



SANTAM LTD AND ITS SUBSIDIARIES
REVIEWED INTERIM REPORT
FOR THE SIX MONTHS ENDED
30 JUNE 2014

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Reviewed Interim Report for Santam Ltd and its subsidiaries for the six months ended 30 June 2014

Gross written premium growth:

– including cell captive
insurance 7%

– excluding cell captive
insurance 10%

Underwriting margin of 7.4%

**Positive contribution from
international strategic
diversification**

**Group solvency ratio
of 44%**

**Significantly improved cash
generation**

**Return on shareholders' funds
of 29.6%**

Interim dividend of 262 cents per share, up 8.3%

FINANCIAL REVIEW

The Santam group reported considerably improved underwriting results for the six months ended June 2014 compared to the corresponding period in 2013, influenced by a substantial turnaround in the crop insurance business and an improved contribution from all major business units. Satisfactory gross written premium growth of 10%, excluding cell captive insurance business, was achieved in the context of a difficult economic environment.

Investment returns improved compared to the corresponding period following positive market movements and an increase in interest rates in January 2014. Headline earnings per share increased by 119%, while a return on capital of 29.6% was achieved compared to the 14.9% of the comparative period. The solvency margin of 44% is at the upper end of the target range of 35% to 45%.

The net underwriting margin of 7.4%, which is above the long-term target range of 4% to 6%, was positively impacted by the turnaround in the crop insurance business from a loss of R112 million for the six months to June 2013 to a profit of R187 million in the corresponding 2014 period.

The Santam Commercial and Personal intermediated business benefited from the impact of corrective actions and segmented premium increases implemented since the first quarter of 2013. The Santam Specialist division delivered strong underwriting results in various business classes including liability, property and transportation. The accident and health class reported a loss due to a softening in market conditions. MiWay improved on its 2013 performance with a claims ratio of 58.3%, while the Santam Re underwriting results improved following lower retrocession costs and corrective action on the South African portfolio.

The group achieved satisfactory gross written premium growth of 10% excluding cell insurance business and 7% inclusive of cells. The growth of cell captive insurance business in Centriq was under pressure following the cancellation of a significant book of business in 2013. The Specialist insurance classes had mixed fortunes with the engineering class achieving 2% growth in competitive market conditions and the liability class showing negative growth following the decision to reduce risk exposure to medical malpractice and underrated liability business. In contrast, the corporate property business and the transportation business achieved good growth. MiWay increased gross written premiums by 14% to R714 million. Santam Re's growth from third-party business was negatively impacted by the cancellation of an unprofitable South African book of business. The international business of Santam Re more than doubled to R174 million.

Following South Africa's credit downgrade by global ratings agency Standard & Poor's (S&P) on 13 June 2014, Santam's international long-term counterparty credit and insurer financial strength rating has been adjusted from A- to BBB+, maintaining a rating of two notches above the sovereign rating. At the same time, S&P affirmed the 'zaAA+' South Africa national scale rating of Santam, leaving our local policyholders and noteholders unaffected. Alternative arrangements to support growth in territories outside South Africa, in situations where this is dependent on Santam's S&P international scale rating, were put in place towards the end of 2013. 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 (ART) quota share agreement effective 1 January 2014, which reduced net earned premiums by R500 million during this reporting period, reducing growth in net earned premiums to 4%. The agreement will generate dollar-denominated collateral to support Santam's use of the international insurer's AA-rated licence. The agreement also reduces Santam's net catastrophe exposure, resulting in lower catastrophe reinsurance premiums.

The net acquisition cost ratio of 28.2% is in line with the June 2013 ratio. On a comparable basis, excluding the impact of the reinsurance quota share agreement, the management expense ratio increased by 1.1%. Higher levels of binder fees payable to intermediaries following changes in regulations in 2013 contributed to this increase. The provision for incentives exceeding that of the comparable period following the significant improvement in underwriting performance and a once-off provision for cost associated with the planned relocation of the Johannesburg office also impacted management expenses. Strategic project cost amounted to 1% of net earned premium. Development costs of R41 million relating to the strategic project to develop a new administration, underwriting and product management technology for the traditional Santam intermediated business was capitalised. It is pleasing to report that the project is progressing according to plan.

The net commission ratio reduced by 0.8% on a comparable basis. The decrease was mainly due to the growth in MiWay, where no commission expenses are incurred, as well as reinsurance profit commissions received on specialist and crop insurance business.

Investment returns on insurance funds of R222 million were 14% higher than the R195 million achieved in 2013, following good investment performance and the increase in interest rates in January 2014.

The combined effect of insurance activities resulted in a net insurance income of R850 million compared to R297 million in 2013.

