 December 2015				
Opening net book amount	1	50	66	117
Additions	-	31	8	39
Depreciation charge	-	(27)	(16)	(43)
Disposal of subsidiary	-	(12)	(11)	(23)
Closing net book amount	1	42	47	90
At 31 December 2015				
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
COMPANY				
At 1 January 2015				
Cost or valuation	1	72	61	134
Accumulated depreciation	-	(48)	(34)	(82)
Net book amount	1	24	27	52
Year ended 31 December 2015				
Opening net book amount	1	24	27	52
Additions	-	22	1	23
Depreciation charge	-	(17)	(6)	(23)
Closing net book amount	1	29	22	52
At 31 December 2015				
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

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 2015	119 346	107	4 711	506
Reissue of treasury shares	-	-	(386)	(56)
Specific repurchase and cancellation of shares	(4 215)	(4)	-	-
Staff trust	-	-	684	-
At 31 December 2015	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

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 2016 the subsidiary acquired an additional 434 000 (2015: nil) shares to utilise as part of the DSP, while 335 371 (2015: 385 987) 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".

Effective 30 June 2015, Santam repurchased and cancelled 4 215 000 Santam shares held by the Santam BBBEE scheme at a price of R190 per share for a total consideration of R801 million. Refer to note 18.1 for more detail.

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 an increase of 684 482 in the treasury shares as at 31 December 2015 (refer to note 18.1 for further detail). During 2016, the staff trust distributed 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.

	Number of shareholders	% of total shareholders	Number of shares	% Interest
17.1 Analysis of shareholders				
1 – 100 shares	1 410	21.98%	94 335	0.08%
101 – 1 000 shares	3 170	49.42%	1 296 242	1.13%
1 001 – 50 000 shares	1 722	26.85%	10 448 118	9.07%
50 001 – 100 000 shares	51	0.80%	3 578 620	3.11%
100 001 – 10 000 000 shares	60	0.94%	32 081 445	27.87%
More than 10 000 000 shares	1	0.01%	67 632 657	58.74%
Total	6 414	100.00%	115 131 417	100.00%

Type of shareholder

Individuals	4 314	67.26%	3 770 119	3.27%
Companies	538	8.39%	85 790 376	74.52%
Growth funds/unit trusts	193	3.01%	12 626 314	10.97%
Nominee companies or trusts	1 215	18.94%	3 388 550	2.94%
Pension and retirement funds	154	2.40%	9 556 058	8.30%
Total	6 414	100.00%	115 131 417	100.00%

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

The analysis includes the shares held as treasury shares.

¹ Owners of treasury shares.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

17. SHARE CAPITAL (continued)

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

At 31 December 2016, the directors of the company held direct and indirect interests, including family interests, in 36 816 of the company's issued ordinary shares (2015: 25 514). Details of shares held per individual director are listed below. A total of 84 034 (2015: 84 163) conditional rights, share appreciation rights, performance shares and bonus 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.

2016	Direct		Indirect		Total
	Beneficial	Non-beneficial	Beneficial	Non-beneficial	
Executive directors and prescribed officers					
L Lambrechts	-	-	-	-	-
HD Nel	6 370	-	-	-	6 370
Non-executive directors					
B Campbell	8 370	-	-	-	8 370
MP Fandesó	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
2015					
Executive directors and prescribed officers					
L Lambrechts	-	-	-	-	-
HD Nel	3 557	-	-	-	3 557
Y Ramiah	100	-	-	-	100
Non-executive directors					
CB Booth	-	-	-	-	-
B Campbell	8 370	-	-	-	8 370
MD Dunn	100	-	-	-	100
MP Fandesó	103	-	-	-	103
BTPKM Gamedze	200	-	-	-	200
GG Gelink	-	-	-	-	-
IM Kirk	2 265	-	-	-	2 265
MLD Marole	-	-	-	-	-
JP Möller	108	-	-	-	108
T Nyoka (née Fubu)	-	-	-	-	-
MJ Reyneke	-	-	10 711	-	10 711
	14 803	-	10 711	-	25 514

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) Three years – 40%
- b) Four years – 30%
- c) Five years – 30%

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 the agreed-upon individual performance hurdles, the vesting of the award is also subject to the following performance conditions:

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

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

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

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

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

For the year ended 31 December 2016, allocations in respect of 433 213 shares (2015: 361 886) were made to 298 participants (2015: 260) under the DSP and PDSP. The fair value of the grants on grant date, calculated in terms of IFRS 2, amounted to R89 million (2015: R71 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. SHARE INCENTIVE SCHEMES (continued)

(i) Deferred share plan (DSP) and Performance deferred share plan (PDSP) (continued)

2015	Date awarded	Latest irreversible date	Grant price	Number of shares
The following shares were awarded and the delivery thereof deferred to a predetermined future date.	16 March 2012	31 May 2015	R148.10	628
	1 June 2011	31 May 2016	R113.94	77 791
	16 March 2012	31 May 2016	R142.91	23 858
	1 June 2012	31 May 2017	R151.80	189 836
	17 September 2012	31 May 2017	R164.69	9 104
	1 June 2013	31 May 2018	R166.57	329 677
	1 June 2014	31 May 2019	R193.60	339 777
	1 June 2015	31 May 2020	R196.54	358 324
				<u>1 328 995</u>
	Movements during the period		Average price	Number of shares
			R155.97	1 380 033
			R196.54	358 324
			R196.54	3 562
			R167.98	(23 424)
			R119.16	(12 027)
			R125.05	(377 473)
			R175.92	<u>1 328 995</u>
2016	Date awarded	Latest irreversible date	Grant price	Number of shares
The following shares were awarded and the delivery thereof deferred to a predetermined future date.	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	
			<u>1 390 934</u>	
	Movements during the period		Average price	Number of shares
			R175.92	1 328 995
			R206.57	377 312
			R194.06	55 901
			R181.32	(36 119)
			R156.98	(1 710)
			R148.72	(333 445)
			R191.37	<u>1 390 934</u>

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

(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 R9 million (2015: R14 million) has been included in the statement of comprehensive income.

2015	Date awarded	Latest irreversible date	Grant price	Number of units
The following units were awarded and the delivery thereof deferred to a predetermined future date.	1 September 2008	31 August 2015	R0.00	17 419
	1 September 2009	31 August 2016	R8.00	57 068
	1 September 2010	31 August 2017	R31.05	69 248
	1 September 2011	31 August 2018	R53.65	106 487
	1 September 2012	31 August 2019	R97.90	197 901
	1 January 2013	31 December 2019	R87.48	275 191
	1 September 2013	31 August 2020	R80.44	167 224
	1 December 2013	30 November 2020	R84.47	12 161
	1 September 2014	31 August 2021	R87.97	171 182
	1 December 2014 ¹	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
				1 092 529

¹ Awarded in 2014 but only formalised in 2015.

Movements during the period	Average price	Number of units
As at 1 January 2015	R55.00	2 319 514
Units awarded in 2015	R84.56	18 648
Units awarded in lieu of specific contract changes	R84.56	5 006
Awarded units lapsed due to resignations	R59.44	(119 484)
Accelerated vesting and issued	R55.31	(2 557)
Units issued	R34.78	(1 128 598)
As at 31 December 2015	R76.03	1 092 529

2016	Date awarded	Latest irreversible date	Grant price	Number of units
The following units were awarded and the delivery thereof deferred to a predetermined future date.	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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. SHARE INCENTIVE SCHEMES (continued)

(iii) The Emthunzini Black Economic Empowerment Business Partners Trust (the Business Partners Trust)

The Business Partners Trust is one of three components of a structured entity which hosted the Santam BBBEE scheme. The scheme unwound during 2015 and all participating units were issued. Refer to note 18.1 for further information on the structured entity. Units were allocated to strategic business partners. Participants included black intermediaries, black non-executive directors, black strategic business partners and:

- Key black employees of select Santam subsidiaries and associates on a discretionary basis.
- Sanlam black senior employees, responsible for driving synergies between the two groups.
- Santam black non-executive directors.

Units vested as per the agreements with employees and business partners. The fair value used in determining the allocation was based on the unit price on grant date. The unit price reflected the net asset value of the units in the Business Partners Trust. The total unit allocation costs for the Business Partners Trust amounting to Rnil (2015: R57 million) has been included in the statement of comprehensive income.

