2022

Annual financial statements

for the year ended 31 December 2022

Santam

Contents

How to navigate the annual financial statements

The format of the annual financial statements for 2022 is consistent with that of 2021. All key information relating to a financial line item is grouped in one note.

Primary statements

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

Notes to the financial statements

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

Accounting policies

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

Critical accounting estimates and judgements

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

Approval of the 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 its behalf by:

NT Moholi
Chairperson

TC Madzinga
Chief executive officer
1 March 2023

Preparation and presentation of the annual financial statements

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

Statement on internal financial controls

Each of the directors, whose names are stated below, hereby confirm that:

- The annual financial statements set out on pages 17 to 150, fairly present in all material respects the financial position, financial performance and cash flows of the group in terms of IFRS.
- To the best of our knowledge and belief, no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading.
- Internal financial controls have been put in place to ensure that material information relating to the group and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the group.
- The internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function as executive directors with primary responsibility for implementation and execution of controls.
- Where we are not satisfied, we have disclosed to the audit committee and the auditors any deficiencies in design and operational effectiveness of the internal financial controls, and have taken steps to remedy the deficiencies.
- We are not aware of any fraud involving directors.

HD Nel
Chief financial officer

TC Madzinga
Chief executive officer
1 March 2023

Secretarial certification

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

R Eksteen
Company secretary
1 March 2023

Independent auditor's report

To the Shareholders of Santam Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Santam Limited (the company) and its subsidiaries (together the group) as at 31 December 2022, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Santam Limited's consolidated and separate financial statements set out on pages 17 to 150 comprise:

- the consolidated and separate statements of financial position as at 31 December 2022;
- 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.

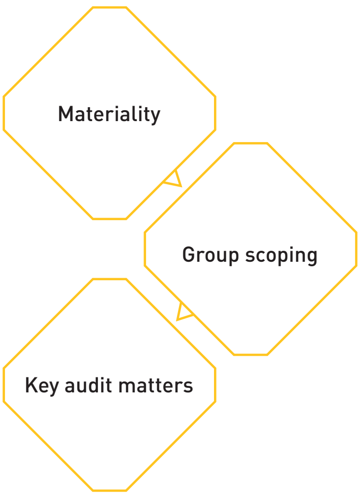
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

Our audit approach

Overview



Overall group materiality

- Overall group materiality: R272.95 million, which represents 0.55% of the consolidated gross written premium.

Group audit scope

- Full scope audits have been performed in respect of the company and certain subsidiaries based on their financial significance and/or the risks associated with these subsidiaries. Analytical procedures were performed over the remaining subsidiaries as they were deemed to be financially insignificant.

Key audit matters

- Valuation of the Incurred But Not Reported (IBNR) liability;
- Valuation of the Contingent Business Interruption (CBI) claims provision; and
- Fair value of the unquoted equity investment in Shriram General Insurance Company Limited.

Independent auditor's report

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.

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	R272.95 million
How we determined it	0.55% of the consolidated gross written premium
Rationale for the materiality benchmark applied	We chose consolidated gross written premium 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 the benchmark that provided the most representative reflection of the activities of the group. Based on professional judgement, we chose 0.55% to take into consideration the intended users and distribution of the consolidated financial statements, as well as the inherent risk within the group.

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.

The group operates in Southern Africa and transacts all classes of general insurance. Certain licensed subsidiaries conduct individual life and investment-linked business. 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 three subsidiaries with active insurance licences. Full scope audits were performed on these entities. Furthermore, additional entities were scoped in as there are balances in these entities that contribute to the significant risks of material misstatement of the consolidated financial statements. Full scope audits were performed on these entities. Analytical procedures were performed over the remaining subsidiaries as they were deemed to be financially insignificant.

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 other PwC network firms or component auditors from 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.

Independent auditor's report

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.