The group's investment performance was in line with the market, other than the negative impact of the hedge over R2 billion of equities, which expired in May 2014. A loss of R93 million was incurred on this hedge during the six months to 30 June 2014. The hedge was not renewed after the final tranche expired in May 2014. Positive fair value movements to the value of R63 million in Santam's interest in the Santam Emerging Markets (SEM) general insurance businesses in Africa, India and Southeast Asia enhanced the investment performance. The group invested a further R40 million in the SEM general insurance businesses by increasing its economic participation in the NICO Holdings general insurance businesses in Malawi, Uganda and Zambia to 22% and acquiring a 9% economic participation in Oasis Insurance in Nigeria.

Net earnings from associated companies of R17 million decreased from R34 million in 2013, mainly due to the key contributor, Credit Guarantee Insurance Corporation of Africa Ltd, reporting lower earnings compared to 2013.

Cash generated from operations of R930 million increased from R516 million in 2013, mainly due to the improved underwriting results.

The board would like to express its gratitude to Santam's management, staff, intermediaries and other business partners for their efforts and contributions during the past six months.

Prospects

Trading conditions in the South African insurance industry remain tough despite some hardening of insurance premium rates following the poor underwriting results reported by industry participants in 2012 and 2013. Difficult economic conditions with low gross domestic product (GDP) growth and higher interest rates are expected to have a negative impact on consumers.

Santam continues to manage premium increases selectively through our market and risk segmentation approach on policy renewal. We will also continue focusing on the implementation of various underwriting practices and risk management approaches to improve the underwriting margin in the traditional Santam intermediated business. We continue with our growth initiatives with a specific focus to achieve further international diversification in the Santam Specialist division and Santam Re.

Nominal interest rates are expected to increase further towards the end of the year, positively impacting return on insurance funds. The investment market is likely to remain uncertain.

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 reporting date.

Declaration of dividend (Number 121)

Notice is hereby given that the board has declared an interim dividend of 262 cents per share (2013: 242 cents). Shareholders are advised that the last day to trade cum dividend will be Friday, 12 September 2014. The shares will trade ex dividend from the commencement of business on Monday, 15 September 2014. The record date will be Friday, 19 September 2014, and the payment date will be Monday, 22 September 2014. Certificated shareholders may not dematerialise or rematerialise their shares between 15 September 2014 and 19 September 2014, both dates inclusive.

The dividend has been declared from income reserves and will be subject to dividends tax that was introduced with effect from 1 April 2012. There are R4 646 765.90793 secondary tax on companies (STC) credits available for utilisation. Accordingly the STC credit available is 3.89351 per share. The amount per share subject to the withholding of dividends tax at a maximum rate of 15% is therefore 258.10649 cents per share. A net dividend of 223.28403 cents per share will apply to shareholders liable for dividends tax at a rate of 15% and 262.00000 cents per share for shareholders that qualify for complete exemption therefrom. The issued ordinary share capital as at 27 August 2014 is 119 346 417 shares. The company's income tax reference number is 9475/144/71/4.

In terms of the dividends tax legislation, the dividends tax amount due will be withheld and paid over to the South African Revenue Service (SARS) by a nominee company, stockbroker or Central Security Depository Participant (CSDP) (collectively "Regulated Intermediary") on behalf of shareholders. However, all shareholders should declare their status to their Regulated Intermediary, as they may qualify for a reduced dividends tax rate or they may even be exempt from dividends tax.

Preparation and presentation of the financial statements

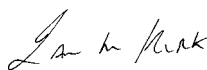
The preparation of the reviewed interim financial statements was supervised by the chief financial officer of Santam Ltd, HD Nel.

On behalf of the board



GG Gelink
Chairman

27 August 2014



IM Kirk
Chief Executive Officer

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE SHAREHOLDERS OF SANTAM LTD

We have reviewed the condensed consolidated interim financial statements of Santam Ltd, set out on pages 5 to 23, in the accompanying interim report, which comprise the condensed consolidated statement of financial position as at 30 June 2014 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes.

Directors' responsibility for the interim financial statements

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with the International Financial Reporting Standard, (IAS) 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council 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 interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on these interim financial statements. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Santam Ltd for the six months ended 30 June 2014 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.



PricewaterhouseCoopers Inc.