2015	Movements during the period	Average price	Number of units
	As at 1 January 2015	R35.79	4 303 285
	Units awarded	R86.52	639 595
	Units issued	R42.36	(4 942 880)
	As at 31 December 2015	R0.00	-

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 Broad-based black economic empowerment (BBBEE)

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

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

The scheme matured in February 2015. Of the shares held by Central Plaza Investments 112 (Pty) Ltd, Santam repurchased 38% of the shares (refer to note 17) and 24% were sold in the market through a successful bookbuild during the unwinding process, and the balance distributed to participants.

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18.2 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 detail on these plans.

DSP and PDSP – directors' and prescribed officers' participation

	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
2016						
Santam shares						
IM Kirk ¹	3 114	–	(3 114)	R234.00	01/06/11	–
	3 930	–	(1 965)	R234.00	01/06/12	1 965
	19 092	–	(7 636)	R234.00	01/06/13	11 456
	11 263	–	–	–	01/06/14	11 263
	37 399	–	(12 715)			24 684
L Lambrechts	29 169	–	–	–	01/06/15	29 169
	–	13 411	–	–	01/06/16	13 411
	29 169	13 411	–			42 580
HD Nel	9 104	–	(4 552)	R234.00	17/09/12	4 552
	625	–	(249)	R234.00	01/06/13	376
	941	–	–	–	01/06/14	941
	6 007	–	–	–	01/06/15	6 007
	–	4 694	–	–	01/06/16	4 694
	16 677	4 694	(4 801)			16 570
Y Ramiah ²	520	–	(520)	R234.00	01/06/11	–
	398	–	(198)	R234.00	01/06/12	200
	918	–	(718)			200
Total	84 163	18 105	(18 234)			84 034
2015						
Santam shares						
IM Kirk ¹	2 509	–	(2 509)	R213.00	01/06/10	–
	6 271	–	(3 157)	R213.00	01/06/11	3 114
	6 551	–	(2 621)	R213.00	01/06/12	3 930
	19 092	–	–	–	01/06/13	19 092
	11 263	–	–	–	01/06/14	11 263
	45 686	–	(8 287)			37 399
L Lambrechts	–	29 169	–	–	01/06/15	29 169
	–	29 169	–			29 169
HD Nel	15 174	–	(6 070)	R213.00	17/09/12	9 104
	625	–	–	–	01/06/13	625
	941	–	–	–	01/06/14	941
	–	6 007	–	–	01/06/15	6 007
	16 740	6 007	(6 070)			16 677
Y Ramiah	6 797	–	(6 797)	R213.00	01/06/10	–
	1 040	–	(520)	R213.00	01/06/11	520
	659	–	(261)	R213.00	01/06/12	398
	8 496	–	(7 578)			918
Total	70 922	35 176	(21 935)			84 163

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)

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

	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
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
	29 912	7 303	(10 029)			27 186
Y Ramiah	965	-	(965)	R61.55	01/06/11	-
	965	-	(965)			-
Total	94 363	7 303	(33 960)			67 706

	As at 31 December 2014	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2015
2015						
Sanlam shares						
IM Kirk ¹	4 313	-	(4 313)	R68.19	01/06/10	-
	11 722	-	(5 861)	R68.19	01/06/11	5 861
	14 221	-	(5 686)	R68.19	01/06/12	8 535
	32 099	-	-	-	01/06/13	32 099
	16 991	-	-	-	01/06/14	16 991
	79 346	-	(15 860)			63 486
HD Nel	32 028	-	(12 812)	R68.35	01/10/12	19 216
	1 051	-	-	-	01/06/13	1 051
	1 420	-	-	-	01/06/14	1 420
	-	8 225	-	-	01/06/15	8 225
	34 499	8 225	(12 812)			29 912
Y Ramiah	11 681	-	(11 681)	R63.20	01/06/10	-
	1 930	-	(965)	R63.20	01/06/11	965
	13 611	-	(12 646)			965
Total	127 456	8 225	(41 318)			94 363

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Translation reserve R million	Contingency reserve R million	Capital contribution reserve R million	Hedging reserve R million	Total R million
19. RESERVES					
19.1 Other reserves					
GROUP					
Balance as at 1 January 2015	195	43	-	-	238
Currency translation differences	163	-	-	-	163
Transfer from retained earnings	-	4	-	-	4
Movement for the year	-	-	9	134	143
Balance as at 31 December 2015	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)

COMPANY

Balance as at 1 January 2015	-	-
Movement for the year	134	134
Balance as at 31 December 2015	134	134
Movement for the year	(140)	(140)
Balance as at 31 December 2016	(6)	(6)

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 is still maintained for Santam Namibia in terms of NAMFISA regulations. A reversal of this provision will not be recognised in the statement of comprehensive income.