Key audit matter	How our audit addressed the key audit matter
Valuation of the Incurred But Not Reported (IBNR) liability	
This key audit matter relates to both the consolidated and separate financial statements. Refer to note 4.1 to the consolidated and separate financial statements. The total value of the group's gross IBNR liability at 31 December 2022 was R3 769 million (company – R3 182 million) as disclosed in note 4.1 – *Insurance liabilities and reinsurance assets*. The calculation of the IBNR liability is subject to inherent uncertainty and significant estimation is required. We considered the valuation of the IBNR liability to be a matter of most significance to the current year audit due to the following: • Substantial uncertainty regarding the ultimate outcome of claims that have occurred but had not yet been reported by the reporting date; • The stochastic approach applied by management to determine the IBNR liability; • The significance of estimation uncertainty as a result of actuarial assumptions and the assumption that the historical claims development pattern will occur again in the future; and • The magnitude of the IBNR liability and sensitivity to the key assumptions.	We assessed the reasonability of management's estimate of claims reserves by comparing previous claim estimates to the runoff actually experienced between initial recognition of the claims and the ultimate settlement of the claims. Based on the work we performed, we accepted management's claim reserve estimates. On a sample basis, we tested the data used in calculating the IBNR liability by comparing the data to the claims information on the underlying system such as date of loss, gross claim amount paid, gross outstanding claims amount and claim number. We assessed completeness of the data with the assistance of our IT specialists by testing the claims data interface between the underlying system and the model used to determine the IBNR liability. No material differences were noted. On a sample basis, we tested the claims information recorded on the underlying system (such as loss event, claim estimate, and item being claimed) by tracing the claims to the relevant documentation which detailed the loss event. We compared the claim values used by management to assessor reports. We assessed the validity of the claims by testing if the claims related to valid policies (e.g. if the item being claimed was included in the original policy and whether the premium has been paid up). No material differences were noted. We made use of our internal actuarial expertise to test the model used by management to calculate the IBNR by performing the following procedures: • We compared the methodology applied by management to the methodology applied by other companies in the industry. We found the methodology to be consistent with industry practice; • We recalculated the estimated claims development factors used in the model based on historical data. No material differences were noted; and • We performed independent stochastic simulations, taking into account the standard industry practice. We compared the results of our independent simulations to management's proposed estimates (i.e. best estimate plus margin). We noted that the methods used by management were in line with standard industry practice and no material differences were noted.

Independent auditor’s report

Key audit matter	How our audit addressed the key audit matter
Valuation of the Contingent Business Interruption (CBI) claims provision	
This key audit matter relates to both the consolidated and separate financial statements. Refer to note 4 to the consolidated and separate financial statements. For the year ended 31 December 2022, the group has re-estimated the projected ultimate net insurance exposure relating to CBI to R1.9 billion, taking into account the outcome of its court case and appeal, as well as other findings locally and internationally in relation to CBI cover. The calculation of this reserve is subject to inherent uncertainty and significant estimation is required. We considered the valuation of the CBI claims provision to be a matter of most significance to the current year audit due to the following key judgements: • The level of judgement applied in the determination of aggregation for the purposes of the reinsurance recoveries; and • The magnitude of the CBI provision and sensitivity to the key assumptions (including assumptions relating to recoveries from applicable reinsurance contracts).	In order to assess the reasonableness of judgements applied by management in the determination of the net technical provision, using our actuarial and legal expertise, we: • Held discussions with management to understand the process, rationale and justifications for key judgements applied in determining the gross provision as well as the reinsurance share of the CBI claims provision; • Inspected correspondence with the reinsurers relating to whether or not the reinsurers agree to pay the claims; • Held various walkthrough sessions with management to assess and discuss updated inputs into the model, as well as to gain an understanding of the data used to derive these inputs; • On a sample basis, we tested the policy exposure and risk location data used to determine the inputs above for accuracy and completeness by comparing the data used to policy information and underwriting systems. No material differences were noted; • Observed the process, controls and governance procedures implemented with respect to the key judgements applied; • Using our actuarial expertise, we tested the mathematical accuracy of the model used to determine the gross provision as well as the reinsurance share of the CBI claims provision based on the above. No material differences were noted; and • Reperformed the sensitivity analysis on the key areas of judgement affecting both the gross and reinsurance share of the CBI provision so as to assess whether the estimates are within an acceptable range.