Director: C van den Heever
Registered Auditor
Cape Town

27 August 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Reviewed At 30 June 2014 R million	Reviewed At 30 June 2013 R million	Audited At 31 Dec 2013 R million
	Notes			
ASSETS				
Non-current assets				
Property and equipment		88	97	95
Intangible assets		1 098	1 082	1 072
Deferred income tax		181	227	188
Investment in associates		327	277	318
Financial assets – at fair value through income				
Equity securities	6	3 752	3 274	4 011
Debt securities	6	7 538	7 243	7 306
Derivatives	6	–	1	1
Cell owners' interest		–	17	–
Reinsurance assets	7	140	126	117
Current assets				
Cell owners' interest		16	–	15
Financial assets – at fair value through income				
Derivatives	6	–	10	–
Short-term money market instruments	6	1 758	1 174	1 424
Reinsurance assets	7	2 372	1 936	2 227
Deferred acquisition costs		330	305	369
Loans and receivables including insurance receivables	6	2 079	2 045	2 684
Income tax assets		43	17	31
Cash and cash equivalents		2 292	2 333	2 343
Non-current assets held for sale	8	429	–	415
Total assets		22 443	20 164	22 616
EQUITY				
Capital and reserves attributable to the company's equity holders				
Share capital		107	107	107
Treasury shares		(499)	(526)	(520)
Other reserves		239	157	224
Distributable reserves		6 722	5 829	6 321
		6 569	5 567	6 132
Non-controlling interest		411	99	400
Total equity		6 980	5 666	6 532
LIABILITIES				
Non-current liabilities				
Deferred income tax		336	276	315
Financial liabilities – at fair value through income				
Debt securities	6	989	998	997
Investment contracts	6	26	–	126
Cell owners' interest		854	739	814
Insurance liabilities	7	1 561	1 452	1 595
Current liabilities				
Financial liabilities – at fair value through income				
Debt securities	6	24	24	24
Investment contracts	6	–	77	–
Derivatives	6	–	–	204
Financial liabilities – at amortised cost				
Collateral guarantee contracts		87	79	82
Insurance liabilities	7	8 912	8 233	9 096
Deferred reinsurance acquisition revenue		132	110	171
Provisions for other liabilities and charges		79	147	84
Trade and other payables		2 274	2 339	2 561
Current income tax liabilities		189	24	15
Total liabilities		15 463	14 498	16 084
Total shareholders' equity and liabilities		22 443	20 164	22 616

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Notes	Reviewed Six months ended 30 June 2014 R million	Reviewed Six months ended 30 June 2013 R million	Change %	Audited Year ended 31 Dec 2013 R million
Gross written premium	10 525	9 858	7%	20 631
Less: Reinsurance premium	2 465	2 089		3 731
Net premium	8 060	7 769	4%	16 900
Less: change in unearned premium				
Gross amount	(335)	(204)		334
Reinsurers' share	(63)	(123)		(185)
Net insurance premium revenue	8 458	8 096	4%	16 751
Investment income	377	363	4%	782
Income from reinsurance contracts ceded	522	316		600
Net gains on financial assets and liabilities at fair value through income	323	150		449
Net income	9 680	8 925	9%	18 582
Insurance claims and loss adjustment expenses	6 721	6 878		13 807
Insurance claims and loss adjustment expenses recovered from reinsurers	(1 273)	(1 163)		(2 200)
Net insurance benefits and claims	5 448	5 715	(5%)	11 607
Expenses for the acquisition of insurance contracts	1 432	1 344		2 721
Expenses for marketing and administration	1 493	1 270		2 562
Expenses for asset management services rendered	16	15		29
Amortisation and impairment of intangible assets	15	30		114
Expenses	8 404	8 374	0%	17 033
Results of operating activities	1 276	551	132%	1 549
Finance cost	(48)	(59)		(118)
Net income from associates	17	34		86
Net loss on sale of associate	-	-		(18)
Impairment on net investment of associates	-	(11)		(26)
Profit before tax	1 245	515	142%	1 473
Income tax expense	(292)	(93)		(300)
Profit for the period	953	422	126%	1 173
Other comprehensive income				
Currency translation differences	12	78		143
Total comprehensive income for the period	965	500		1 316
Profit attributable to:				
– equity holders of the company	911	405	125%	1 120
– non-controlling interest	42	17		53
	953	422		1 173
Total comprehensive income attributable to:				
– equity holders of the company	923	483	91%	1 263
– non-controlling interest	42	17		53
	965	500		1 316
Earnings attributable to equity shareholders				
Earnings per share (cents)	12			
Basic earnings per share	799	356	125%	982
Diluted earnings per share	794	353	125%	973
Weighted average number of shares – millions	114.12	113.89		114.12
Weighted average number of ordinary shares for diluted earnings per share – millions	114.82	114.72		115.12

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company				Non-controlling interest	Total
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	R million	R million
Balance as at 1 January 2013	107	(579)	77	5 904	108	5 617
Profit for the period	-	-	-	1 120	53	1 173
Other comprehensive income:						
Currency translation differences	-	-	143	-	-	143
Total comprehensive income for the period ended 31 December 2013	-	-	143	1 120	53	1 316
Issue of target shares	-	-	-	-	277	277
Sale of treasury shares	-	59	-	-	-	59
Loss on sale of treasury shares	-	-	-	(60)	-	(60)
Transfer to reserves	-	-	4	(4)	-	-
Share-based payments	-	-	-	106	-	106
Dividends paid	-	-	-	(745)	(37)	(782)
Acquisition of subsidiary	-	-	-	-	(1)	(1)
Balance as at 31 December 2013	107	(520)	224	6 321	400	6 532
Profit for the period	-	-	-	911	42	953
Other comprehensive income:						
Currency translation differences	-	-	12	-	-	12
Total comprehensive income for the period ended 30 June 2014	-	-	12	911	42	965
Purchase of treasury shares	-	(33)	-	-	-	(33)
Sale of treasury shares	-	54	-	(54)	-	-
Transfer to reserves	-	-	3	(3)	-	-
Share-based payments	-	-	-	41	-	41
Dividends paid	-	-	-	(494)	(31)	(525)
Balance as at 30 June 2014	107	(499)	239	6 722	411	6 980
Balance as at 1 January 2013	107	(579)	77	5 904	108	5 617
Profit for the period	-	-	-	405	17	422
Other comprehensive income:						
Currency translation differences	-	-	78	-	-	78
Total comprehensive income for the period ended 30 June 2013	-	-	78	405	17	500
Sale of treasury shares	-	53	-	-	-	53
Loss on sale of treasury shares	-	-	-	(53)	-	(53)
Transfer to reserves	-	-	2	(2)	-	-
Share-based payments	-	-	-	42	-	42
Dividends paid	-	-	-	(467)	(25)	(492)
Interest acquired from non-controlling interest	-	-	-	-	(1)	(1)
Balance as at 30 June 2013	107	(526)	157	5 829	99	5 666