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 (refer to note 18.1).

The hedging reserve represents the cumulative foreign currency movements on the cash resources designated for the funding of the additional investment in SAN JV (2015: acquisition of 25% of the shareholding in SAN JV). Refer to notes 5.7 and 7 for more detail.

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
19.2 Distributable reserves				
Share-based payment reserve				
At the beginning of the year	494	370	110	51
Transfer from retained earnings	79	124	88	118
Loss on delivery of shares in terms of share scheme	-	-	(77)	(59)
At the end of the year	573	494	121	110
Retained earnings	6 713	7 386	6 431	7 220
Total distributable reserves	7 286	7 880	6 552	7 330

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

19. RESERVES (continued)

19.2 Distributable reserves (continued)

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 2015, management assessed the facts and circumstances relating to the proposed acquisition of a 25% interest in SAN JV, as announced jointly with Sanlam Ltd on 24 November 2015, and concluded that the likelihood of the transaction not being concluded was remote. The expected effectiveness of the hedging relationship was also assessed and it was expected that the hedge would be effective throughout the hedging period. It was therefore concluded that hedge accounting can be applied. In 2016, management performed a similar assessment relating to the proposed acquisition of a further interest in SAN JV and again concluded that hedge accounting can be applied. Refer to note 7 for more information on the hedging transactions.

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
20. PROVISIONS FOR OTHER LIABILITIES AND CHARGES				
At the beginning of the year	122	91	43	23
Charged to statement of comprehensive income:				
– additional provisions	4	59	3	20
– reversal of provisions	(5)	–	(5)	–
Used during the year	(50)	(27)	(3)	–
Disposal of subsidiary	–	(1)	–	–
Year ended 31 December	71	122	38	43

The balance consists of the cash-settled share-based payment liability in Santam Ltd and the provision for the MiWay deferred bonus plans. Participants to the MiWay deferred bonus schemes (A and B) can redeem their units at any time from their respective vesting dates. In addition, there is a compulsory redemption of Scheme A units upon the completion of the seventh year from the date of issue, and upon the completion of the fifth year of issue for Scheme B units. All units in terms of Scheme A were redeemed during the prior year.

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

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
21. EXPENSES BY NATURE				
Auditor's remuneration	22	23	14	13
Audit fees				
– Current year	16	16	10	8
– Prior year	2	2	–	–
– Audit-related services	–	1	–	1
– Non-audit services	4	4	4	4
Depreciation	44	43	26	23
Amortisation of intangible assets	48	65	27	17
Impairment of intangible assets	3	52	–	–
Employee benefit expense	2 543	2 553	1 799	1 658
Operating lease rentals	380	389	318	312
– Offices	162	170	109	102
– Computer equipment	194	194	193	194
– Furniture and mechanical equipment	7	8	–	–
– Motor vehicles	17	17	16	16
Research and development costs	48	91	48	91
Commission expenses	3 716	3 240	3 916	3 582
Investment-related activities	70	53	44	44
Other expenses ¹	210	178	335	432
Total expenses	7 084	6 687	6 527	6 172

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				
Wages, salaries and bonus	2 159	2 110	1 473	1 308
Social security costs	129	117	125	113
Long-term incentive scheme costs	114	133	71	61
Pension costs – defined-contribution plans	132	122	121	105
BBBEE cost	9	71	9	71
	2 543	2 553	1 799	1 658

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

21. EXPENSES BY NATURE (continued)

21.1 Employee benefit expense (continued)

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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	
	2016 R million	2015 R million
Key management compensation paid		
Salaries and other short-term employee benefits paid	56	48
Share-based payments and long-term deferred bonus schemes	34	35

21.1.2 Transaction 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	Other benefits and costs ² R000	Total R000
Executive directors and prescribed officers				
2016				
<i>Paid by the company</i>				
L Lambrechts	4 515	5 725	473	10 713
HD Nel	2 675	2 750	377	5 802
	7 190	8 475	850	16 515
2015				
<i>Paid by the company</i>				
L Lambrechts	3 905	6 000	821	10 726
HD Nel	2 321	3 050	551	5 922
Y Ramiah ³	898	900	8	1 806
	7 124	9 950	1 380	18 454

¹ Bonus in respect of 2016 paid in 2017 (2015 paid in 2016).