Independent auditor's report

Key audit matter	How our audit addressed the key audit matter
Fair value of the unquoted equity investment in Shriram General Insurance Company Limited	
This key audit matter relates to both the consolidated and separate financial statements. Refer to note 5 to the consolidated and separate financial statements. The company subscribes from time to time in separate classes of target shares issued by Sanlam Emerging Markets (SEM) in terms of a Participation Transaction, with each separate class linked to a participatory interest in target companies. The target companies with the unquoted SEM target shares are disclosed in note 5 to the consolidated and separate financial statements. The fair value of the SEM target shares (R1 596 million at 31 December 2022 for both the group and the company) as disclosed in note 5 – *Financial assets* is predominantly determined using a discounted cash flow model. As per note 5.3 – *Financial instruments measured at fair value on a recurring basis*, the most significant investment relates to the target share which provides a participatory interest in Shriram General Insurance Company Limited (SGI) to the value of R1 459 million (2021: R1 419 million). The fair value of the SGI target share is determined using a discounted cash flow model. The most significant assumptions used by management in this model is the discount rate and net insurance margin expectations. We considered the fair value of the unquoted equity investment in SGI to be a matter of most significance to the current year audit due to the following: • The significant judgement and estimation uncertainties in the assumptions used by management; and • The magnitude of the unlisted investment.	We assessed management's discounted cash flow model (the model) used for appropriateness, taking into account the nature of the investments and comparing the model to industry norms and acceptable methodology. We found the model to be consistent with industry norms. We made use of our valuation expertise to test the assumptions used by management in the SGI fair value model by performing the following procedures: • We compared the discount rate used by management in the model to a range of discount rates which we independently calculated based on the market in which SGI operates, taking into account the nature of SGI. We found the discount rate used to be within an acceptable range of our independently calculated discount rates; • In order to assess the reasonability of previous cash flow forecasts used by management in the model, we compared prior year budgets to the actual experience of SGI. Based on the work we performed, we accepted management's cash flow forecasts; • With regards to the forecasts for future years, we tested the key drivers of the net insurance margin expectations by comparing them to our independent expectations, which were based on the historical experience, the actual insurance results of SGI and the market in which it operates. No material differences were noted; and • We compared the fair value of SGI as determined by management to our independently recalculated range of fair values. No material differences were noted.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Santam 2022 Annual Financial Statements", which includes the Directors' Report, the Report of the Audit Committee and the Secretarial Certification as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the document titled "Santam 2022 Integrated Report" which is expected to be made available to us after that date. The other information does not include the consolidated or the 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 express an audit opinion or any form of assurance conclusion thereon.

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

Independent auditor's report

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

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

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

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

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 Limited for 94 years.

PricewaterhouseCoopers Inc.
Director: C van den Heever
Registered Auditor
Cape Town, South Africa
1 March 2023

The examination of controls over the maintenance and integrity of the group's website is beyond the scope of the review of the financial statements. Accordingly, we accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Report of the audit committee

Composition and charter

The Santam group audit committee appointed to hold office until the conclusion of the annual general meeting (AGM) on 31 May 2023 comprises four independent non-executive directors of the company. PE Speckmann, MP Fandeso, DEH Loxton and M Chauke were re-elected to the committee by the company's shareholders at the AGM on 1 June 2022. MJ Reyneke retired from the committee at the AGM on 1 June 2022. The qualifications of the members of the committee are listed on page 26 of the integrated report. The members possess the necessary experience and expertise to direct the committee in the execution of its duties.

The audit committee of the Santam group acts as such for the following companies within the group where an audit committee is required in terms of the Companies Act, 71 of 2008, as amended: Santam Ltd, MiWay Insurance Ltd, Centriq Insurance Company Ltd, Centriq Life Insurance Company Ltd, Santam Structured Insurance Ltd and Santam Structured Life Ltd. The committee has a charter, approved by the board, dealing, *inter alia*, with its membership, frequency of meetings and responsibilities. The charter is reviewed annually and was updated during November 2022. The committee has a formal work plan to structure the execution of its responsibilities. The committee reviews reports from the external and internal auditors. The chairperson 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, and the application of, 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 execution of its functions, subject to a board approval process.

Internal and external audit

The committee nominated the independent external auditor to the Santam group and its subsidiaries for appointment by the shareholders at the annual general meeting held on 1 June 2022. It also approves the terms of engagement and remuneration for the external audit engagement. Furthermore, a review of the non-audit services rendered by external auditors and an assessment of the external auditor's ability to accept the audit, had been conducted by the committee. It was confirmed that the non-audit services did not compromise the external auditor's independence and that there were no regulations that prevented the external auditor's reappointment. The committee has considered the latest IRBA inspection findings report and the information provided in accordance with paragraph 22.15(h) of the JSE Listings Requirements in respect of the external auditor when assessing the suitability of the appointment of the audit firm and the designated audit partner.

The head of internal audit functionally reports to the chairperson of the audit committee and administratively to the chief financial officer. The audit committee is responsible for reviewing and approving 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 of the Santam group. This continues to mature.

Meetings

The committee held four scheduled meetings during the year under review. There were two further committee meetings held on 22 September 2022 and 2 November 2022, dealing with Santam's implementation of IFRS 17 *Insurance contracts*. The required quorum was present at all meetings held.

Chief financial officer

As required by the JSE Listings Requirement 3.84 and JSE Debt Listings Requirement 7.3(e)(i), the audit committee has considered the expertise and experience of the chief financial officer and financial director, HD Nel, and concluded that the appropriate requirements had been met. The committee is satisfied that the expertise, resources, and experience of the company's finance function is appropriate and that the financial reporting procedures are operating satisfactorily.