CONSOLIDATED STATEMENT OF CASH FLOWS

Notes	Reviewed Six months ended 30 June 2014 R million	Reviewed Six months ended 30 June 2013 R million	Audited Year ended 31 Dec 2013 R million
Cash generated from operations	930	516	1 616
Interest paid	(48)	(34)	(118)
Income tax paid	(101)	(88)	(221)
Net cash from operating activities	781	394	1 277
Cash flows from investing activities			
Cash generated from/(utilised in) investment activities	125	(130)	(945)
Settlement of fence derivative	(297)	–	–
Acquisition of subsidiary	11	(9)	(105)
Cash acquired through acquisition of subsidiary	11	15	15
Purchases of equipment	(13)	(17)	(36)
Purchases of software	(48)	(8)	(71)
Proceeds from sale of equipment	–	1	1
Acquisition of associated companies	–	–	(88)
Capitalisation of associated company	(17)	–	–
Proceeds from sale of associated companies	–	–	63
Acquisition of book of business	–	(9)	(9)
Net cash from investing activities	(250)	(157)	(1 175)
Cash flows from financing activities			
Purchase of treasury shares	(33)	–	–
Proceeds from issue of target shares	–	–	277
(Decrease)/increase in investment contract liabilities	(101)	(19)	29
Increase in collateral guarantee contracts	5	5	7
Dividends paid to company's shareholders	(494)	(467)	(745)
Dividends paid to non-controlling interest	(31)	(25)	(37)
Increase in cell owners' interest	40	37	111
Net cash used in financing activities	(614)	(469)	(358)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of period	2 343	2 471	2 471
Exchange gains on cash and cash equivalents	32	94	128
Cash and cash equivalents at end of period	2 292	2 333	2 343

1. Basis of preparation

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard (IFRS), IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

2. Accounting policies

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

The following new IFRSs and/or IFRICs were effective for the first time from 1 January 2014:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendment to IAS 32, *Offsetting Financial Assets and Financial Liabilities*
- Amendment to IAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendment to IAS 39, *Novation of derivatives and continuation of hedge accounting*
- IFRIC 21, *Levies*

There was no material impact on the summary financial statements identified based on management's assessment of these standards.

3. Estimates

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

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial statements for the year ended 31 December 2013.

4. Risk management

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

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

The condensed consolidated financial statements do not include all risk management information and disclosure required in the annual financial statements and should be read in conjunction with the group's annual financial statements as at 31 December 2013.

There have been no changes in the risk management policies since the previous year-end.

5. Segment information

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Chief Executive Officer, supported by the group executive committee.

The group consists of two core operating segments, i.e. insurance and investment activities.

Insurance activities are all core general insurance and reinsurance underwriting activities directly undertaken by the group and are analysed by insurance class. The performance of insurance activities is based on gross written premium as a measure of growth; with net underwriting result and net insurance result as measures of profitability.

Investment activities are all investment-related activities undertaken by the group other than strategic diversification activities. Investment activities are measured based on net investment income and net income from associated companies.

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

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

The MiWay deferred bonus plan (DBP), relating to the compensation of the 10% share previously held by management in MiWay and the Santam black economic empowerment (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 SEM target shares (included in financial instruments).

NOTES TO THE INTERIM FINANCIAL INFORMATION

5.1 For the six months ended 30 June 2014

Business activity	Insurance R million	Investment R million	Unallocated R million	Total R million
Revenue	10 525	495		11 020
Gross written premium	10 525			10 525
Net written premium	8 060			8 060
Net earned premium	8 459			8 459
Claims incurred	5 448			5 448
Net commission	910			910
Management expenses	1 473			1 473
Underwriting result	628			628
Investment return on insurance funds	222			222
Net insurance result	850			850
Investment income net of management fee and finance costs		413		413
Income from associates net of impairment and losses on sale		17		17
MiWay DBP and Santam BEE transaction costs			(20)	(20)
Amortisation of intangible assets	(15)			(15)
Income before taxation	835	430	(20)	1 245

The group's insurance activities are further analysed over various classes of short-term insurance.