² Includes retirement funding benefits. During 2016 R288 848 (2015: R525 297) was paid in respect of L Lambrechts and R266 154 (2015: R444 335) was paid in respect of HD Nel.

³ Total TGP recharged by Sanlam Ltd for services provided to Santam Ltd.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Directors' fees	
	2016 R000	2015 R000
21. EXPENSES BY NATURE (continued)		
21.1 Employee benefit expense (continued)		
21.1.2 Transaction with directors and prescribed officers (continued)		
Non-executive directors		
<i>Paid by the company</i>		
CB Booth	113	193
B Campbell	666	592
MD Dunn	597	612
MP Fandesio	415	354
BTPKM Gamedze ¹	542	513
GG Gelink	895	843
IM Kirk ¹	459	356
MLD Marole	522	472
JP Möller ¹	397	494
T Nyoka (née Fubu)	604	452
MJ Reyneke ²	823	1 293
Y Ramiah ¹	277	–
J van Zyl ¹	–	279
HC Werth ¹	167	–
	<u>6 477</u>	<u>6 453</u>
Total directors' remuneration	<u>22 992</u>	<u>24 907</u>

¹ Fees were paid to the holding company, Sanlam Ltd (only in 2015 for BTPKM Gamedze).

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 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

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
22. INCOME TAX EXPENSE				
South African normal taxation				
Current year	553	1 077	464	886
– Charge for the year	552	1 072	463	882
– Other taxes	1	5	1	4
Prior year	(8)	24	(8)	18
Recovered from cell owners	(89)	(67)	–	–
Foreign taxation – current year	56	57	–	–
Income taxation for the year	512	1 091	456	904
Deferred taxation	12	(183)	(29)	(190)
Current year	12	(170)	(29)	(177)
Prior year	–	(13)	–	(13)
Recovered from cell owners	–	–	–	–
Deferred taxation for the year	12	(183)	(29)	(190)
Total taxation as per the statement of comprehensive income	524	908	427	714

	Group		Company	
	2016	2015	2016	2015
Reconciliation of taxation rate (%)				
Normal South African taxation rate	28.0	28.0	28.0	28.0
Adjusted for				
– Disallowable expenses	0.6	0.7	0.5	0.7
– Foreign tax differential	0.4	0.2	–	–
– Exempt income	(1.4)	(1.2)	(2.4)	(3.0)
– Investment results	(0.5)	(0.9)	(0.6)	(1.0)
– Change in CGT inclusion rate ¹	2.4	–	3.0	–
– Income from associates and joint ventures	(1.1)	(1.0)	(0.1)	(1.7)
– Previous years' (over)/underprovision	(0.4)	0.3	(0.5)	0.2
– Other permanent differences	0.1	0.7	0.1	0.4
– Other taxes	0.1	0.1	–	0.1
Net increase/(reduction)	0.2	(1.1)	0.0	(4.3)
Effective rate (%)	28.2	26.9	28.0	23.7

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

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Group		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
23. DEFERRED TAX				
The amounts are as follows:				
Deferred tax assets	(106)	(140)	-	-
Deferred tax liabilities	103	107	42	60
Total net deferred income tax account	(3)	(33)	42	60
<i>Deferred tax is made up as follows:</i>				
Unrealised appreciation of investments	196	223	187	222
Provisions and accruals	(185)	(194)	(117)	(116)
Tax losses carried forward	(44)	(63)	-	-
Other differences	30	1	(28)	(46)
	(3)	(33)	42	60
<i>Movement of deferred tax</i>				
Balance as at 1 January	(33)	140	60	239
Charge to the statement of comprehensive income	12	(183)	(29)	(190)
Unrealised depreciation of investments	(27)	(177)	(35)	(166)
Provisions and accruals	9	(28)	(1)	(10)
Tax losses carried forward	19	35	-	-
Other differences	11	(13)	7	(14)
Business combinations	16	-	16	-
Disposal of subsidiary	-	5	-	-
Tax credited directly to equity	2	5	(5)	11
Balance as at 31 December	(3)	(33)	42	60

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 28% (2015: 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 R17.7 million (2015: R3.5 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	
	2016	2015
Basic earnings per share		
Profit attributable to the company's equity holders (R million)	1 212	2 348
Weighted average number of ordinary shares in issue (millions)	110.21	112.34
Earnings per share (cents)	1 100	2 090

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.