Integrated report and annual financial statements

The audit committee reviewed the 2022 Santam Ltd integrated report and considered factors and risks that may impact the integrity of the report. The audit committee also reviewed the disclosure of sustainability and governance issues in the integrated report to ensure that it is reliable and does not conflict with the financial information. The committee has recommended the integrated report and annual financial statements to the board for approval.

Effectiveness of internal financial controls

The audit committee has confirmed that effective systems of internal financial 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 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.

PE Speckmann
Chairperson of the audit committee
1 March 2023

Directors' report

Activities

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

Financial review

The 2022 financial year was one of the most challenging underwriting periods in Santam's history, combined with a turbulent investment market environment. Despite these headwinds, the Santam group reported strong gross written premium growth and acceptable net insurance results.

The group's conventional insurance business achieved gross written premium growth of 8%. A net underwriting margin of 5.1% (2021: 8.0%) was reported, at the bottom end of the group's target range of 5% to 10%. Following the implementation of focused underwriting actions, the underwriting results for the second half of 2022 showed a significant improvement. Adverse weather conditions in the first three months of the year and the devastating floods in the KwaZulu-Natal province (KZN floods) during early April 2022 significantly impacted the underwriting results. Other contributing factors to the lower underwriting margin were increased claims inflation, which escalated ahead of premium increases, higher-than-expected significant fire losses, and increased power surge and crime-related claims. These were offset to some extent by a reduction in the COVID-19-related contingent business interruption (CBI) claims provisions. The alternative risk transfer (ART) business reported excellent operating results, net of non-controlling interests, of R306 million (2021: R276 million), positively impacted by strong growth in fee income and positive investment and underwriting results. The net insurance result from Santam's share of Sanlam Emerging Markets (SEM) general insurance businesses decreased by 13% to R136 million (2021: R156 million) following the dilution of the investment in India and lower growth achieved.

Net investment income attributable to shareholders, inclusive of the investment return on insurance funds, amounted to R1 182 million (2021: R1 493 million). Local and foreign bond market volatility and lower equity markets were the key contributors to the weaker investment performance, partly offset by gains from a weaker rand exchange rate and increased dividends from the SEM investments.

Equity-accounted income from associates and joint ventures amounted to R54 million (2021: R78 million) following lower underwriting and negative investment results reported by SAN JV for the period to 30 June 2022. The investment in SAN JV was classified as a non-current asset held for sale effective 30 June 2022, and no further equity-accounted income was included since that date.

Cash generated from operations increased to R10 billion (2021: R3 billion), mainly due to growth in premiums received on ART business and reinsurance recoveries.

Headline earnings decreased to 1 826 cps compared to 2 495 cps for the year ended 31 December 2021 due to the weaker operating results and lower investment income attributable to shareholders.

A return on capital (ROC) of 18.8% was achieved, below the ROC target of 24%. However, a significant improvement on the 7.4% reported for the first six months of 2022, following improved underwriting and investment performance in the second half of the year. The economic capital coverage ratio at 31 December 2022 was 156% (2021: 169%), above the midpoint of the target range of 145% to 165%.

Conventional insurance

The conventional insurance business achieved strong gross written premium growth of 8% in a challenging high inflation, low growth economic environment and reported a net underwriting margin of 5.1% (2021: 8.0%), following much-improved underwriting results during the second half of 2022.

The devastating KZN floods negatively impacted the underwriting results in the current year. The current estimate of Santam's gross exposure to the KZN floods is R4.4 billion. Santam's reinsurance programme limited the net impact to approximately R567 million, including reinsurance reinstatement premiums. The KZN floods were the most significant natural catastrophe in Santam's history.

The process of finalising the remaining CBI claims and associated reinsurance recoveries relating to the COVID-19 lockdown continued steadily. Santam reviewed its provisions for CBI claims at the end of December 2022, considering the underlying exposure, claims payment experience to date, the level of claims aggregating for reinsurance recovery purposes, and expected recoveries from applicable reinsurance contracts. Following this review, Santam has reduced its net provision for CBI claims by a further R317 million, following the reduction of R397 million accounted for in the June 2022 results. The reduction is mainly due to the actual claims to date being lower than initial estimates. There remains some marginal uncertainty about the ultimate liability, which will only be eliminated once the process has been finalised. The current estimate of Santam's gross liability for open CBI claims at 31 December 2022 is R1 billion (2021: R3.2 billion), and a reinsurance asset of R0.9 billion (2021: R3.2 billion).

Gross written premium growth

Per business unit

The Santam Commercial and Personal (C&P) business reported good growth in gross written premiums compared to 2021, specifically in commercial lines and Santam Direct.