Insurance class	Gross written premium R million	Under- writing result R million
Accident and health	160	(3)
Alternative risk	992	(13)
Crop	70	187
Engineering	538	69
Guarantee	14	2
Liability	544	119
Miscellaneous	26	1
Motor	4 715	199
Property	3 103	36
Transportation	363	31
Total	10 525	628
Comprising:		
Commercial insurance	5 319	582
Personal insurance	4 214	59
Alternative risk	992	(13)
Total	10 525	628

NOTES TO THE INTERIM FINANCIAL INFORMATION

5.2 Investment activities

For detailed analysis of investment activities refer to notes 6 and 8.

5.3 Geographical analysis

	Gross written premium June 2014 R million	Non-current assets June 2014 R million	Gross written premium Dec 2013 R million	Non-current assets Dec 2013 R million
South Africa ¹	9 892	1 399	19 585	1 393
Africa ²	488	186	845	117
Southeast Asia and India	97	564	123	484
China	48	–	78	–
Group total	10 525	2 149	20 631	1 994

¹ Includes all gross written premium managed by specialist business units.

² Includes gross written premium relating to Santam Namibia of R458 million (Dec 2013: R812 million).

NOTES TO THE INTERIM FINANCIAL INFORMATION

5.4 For the six months ended 30 June 2013

Business activity	Insurance activities R million	Investment activities R million	Unallocated R million	Total R million
Revenue	9 858	282		10 140
Gross written premium	9 858			9 858
Net written premium	7 769			7 769
Net earned premium	8 096			8 096
Claims incurred	5 715			5 715
Net commission	1 028			1 028
Management expenses	1 251			1 251
Underwriting result	102			102
Investment return on insurance funds	195			195
Net insurance result	297			297
Investment income net of management fee and finance costs		244		244
Income from associates		23		23
MiWay DBP and Santam BEE transaction costs			(19)	(19)
Amortisation of intangible assets	(30)			(30)
Income before taxation	267	267	(19)	515

Insurance class	Gross written premium R million	Underwriting result R million
Accident and health	151	31
Alternative risk	1 153	(8)
Crop	55	(112)
Engineering	529	59
Guarantee	26	4
Liability	552	67
Miscellaneous	15	1
Motor	4 329	60
Property	2 776	(16)
Transportation	272	16
Total	9 858	102
Comprising:		
Commercial insurance	4 754	119
Personal insurance	3 951	(9)
Alternative risk	1 153	(8)
Total	9 858	102

NOTES TO THE INTERIM FINANCIAL INFORMATION

5.5 For the year ended 31 December 2013

Business activity	Insurance activities R million	Investment activities R million	Unallocated R million	Total R million
Revenue	20 631	942		21 573
Gross written premium	20 631			20 631
Net written premium	16 900			16 900
Net earned premium	16 751			16 751
Claims incurred	11 607			11 607
Net commission	2 121			2 121
Management expenses	2 545			2 545
Underwriting result	477			477
Investment return on insurance funds	374			374
Net insurance result	851			851
Investment income net of management fee and finance costs		710		710
Income from associates net of impairment		42		42
MiWay DBP and Santam BEE transaction costs			(30)	(30)
Amortisation of intangible asset	(100)			(100)
Income before taxation	751	752	(30)	1 473

Insurance class	Gross written premium R million	Underwriting result R million
Accident and health	316	50
Alternative risk	1 931	2
Crop	831	(142)
Engineering	1 010	210
Guarantee	43	11
Liability	1 194	119
Miscellaneous	47	2
Motor	8 887	199
Property	5 832	(2)
Transportation	540	28
Total	20 631	477

Comprising:

Commercial insurance	10 697	520
Personal insurance	8 003	(45)
Alternative risk	1 931	2
Total	20 631	477

NOTES TO THE INTERIM FINANCIAL INFORMATION

Reviewed At 30 June 2014 R million	Reviewed At 30 June 2013 R million	Audited At 31 Dec 2013 R million
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6. Financial assets and liabilities at fair value through income

Financial assets at fair value through income

The group's financial assets are summarised below by measurement category.

Financial assets at fair value through income	13 048	11 702	12 742
Loans and receivables	2 079	2 045	2 684
Total financial assets	15 127	13 747	15 426

The table below analyses financial instruments, carried at fair value through income, by valuation method. There were no significant changes in the valuation methods applied since 31 December 2013. The different levels have been defined as follows:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2:** Input other than quoted prices included within Level 1 that is observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices)
- **Level 3:** Input for the asset or liability that is not based on observable data (that is, unobservable input)

There were no transfers between the different levels defined above during the period.

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.