Diluted earnings per share		
Profit attributable to the company's equity holders (R million)	1 212	2 348
Weighted average number of ordinary shares in issue (millions)	110.21	112.34
Adjusted for share options	1.16	1.38
Weighted average number of ordinary shares for diluted earnings per share	111.37	113.72
Diluted basic earnings per share (cents)	1 088	2 065

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.

Headline earnings per share		
Profit attributable to the company's equity holders (R million)	1 212	2 348
Impairment of goodwill and other intangible assets	3	52
Profit on sale of subsidiary	-	(15)
Tax charge on profit on sale of subsidiary	-	5
Profit on sale of associates	-	(413)
Tax charge on profit on sale of associates	-	95
Capital gains tax overprovision on sale of associated companies	(18)	-
Headline earnings (R million)	1 197	2 072
Weighted average number of ordinary shares in issue (millions)	110.21	112.34
Headline earnings per share (cents)	1 086	1 844

24.4 Diluted headline earnings per share

Headline earnings (R million)	1 197	2 072
Weighted average number of ordinary shares for diluted earnings per share (millions)	111.37	113.72
Diluted headline earnings per share (cents)	1 075	1 822

25. DIVIDENDS PER SHARE

Ordinary dividend per share

Interim of 311 cents per share (2015: 288 cps)	358	332
Proposed final of 570 cents per share (2015: 528 cps)	656	608
	1 014	940

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		Company	
	2016 R million	2015 R million	2016 R million	2015 R million
26. CASH GENERATED FROM OPERATIONS				
Profit before tax	1 855	3 372	1 525	3 008
Adjustments for:				
Non-cash items	107	(183)	141	(214)
– Profit on sale of associates	–	(413)	–	(485)
– Share-based payment costs	79	138	88	121
– Amortisation of intangible assets	48	65	27	17
– Profit on sale of subsidiary	–	(15)	–	(9)
– Impairment of goodwill and other intangible assets	3	52	–	–
– Depreciation	44	43	26	23
– Income from associated companies and joint ventures	(67)	(53)	–	–
– Impairment of subsidiary	–	–	–	119
Investment income, realised and fair value gains	(832)	(1 445)	(827)	(1 394)
Finance costs	212	116	210	112
Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)	(162)	934	98	590
Reinsurance assets	(992)	(119)	(827)	33
Deferred acquisition costs	56	(78)	47	(76)
Loans and receivables including insurance receivables	(952)	(173)	(498)	(27)
Insurance liabilities	1 040	539	877	154
Deferred reinsurance acquisition revenue	(7)	48	(3)	35
Provisions for other liabilities and charges	(50)	28	(4)	16
Trade and other payables including insurance payables	743	689	506	455
Investment income received in cash	991	862	898	897
Dividends received	64	159	115	297
Interest received	941	729	788	617
Movement in provision for investment income	(14)	(26)	(5)	(17)
Cash generated from operations	2 171	3 656	2 045	2 999
27. INCOME TAX PAID				
Amounts charged to profit or loss	(524)	(908)	(427)	(714)
Income tax credited directly to equity	35	(6)	(7)	(33)
Movement in deferred taxation	(16)	(171)	(35)	(179)
Movement in taxation liability	(176)	83	(163)	75
	(681)	(1 002)	(632)	(851)
28. RELATED-PARTY TRANSACTIONS – SANLAM GROUP				
Major shareholders				
Sanlam Ltd (incorporated in South Africa) is the ultimate holding company with a 61.5% (2015: 61.2%) shareholding in Santam Ltd. The balance of the shareholders (38.5% (2015: 38.8%)) 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 in note 17.1 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 SEM as described in note 5.1.				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R million	2015 R million
The following is a summary of transactions and balances with Sanlam related parties:		
a) Insurance contracts and other services		
– Sanlam Ltd and related parties (for insurance premiums)	10	9
– Sanlam Ltd and related parties (for investment management services)	(36)	(36)
– Sanlam Ltd and related parties (for IT infrastructure costs)	(232)	(223)
– Sanlam Ltd and related parties (for administration services)	(10)	(9)
– Sanlam Ltd (for insurance services)	(6)	(5)
b) Investment income and net realised/unrealised losses/(gains) received from:		
– Sanlam Ltd and related parties	237	(212)
c) Dividends paid		
– to Sanlam group	(1 111)	(521)
d) Year-end balances with related parties		
Sanlam group: Sanlam Emerging Markets		
– target shares acquired (refer to note 5.1)	1 127	1 005
– target shares issued (refer to note 11)	(311)	(314)
Sanlam Alternative Income Fund		
– investment	178	214
Sanlam Active Income Fund		
– investment	76	–
Sanlam Property Fund		
– investment	77	46
Sanlam Capital Markets		
– Sanlam Investec note	10	50
– cash and money market instruments	161	217
– bond	–	26
Sanlam Ltd		
– shares	17	16
Sanlam Life Insurance Ltd		
– trade payable	(8)	(9)
– receivable relating to disposal of Indwe Broker Holdings Group (Pty) Ltd	–	68