The Santam Specialist business achieved overall strong growth with the crop, travel, liability, marine and corporate property insurance businesses as the main contributors. The growth in the crop business was mainly due to increased commodity prices.

MiWay recorded subdued growth of 2%, following a deliberate focus on profitability, which impacted new business growth. The impact of low premium increases during 2021 and increased premium defaults in 2022 also contributed to lower growth in the existing book of business. Management is confident that the current focus on growth initiatives should improve the growth prospects for 2023.

Directors' report

Financial review (continued)

Conventional insurance (continued)

Gross written premium growth (continued)

Per business unit (continued)

Santam Re achieved acceptable growth in its third-party business, positively impacted by new business written during the reporting period and a general increase in reinsurance premium rates globally.

Geographical analysis

South Africa remains the most significant contributor to gross written premiums at 85% (2021: 84%), with gross written premiums from this market increasing by 9% to R30.0 billion (2021: R27.5 billion). Gross written premiums from outside South Africa, written on the Santam Ltd and Santam Namibia Ltd licences made up 15% (2021: 16%) of total gross written premiums and grew by 3% to R5 462 million (2021: R5 284 million). Strong growth was achieved by Santam Re in the Middle East, offset to some extent by fewer large engineering projects written in the rest of Africa. The collaboration with Sanlam Pan-Africa (SPA) across the African continent in specialist business continues to yield positive results, with excellent gross written premiums growth of 50% to R574 million (2021: R383 million), following solid growth achieved during 2022 in the corporate property and crop businesses. Santam Namibia recorded acceptable growth of 5%.

Per insurance class

Gross written premiums in the property class grew by 8% due to strong growth by Santam Re, as well as solid contributions from the corporate property business and the Santam C&P intermediated business.

The motor class reported growth of 5%, following good growth achieved by Santam Re and the Santam C&P intermediated business, offset to some extent by subdued growth from MiWay.

The liability class continued to achieve strong growth, supported by firmer premium rates, growth in cyber product uptake and increased market share across the independent broker market segment.

The accident and health class reported excellent growth as the travel insurance business benefitted from increased local and international travel trends and increased business activity post-COVID-19. The transportation class also reported strong growth that included good growth in the Santam Specialist aviation and marine businesses. However, gross written premiums in the engineering class achieved subdued growth of 2%, following a slowdown in business flows from outside South Africa, as highlighted above.

Underwriting result

Per business unit

The Santam C&P business underwriting results were significantly impacted by the adverse weather conditions during the first quarter, the KZN floods in April, high claims inflation and a significant increase in motor theft and power surge claims. Claims frequency trends for the motor class have normalised with an increase in vehicle accidents compared to the experience during the various levels of lockdown in 2021. Good progress has been made in implementing underwriting actions to address the increase in claims frequency and claims inflation resulting in improved underwriting results in the second half of 2022. The positive impact of these underwriting actions, which include procurement efficiencies, segmented premium increases, and higher claim excesses, will continue into 2023.

The Santam Specialist business achieved significantly improved underwriting results during the second half of 2022. The crop, liability, engineering, and travel insurance businesses reported excellent results. At the same time, the corporate property business also achieved a positive net underwriting result despite significant claims exposure to the KZN floods.

MiWay recorded, net of catastrophe claims recoveries, a loss ratio of 58.6% (2021: 60.9%) and an underwriting profit of R284 million (2021: R285 million). Underwriting actions, which included claim efficiencies, segmented premium increases and adjusted risk covers, started to gain traction after the interim reporting period.

Santam Re reported an underwriting loss in its third-party business, negatively impacted by significant losses and increased claims activity on an international motor treaty. Most of this book of business was not renewed for the 2023 year.

Per insurance class

The KZN floods severely impacted the underwriting performance of the property class, offset by the release of CBI claims provisions of R714 million. Excluding the impact of the KZN floods and the CBI reserve releases, the property class recorded a net underwriting loss of R478 million (2021: R215 million excluding CBI reserve releases), mainly due to more than expected large fire claims, a significant increase in power surge claims and the impact of claims inflation.

The engineering class delivered excellent underwriting results compared to 2021, following positive reserve movement and fewer large claims during the year.

The liability class continued to deliver strong underwriting results with limited adverse claims developments. Crop insurance delivered excellent underwriting results, following positive claims development in 2022, good profitability on business flows from outside South Africa and fewer claims. Underwriting losses in the Santam Re marine business negatively impacted the transportation class.

Expense management

The net acquisition cost ratio, excluding reinstatement premiums relating to KZN floods and CBI claims, remained in line with the prior year at 29.8% (2021: 30.0%), with the net commission ratio at 13.3% compared to 13.4% in 2021.