Financial assets at fair value through income

June 2014	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	3 006	–	–	3 006
Unitised funds	–	98	–	98
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	646	646
Total equity securities	3 008	98	646	3 752
Debt securities				
Quoted				
Government and public bonds	1 495	165	–	1 660
Redeemable preference shares	–	244	–	244
Money market instruments > 1 year	–	1 521	–	1 521
Unquoted				
Government and public bonds	–	47	–	47
Money market instruments > 1 year	–	3 987	–	3 987
Redeemable preference shares	–	50	29	79
Total debt securities	1 495	6 014	29	7 538
Derivatives				
Interest rate swaps	–	–	–	–
Foreign exchange contracts	–	–	–	–
Fence	–	–	–	–
Total derivatives	–	–	–	–
Short-term money market instruments	–	1 758	–	1 758
	4 503	7 870	675	13 048

NOTES TO THE INTERIM FINANCIAL INFORMATION

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
June 2013				
Equity securities				
Quoted				
Listed	2 830	–	–	2 830
Unitised funds	–	118	–	118
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	324	324
Total equity securities	2 832	118	324	3 274
Debt securities				
Quoted				
Government and public bonds	1 768	62	–	1 830
Redeemable preference shares	–	281	–	281
Money market instruments > 1 year	–	1 515	–	1 515
Unquoted				
Government and public bonds	–	53	–	53
Money market instruments > 1 year	–	3 535	–	3 535
Redeemable preference shares	–	–	29	29
Total debt securities	1 768	5 446	29	7 243
Derivatives				
Interest rate swaps	–	–	2	2
Foreign exchange contracts	–	–	1	1
Fence	–	–	8	8
Total derivatives	–	–	11	11
Short-term money market instruments	–	1 174	–	1 174
	4 600	6 738	364	11 702
December 2013				
Equity securities				
Quoted				
Listed	3 350	–	–	3 350
Unitised funds	–	130	–	130
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	529	529
Total equity securities	3 352	130	529	4 011
Debt securities				
Quoted				
Government and public bonds	1 607	178	–	1 785
Redeemable preference shares	–	288	–	288
Money market instruments > 1 year	–	1 636	–	1 636
Unquoted				
Government and public bonds	–	54	–	54
Money market instruments > 1 year	–	3 520	–	3 520
Redeemable preference shares	–	–	23	23
Total debt securities	1 607	5 676	23	7 306
Derivatives				
Interest rate swaps	–	–	1	1
Total derivatives	–	–	1	1
Short-term money market instruments	–	1 424	–	1 424
	4 959	7 230	553	12 742

NOTES TO THE INTERIM FINANCIAL INFORMATION

The following table presents the changes in level 3 instruments

June 2014	Equity securities unquoted R million	Debt securities unquoted redeemable preference shares R million	Derivatives R million	Total R million
Opening balance	529	23	(203)	349
Acquisitions	41	–	–	41
Disposals/settlements	–	–	297	297
Gains/(losses) recognised in profit or loss	76	6	(94)	(12)
Closing balance	646	29	–	675

The investment in Cardrow Insurance Ltd was classified as held for sale during 2013 (refer to note 8). The investment had an opening balance of R299 million with exchange gains of R13 million and unrealised fair value losses of R3 million during the year. The closing balance at 30 June 2014 amounted to R309 million.

June 2013

Opening balance	272	29	6	307
Acquisitions	1	–	1	2
Disposals	(40)	–	–	(40)
Exchange rate differences	23	–	–	23
Gains/(losses) recognised in profit or loss	68	–	4	72
Closing balance	324	29	11	364

Unquoted equity securities consist mainly of the investment in Cardrow Insurance Ltd. This investment was classified as non-current assets held for sale in December 2013.

December 2013

Opening balance	272	29	6	307
Acquisitions	511	–	–	511
Interest and dividends capitalised	1	–	–	1
Disposals	(39)	–	–	(39)
Classified as held for sale	(299)	–	–	(299)
Exchange rate differences	64	–	–	64
Gains/(losses) recognised in profit or loss	19	(6)	(209)	(196)
Closing balance	529	23	(203)	349

The investment in Cardrow Insurance Ltd was classified as non-current assets held for sale during 2013 (refer to note 8). The investment had an opening balance of R233 million with exchange gains of R64 million and unrealised fair value gains of R2 million during the year. The closing balance at 31 December 2013 amounted to R299 million.

NOTES TO THE INTERIM FINANCIAL INFORMATION

Financial liabilities at fair value through income

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
June 2014				
Debt securities	1 013	–	–	1 013
Investment contracts	–	26	–	26
	1 013	26	–	1 039
June 2013				
Debt securities	1 022	–	–	1 022
Investment contracts	–	77	–	77
	1 022	77	–	1 099
December 2013				
Debt securities	1 021	–	–	1 021
Investment contracts	–	126	–	126
Derivatives				
Fence	–	–	204	204
	1 021	126	204	1 351

In June 2014 and December 2013, the unquoted equity instruments recognised as level 3 instruments consist mainly of the participation instruments issued by SEM. The June 2013 balance consisted mainly of the investment in Cardrow Insurance Ltd, which has been classified as held for sale.