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 2016

	Performance		Other	Total
	Salary	bonus ¹	benefits	
	R000	R000	R000	R000
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
2015				
JP Möller	4 001	5 000	762	9 763
Y Ramiah ²	2 973	2 500	190	5 663
J van Zyl	2 226	–	424	2 650
BTPKM Gamedze	3 194	2 300	–	5 494
L Lambrechts	–	9 903	–	9 903
IM Kirk	5 733	–	1 092	6 825
	18 127	19 703	2 468	40 298

¹ Performance bonus in respect of 2015 paid in 2016 (2014 paid in 2015).

² Total TGP includes amounts recharged by Sanlam Ltd to Santam Ltd for services provided.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Balance 31 December 2015	Awarded in 2016	Shares vested	Balance 31 December 2016
28. RELATED-PARTY TRANSACTIONS – SANLAM GROUP				
(continued)				
Deferred share plan				
Sanlam shares				
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
	Balance 31 December 2014	Awarded in 2015	Shares vested	Balance 31 December 2015
J van Zyl	399	–	(399)	–
JP Möller ²	133 467	22 867	(41 117)	115 217
Y Ramiah	50 875	16 143	(284)	66 734
BTPKM Gamedze	64 605	–	–	64 605
L Lambrechts ¹	122 376	–	(39 747)	82 629
IM Kirk	–	76 676	–	76 676
Total	371 722	115 686	(81 547)	405 861
Performance deferred share plan				
	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
	Balance 31 December 2014	Awarded in 2015	Shares vested	Balance 31 December 2015
J van Zyl	105 472	–	(105 472)	–
JP Möller ²	159 912	31 180	(59 577)	131 515
Y Ramiah	40 747	6 979	–	47 726
L Lambrechts ¹	84 628	–	(31 488)	53 140
IM Kirk	–	141 221	–	141 221
Total	390 759	179 380	(196 537)	373 602
Restricted share plan				
	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
	Balance 31 December 2014	Awarded in 2015	Shares vested	Balance 31 December 2015
J van Zyl	218 195	–	(218 195)	–
JP Möller ²	234 526	65 738	(70 940)	229 324
Y Ramiah	–	31 924	–	31 924
BTPKM Gamedze	18 776	–	–	18 776
L Lambrechts ¹	189 551	–	(71 293)	118 258
Total	661 048	97 662	(360 428)	398 282

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

² Resigned from the board on 13 September 2016.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

The Sanlam board entered into a five-year employment arrangement with the previous Sanlam chief executive officer, Johan van Zyl, with effect from 1 January 2011. The objective of the arrangement is to address the leadership requirements for the Sanlam group in order to deliver strategic objectives determined by the board.

The previous chief executive officer's annual fixed cash remuneration package was fixed at R5.3 million (based on the 2010 remuneration level) for the full period until 31 December 2015, with no other variable cash incentives for this employment period. He was allocated five million restricted Sanlam shares of which three million were transferred and delivered during 2011 and two million during 2012. During 2013 a further 281 209 shares were transferred in lieu of dividends not received on the two million shares that were only transferred during 2012. The vesting of these shares were to be measured over a six-year period until 31 December 2016, the shares being grouped into various distinct components – each with its own measurement period and detailed group and individual performance hurdles.