The management expense ratio, excluding reinstatement premiums, remained acceptable at 16.5% (2021: 16.6%) on the back of focused cost containment efforts and a decrease in variable incentive costs compared to 2021.

Directors' report

Financial review (continued)

Conventional insurance (continued)

Underwriting result (continued)

Expense management (continued)

Strategic project costs, included as part of management expenses, accounted for 1.9% (2021: 1.6%) of net earned premiums. These costs relate mainly to the development of a new claims management platform, the IFRS 17 implementation project, data enhancements and other digital solutions.

Investment return on insurance funds

The investment return on insurance funds of 1.3% (2021: 1.5%) of net earned premiums was adversely impacted by local and global bond market volatility, particularly during the first half of 2022. The higher US dollar component of the investments backing the insurance reserves incurred significant fair value losses following rising international bond yields. The second half of the year showed a marked improvement compared to the first half, as actions taken to reduce volatility had a positive impact. The impact of higher interest rates on the running yield of the investment portfolios also contributed to the improvement in investment results towards the end of 2022.

Alternative risk transfer (ART) business

The ART business reported excellent operating results, net of non-controlling interests (NCI), of R306 million (2021: R276 million). Income from clients, net of NCI, increased by 10% to R518 million (2021: R470 million) due to strong growth in fee income and positive investment results. Significant new gross written premiums in the mining rehabilitation business contributed to the growth in the group's operating cash flows, while several new first-party cells were established.

SEM general insurance businesses

Restatement of SAN JV (RF) (Pty) Ltd (SAN JV) and redemption of African target shares

On 4 May 2022, Santam announced that it entered into an agreement with Allianz Europe BV (Allianz), in terms of which Santam will dispose of its 10% interest in SAN JV to Allianz. The regulatory approvals for the proposed disposal are progressing according to plan and remain on track to complete mid-2023. As a result, the investment in SAN JV was classified as a non-current asset held for sale effective 30 June 2022. Equity-accounted earnings from SAN JV up to 30 June 2022 have been classified as discontinued operations. In addition, Santam's share of the results of SAN JV is no longer considered a part of the insurance-related reportable segments.

On 14 December 2022, SEM redeemed the target shares through which the Santam group held economic participation rights in the general insurance businesses of SEM in Africa, excluding SAN JV (the African target shares). Santam will retain its economic participation rights in the general insurance investments of SEM in India and Malaysia. These two investments now make up the SEM general insurance business segment.

Net insurance results

In India, Shriram General Insurance Company Ltd (SGI) was impacted by lower sales through Shriram channels and lower prescribed premium increases on its third-party portfolio relative to the historical average. New business sales trends did, however, improve through the year, driven by group and broker distribution channels. Although the business benefitted from an improved claims ratio and higher investment returns on insurance funds, higher distribution costs from non-Shriram channels detracted from the result.

Pacific & Orient Insurance Co. Berhad (P&O) in Malaysia recorded weaker growth in gross premiums, which were impacted by significant competitive pricing in the market. The business recorded lower net insurance results due to higher claims frequencies, lower volumes and lower investment return on insurance funds.

Investment results

Santam's listed equity portfolio achieved a return of 4.1% for the year ended 31 December 2022, in line with the SWIX benchmark (60% SWIX, 40% capped SWIX), which delivered a return of 3.9%.

On 30 June 2022, the group entered into a zero-cost collar over listed equities to the value of R1.4 billion, based on the SWIX 40, to provide capital protection given the prevailing volatile market conditions at the time and the below target underwriting results in the first six months of 2022. The structure offered full downside protection from the implementation level, with upside participation (excluding dividends) capped at 100.78%, and it expired on 15 December 2022. The increase in the SWIX 40 between June 2022 and December 2022 resulted in a breach of the cap, contributing to a realised loss on the zero-cost collar of R90 million.

The Santam group's interest-earning investments are managed in enhanced cash, active income and global fixed-income portfolios. The fixed-income portfolios were negatively affected by the poor local and global bond market performance during 2022. Even though the fourth quarter of 2022 showed a good recovery, the full-year performance for the global fixed-income portfolios lagged behind their benchmarks.

Foreign currency gains of R178 million (2021: R373 million) were recorded. This included unrealised foreign currency losses of R56 million (2021: gains of R94 million) on Santam's investments in SEM's general insurance businesses in India and Southeast Asia.

Net losses on financial assets and liabilities of R299 million (2021: net gains of R171 million) include fair value losses on listed equities, local and foreign bonds and derivatives. Positive fair value movements (excluding currency movements) of R185 million (2021: R34 million) were recorded on Santam's interest in SEM's general insurance businesses in India and Southeast Asia.