The fair value of the SEM target shares is determined using discounted cash flow models. The most significant assumptions used in these models are the discount rate, exchange rate and net insurance margin profile expectations. Should the discount rates increase or decrease by 10%, the cumulative value of the most significant target shares would decrease by R104 million (December 2013: R93 million) or increase by R162 million (December 2013: R147 million) respectively. If exchange rates increase or decrease by 10%, the cumulative fair values will also increase or decrease by R56 million (December 2013: R50 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 R66 million (December 2013: R64 million) or decrease by R66 million (December 2013: R62 million) respectively.

The interest rate derivatives represent the fair value of interest rate swaps effected on a total of R106 million (December 2013: R108 million; June 2013: R110 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 30 September 2016 and 10 June 2017.

During the first half of 2013 Santam entered into three derivative fence structures between 28 March 2013 and 8 May 2013 covering equities to the value of R2 billion. All three tranches had downside protection of 10% with upside participation of 9.7%, 9.6% and 9.5% respectively. The implementation levels were 7593 (SWIX40 index), 7515 and 7694 respectively. A negative fair value of R204 million was recorded as at 31 December 2013 and a loss of R93 million was incurred during the six months to 30 June 2014. The final tranche expired in May 2014 and the hedge was not renewed.

NOTES TO THE INTERIM FINANCIAL INFORMATION

	Reviewed At 30 June 2014 R million	Reviewed At 30 June 2013 R million	Audited At 31 Dec 2013 R million
7. Insurance liabilities and reinsurance assets			
Gross			
Long-term insurance contracts			
– claims reported and loss adjustment expenses	12	7	3
– claims incurred but not reported	23	15	22
Short-term insurance contracts			
– claims reported and loss adjustment expenses	5 613	5 071	5 520
– claims incurred but not reported	1 459	1 423	1 427
– unearned premiums	3 366	3 169	3 719
Total insurance liabilities – gross	10 473	9 685	10 691
Non-current liabilities	1 561	1 452	1 595
Current liabilities	8 912	8 233	9 096
Recoverable from reinsurers			
Long-term insurance contracts			
– claims reported and loss adjustment expenses	5	2	1
– claims incurred but not reported	4	3	4
Short-term insurance contracts			
– claims reported and loss adjustment expenses	1 404	1 050	1 315
– claims incurred but not reported	219	277	207
– unearned premiums	880	730	817
Total reinsurers' share of insurance liabilities	2 512	2 062	2 344
Non-current assets	140	126	117
Current assets	2 372	1 936	2 227
Net			
Long-term insurance contracts			
– claims reported and loss adjustment expenses	7	5	2
– claims incurred but not reported	19	12	18
Short-term insurance contracts			
– claims reported and loss adjustment expenses	4 209	4 021	4 205
– claims incurred but not reported	1 240	1 146	1 220
– unearned premiums	2 486	2 439	2 902
Total insurance liabilities – net	7 961	7 623	8 347

NOTES TO THE INTERIM FINANCIAL INFORMATION

8. Non-current assets held for sale

Santam Ltd initially set up the Santam International Group 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 and Beech Hill Insurance Ltd, respectively.

Santam Ltd will realise the deferred conditional rights relating to Cardrow and Beech Hill as and when they become unconditional and therefore these assets have been recognised as held for sale in the group as at 31 December 2013. This process is expected to be concluded by no later than June 2015.

Once the assets have been realised, management will commence a process to unwind the Santam International Group. The investment in Santam International as well as the loan to Santam International have therefore been classified as current assets on a company level. The completion of the unwinding process is subject to Regulatory approval.

In accordance with IFRS 5, the assets held for sale were recognised at their fair value less costs to sell. This is a non-recurring fair value based on the net asset value of the business and related costs that will be incurred in order to conclude the unwinding process. It was therefore also recognised within level 3 of the fair value hierarchy.

	Reviewed At 30 June 2014 R million	Audited At 31 Dec 2013 R million
Assets that are classified as held for sale		
Financial assets – at fair value through income		
Equity securities	309	299
Loans and receivables including insurance receivables	120	116
	429	415