Following Ian Kirk's appointment as the new Sanlam group chief executive officer with effect from 1 July 2015, the Sanlam board decided to adjust the final measurement date of the arrangement to 30 June 2015 to coincide with the completion of his tenure as Sanlam group chief executive officer. In total 5 045 709 of the allocated shares vested.

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.

	Up to 1 year R million	Between 1 to 5 years R million	More than 5 years R million	Total R million
The future aggregate minimum lease payments under operating leases are as follows:				
2016				
Motor vehicles	14	17	-	31
Office equipment	1	1	-	2
Offices	113	308	111	532
	128	326	111	565
2015				
Motor vehicles	15	20	-	35
Office equipment	1	1	-	2
Offices	100	273	162	535
	116	294	162	572
2016				
Computer equipment	136	144	-	280
2015				
Computer equipment	115	114	-	229

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 2016

The following amendments to published standards are mandatory for the group's accounting periods beginning on or after 1 January 2016:

Number	Effective date	Executive summary
Amendments to IFRS 10 <i>Consolidated financial statements</i> and IAS 28 <i>Investments in associates and joint ventures</i> on applying the consolidation exemption	1 January 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
Amendments to IFRS 11 <i>Joint arrangements</i>	1 January 2016	This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.
IFRS 14 <i>Regulatory deferral accounts</i>	1 January 2016	The IASB has issued IFRS 14, <i>Regulatory deferral accounts</i> specific to first time adopters (IFRS 14), an interim standard on the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts').
Amendments to IAS 1 <i>Presentation of financial statements</i>	1 January 2016	In December 2014, the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
Amendments to IAS 16 <i>Property, plant and equipment</i> and IAS 38 <i>Intangible assets</i>	1 January 2016	In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
Amendment to IAS 16 <i>Property, plant and equipment</i> and IAS 41 <i>Agriculture</i>	1 January 2016	In this amendment to IAS 16 the IASB has scoped in bearer plants, but not the produce on bearer plants and explained that a bearer plant not yet in the location and condition necessary to bear produce is treated as a self-constructed asset. In this amendment to IAS 41, the IASB has adjusted the definition of a bearer plant, included examples of non-bearer plants and removed current examples of bearer plants from IAS 41.
Amendment to IAS 27 <i>Separate financial statements</i>	1 January 2016	In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Number	Effective date	Executive summary
Annual Improvements 2012-14 cycle	1 January 2016	<p><i>IFRS 5 Non-current assets held for sale and discontinued operations</i> When an asset (or disposal group) is reclassified from "held for sale" to "held for distribution" or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.</p> <p><i>IFRS 7 Financial instruments: disclosures</i> The additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.</p> <p><i>IFRS 7 Financial instruments: disclosures</i> Specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute "continuing involvement" and, therefore, whether the asset qualifies for derecognition.</p> <p><i>IAS 19 Employee benefits</i> When determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise.</p> <p><i>IAS 34 Interim financial reporting</i> The amendment includes what is meant by the reference in the standard to "information disclosed elsewhere in the interim financial report". Entities taking advantage of the relief must provide a cross-reference from the interim financial statements to the location of that information and make the information available to users on the same terms and at the same time as the interim financial statements.</p>

b) Standards and interpretations 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 <i>Financial instruments</i> with IFRS 4 <i>Insurance contracts</i>	1 January 2018
IFRS 9 <i>Financial Instruments</i>	1 January 2018
Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture	Postponed
IFRS 15 <i>Revenue from contracts with customers</i>	1 January 2018
IFRS 16 <i>Leases</i>	1 January 2019
Amendment to IAS 7 – <i>Statement of cash flows</i>	1 January 2017
Amendment to IAS 12 – <i>Income taxes</i>	1 January 2017

These standards and amendments are not expected to have a material impact on the group.

ADMINISTRATION

NON-EXECUTIVE DIRECTORS

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

EXECUTIVE DIRECTORS

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

SPONSOR

Investec Bank Ltd

TRANSFER SECRETARIES

Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 South Africa
PO Box 61051, Marshalltown 2107
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Fax: 011 688 7721
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Registration number 1918/001680/06

ISIN ZAE000093779

JSE share code: SNT

NSX share code: SNM

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