Net income from associated companies of R54 million (2021: R78 million) included Santam's share of SAN JV's net equity-accounted loss of R14 million (2021: net income of R8 million) for the six months to June 2022 following lower underwriting results and negative investment returns on insurance funds. The net loss from SAN JV has been classified as a discontinued operation. The carrying value of SAN JV at 31 December 2022 was R1 768 million (2021: R1 848 million). Following Santam's announcement on 4 May 2022 to dispose of its interest in SAN JV (refer to Corporate transactions section below), the investment has been reclassified as a non-current asset held for sale from 30 June 2022.

Directors' report

Financial review (continued)

Corporate transactions

In April 2022, KKR, a leading global investment fund, acquired a 9.99% stake in SGI from the Shriram group. KKR's investment will position SGI for continued growth in India's fast-growing general insurance industry. Before the transaction, Santam held a 15% economic participatory interest in SGI by way of a target share issued by SEM, which target share references SEM's effective shareholding in SGI. The transaction diluted SEM's effective shareholding in SGI, resulting in a commensurate dilution of Santam's economic interest in SGI from 15% to 14.1%. The enterprise value attributed to SGI for the transaction was around R38 billion (Rs 18 000 crore) and exceeded Santam's internal valuation of SGI at 31 December 2022 of R10 billion (Rs 5 046 crore) for the 100% stake. Pursuant to the transaction, Santam received a distribution in respect of the SGI target share at the end of May 2022, amounting to R217 million.

On 4 May 2022, Santam announced that it entered into an agreement with Allianz, in terms of which Santam will dispose of its 10% interest in SAN JV to Allianz. On the same day, Santam entered into a 12-month zero-cost collar to the amount of EUR125 million to protect the sale proceeds from the rand strengthening against the euro. The structure provides full downside protection below a EUR/ZAR exchange rate of R16.66 and entitles Santam to share in rand weakness against the euro up to a cap of R19.16. The fair value of this derivative structure on 31 December 2022 was an unrealised valuation loss of R35 million.

In another transaction in May 2022, the group increased its stake in Indwe Broker Holdings (Pty) Ltd by acquiring the additional 76% shareholding for R125 million, making it a wholly-owned subsidiary of the group.

On 14 December 2022, SEM redeemed the target shares through which the Santam group held economic participation rights in the general insurance businesses of SEM in Africa (the African target shares). The African target shares were redeemed following the cash payment by SEM of aggregate redemption distributions to the amount of R126 million to Santam, comprising a capital distribution of R92 million and an income distribution of R34 million. The capital distribution was recognised directly in the statement of financial position as a reduction of the African target share investment value. The income distribution was recognised in the statement of comprehensive income, where it was countered with a release of the realised fair value adjustment of the same value. The Santam group retained its economic participation rights in the general insurance investments of SEM in India and Malaysia.

Capital and subordinated debt

On 16 May 2022, Santam issued additional unsecured subordinated callable floating rate notes to the value of R1 billion. The effective interest rate for the floating rate notes is equivalent to the three-month JIBAR plus a spread of 159 basis points. The notes have an optional redemption date of 16 May 2027 with a final maturity date of 16 May 2032. Floating rate subordinated debt issued in June 2017 to the value of R1 billion (with an interest rate equal to the three-month JIBAR plus a spread of 210 basis points), which became callable on 27 June 2022, was also redeemed during the year. Santam's issued subordinated notes, therefore, remained at the current target level of R2.5 billion.

Based on the internal model, the group economic capital requirement at 31 December 2022 amounted to R8.6 billion (2021: R8.3 billion) compared to the actual capital of R13.5 billion (2021: R13.9 billion). This equates to an economic capital coverage ratio of 156% (2021: 169%), above the midpoint of the capital target range of 145% to 165%.

In November 2022, the Prudential Authority removed the remaining 10% capital add-on that applied to Santam's approved partial regulatory internal model. This increases the Santam Ltd regulatory capital coverage ratio. However, the targeted economic capital coverage ratio band of 145% to 165% has remained unchanged. The group remains committed to efficient capital management.

Events after the reporting period

There have been no material changes in the affairs or financial position of the group since the statement of financial position date.

Ordinary shares issued

The shares in issue remained at 115 131 417 (2021: 115 131 417) shares of no par value (including 5 534 058 (2021: 4 971 245) treasury shares). In terms of the deferred share plan (DSP) implemented in 2007 and the performance deferred share plan (PDSP), 567 959 (2021: 403 666) shares were granted to employees on a deferred delivery basis during the year, 116 040 (2021: 45 493) shares lapsed as a result of resignations and 293 292 (2021: 282 353) treasury shares were issued in terms of the DSP and PDSP. Full details are set out in note 17 to the annual financial statements.