NOTES TO THE INTERIM FINANCIAL INFORMATION

	Reviewed At 30 June 2014 R million	Reviewed At 30 June 2013 R million	Audited At 31 Dec 2013 R million
9. Investment income and net gains/(losses) on financial assets and liabilities at fair value through income			
Investment income	377	363	782
Dividend income	68	59	177
Interest income	294	242	514
Foreign exchange differences	15	62	91
Net gains on financial assets and liabilities at fair value through income	323	150	449
Net realised gains on financial assets	430	320	368
Net fair value (losses)/gain on financial assets designated as at fair value through income	(14)	(222)	240
Net fair value (loss)/gains on financial assets held for trading	(5)	13	13
Net realised/fair value (losses)/gain on derivatives	(93)	5	(209)
Net fair value losses on short-term money market instruments	(4)	–	(3)
Net fair value gains on financial liabilities designated as at fair value through income	9	34	40
Net fair value gains on debt securities	9	36	37
Net fair value (loss)/gain on investment contracts	–	(2)	3
	700	513	1 231
10. Income tax			
South African normal taxation			
Current year	283	122	259
Charge for the year	283	122	258
STC	–	–	1
Prior year	2	2	(4)
Recovered from cell owners	(33)	(32)	(66)
Foreign taxation	15	17	40
Income taxation for the year	267	109	229
Deferred taxation	25	(14)	74
Current year	35	1	75
Prior year	(10)	(15)	(1)
Recovered from cell owners	–	(2)	(3)
	292	93	300
Reconciliation of taxation rate (%)			
Normal South African taxation rate	28.0	28.0	28.0
Adjust for			
– Exempt income	(1.4)	(3.6)	(3.4)
– Investment results	(2.6)	(2.6)	(2.0)
– STC	–	–	0.1
– Deferred tax not raised on prior year changes	–	(2.9)	–
– Other	(0.5)	(0.8)	(2.3)
Net reduction	(4.5)	(9.9)	(7.6)
Effective rate	23.5	18.1	20.4

NOTES TO THE INTERIM FINANCIAL INFORMATION

11. Business combinations

2014

There were no material business combinations during the six months ended 30 June 2014.

2013

Additions

Travel Insurance Consultants (Pty) Ltd

Santam Ltd acquired 100% of the shareholding in Travel Insurance Consultants (Pty) Ltd (TIC) with effect from 1 June 2013. TIC is one of the leading travel insurance underwriting managers and has been in operation for over 25 years. The purchase price amounted to R95 million. The goodwill of R76 million arises from a number of factors such as obtaining economies of scale and unrecognised assets such as the workforce. Key business relationships of R16 million, brandname of R1 million and an additional deferred tax liability of R6 million were also recognised on acquisition.

Provisional accounting was applied for the six months to 30 June 2013.

	Reviewed Six months ended 30 June 2013	Audited Year ended 31 Dec 2013
Details of the assets and liabilities acquired at fair value are as follows:		
Intangible assets	32	22
Loans and receivables	7	1
Cash and cash equivalents	15	15
Deferred taxation	(9)	(7)
Trade and other payables	(12)	(12)
Net asset value acquired	33	19
Goodwill	62	76
Deferred purchase consideration payable in July 2013	(95)	–
Purchase consideration paid	–	95

Beyonda Group (Pty) Ltd

Centriq Insurance Holdings Ltd acquired the additional 51% of the shareholding in Beyonda Group (Pty) Ltd for an amount of R8 million with effect 1 March 2013. Intangible assets of R15 million, net assets of R1 million as well as a profit on the sale of the investment in associate previously held of R1 million were recognised. The fair value of the investment in associate previously held was R7 million.

NOTES TO THE INTERIM FINANCIAL INFORMATION

	Reviewed Six months ended 30 June 2014	Reviewed Six months ended 30 June 2013	Audited Year ended 31 Dec 2013
12. Earnings per share			
Basic earnings per share			
Profit attributable to the company's equity holders (R million)	911	405	1 120
Weighted average number of ordinary shares in issue (million)	114.12	113.89	114.12
Earnings per share (cents)	799	356	982
Diluted earnings per share			
Profit attributable to the company's equity holders (R million)	911	405	1 120
Weighted average number of ordinary shares in issue (million)	114.12	113.89	114.12
Adjusted for share options	0.70	0.83	1.00
Weighted average number of ordinary shares for diluted earnings per share (million)	114.82	114.72	115.12
Diluted basic earnings per share (cents)	794	353	973
Headline earnings per share			
Profit attributable to the company's equity holders	911	405	1 120
Adjust for:			
Impairment charge on net investment of associates	–	11	26
Impairment of goodwill	–	–	5
Net loss on sale of investment in associate	–	–	18
Tax charge	–	–	9
Headline earnings (R million)	911	416	1 178
Weighted average number of ordinary shares in issue (million)	114.12	113.89	114.12
Headline earnings per share (cents)	799	365	1 033
Diluted headline earnings per share			
Headline earnings (R million)	911	416	1 178
Weighted average number of ordinary shares for diluted earnings per share (million)	114.82	114.72	115.12
Diluted headline earnings per share (cents)	794	363	1 023
13. Dividend per share			
Dividend per share (cents)	262	242	675

NON-EXECUTIVE DIRECTORS

B Campbell, MD Dunn, MP Fandesio,
BTPKM Gamedze, GG Gelink (Chairman),
MLD Marole, MJ Reyneke, JP Möller, J van Zyl

EXECUTIVE DIRECTORS

IM Kirk (Chief Executive Officer),
HD Nel (Chief Financial Officer), Y Ramiah

COMPANY SECRETARY

Masood Allie

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ISIN ZAE000093779

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NSX share code: SNM

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