Subsidiaries in the group hold a total of 5 301 582 (2021: 4 731 598) 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 232 476 (2021: 239 647) shares being recognised as treasury shares as at 31 December 2022 (refer note 16 and 17 for further details).

Capital structure

Debt securities

On 16 May 2022, Santam issued additional unsecured subordinated callable floating rate notes to the value of R1 billion. The effective interest rate for the floating rate notes is equivalent to the three-month JIBAR plus a spread of 159 basis points. The notes have an optional redemption date of 16 May 2027 with a final maturity date of 16 May 2032.

During June 2022, the company redeemed the R1 billion subordinated debt which became callable during the month.

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

Directors' report

Capital structure (continued)

Share capital

For details on ordinary shares issued, refer to note 16 to the financial statements.

Ordinary dividends

	Group	
	2022 R million	2021 R million
The following dividends were paid and are proposed		
Interim dividend of 462 cents per share (2021: 432 cents)	532	497
Final dividend of 845 cents per share (2021: 790 cents)	973	910
	1 505	1 407

Special dividend

A special dividend of 800 cents per share was declared and paid in March 2022.

Subsidiaries

Details of the company's direct and indirect interests in subsidiaries are set out in note 10.1 to the financial statements. The following changes in shareholding took place during the year:

In May 2022, the Santam group acquired the remaining 76% shareholding in Indwe Broker Holdings Group (Pty) Ltd for R125 million in cash.

The Santam group purchased the 49% non-controlling interest in JaSure Financial Services (Pty) Ltd, effective 1 June 2022 for R6 million in cash.

As a result of these transactions, the Santam group now effectively owns 100% shareholding in Indwe Broker Holdings Group (Pty) Ltd and JaSure Financial Services (Pty) Ltd.

Associated companies and joint ventures

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

On 4 May 2022, Santam announced that it entered into an agreement with Allianz, in terms of which Santam will dispose of its 10% interest in SAN JV to Allianz. The completion of the sale is subject to various regulatory approvals that are expected to be obtained mid-2023. The investment in SAN JV of R1.768 billion for the group (R2.034 billion for the company) (previously included in "Investment in associates and joint ventures") has therefore been reclassified as "Non-current assets held for sale" from 30 June 2022.

As mentioned above, in May 2022, the Santam group acquired the remaining 76% shareholding in Indwe Broker Holdings (Pty) Ltd, resulting in it becoming a subsidiary. Prior to the transaction, the group's investment in Indwe Broker Holdings Group (Pty) Ltd was included in Investment in associates and joint ventures.

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, refer to notes 10.2 (transactions with subsidiaries in the Santam group), 12.2 (transactions with associated companies and joint ventures in the Santam group), 20.3.1 and 20.3.2 (transactions with key management, directors and prescribed officers) and 27 (transactions with Sanlam group entities) to the annual financial statements.

Details of directors' remuneration and their interest in the company's shares appear in notes 16.1 (interest in the shares of the company), 17.1 (Santam deferred share plans), 17.2 (Sanlam deferred share plans), 20.3.1 (remuneration received from the company) and 27 (remuneration received from other companies in the group) to the annual financial statements.

Holding company

Sanlam Ltd, the company's holding company, holds 62.3% (2021: 62.1%) of the total issued ordinary share capital, net of treasury shares.

Segment information

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

Directorate and company secretary

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

TC Madzinga	» Appointed to the board (risk and investment committees) on 1 April 2022, and as chief executive officer (CEO) on 1 July 2022. Appointed to the social, ethics and sustainability committee with effect from 1 January 2023.
MJ Reyneke	» Retired from the board (audit, risk and investment committees) on 1 June 2022.
L Lambrechts	» Retired as CEO and from the board (risk and investment committees) on 30 June 2022.
MM Mahlangeni	» Appointed to the board on 12 December 2022 and to the risk committee effective 1 January 2023, to enhance the overall skill set of the board.

Directors' report

Directorate and company secretary (continued)

The board committees are therefore now as follows:

Committee memberships	Risk committee	Audit committee	Human resources and remuneration committee	Nominations committee	Social, ethics and sustainability committee	Investment committee
Non-executive directors						
M Chauke	✓	✓			✓	
CD da Silva	✓				✓	
MP Fandeso	✓	✓				✓
PB Hanratty			✓	✓		
DEH Loxton	✓	✓				✓
MM Mahlangeni	✓					
MLD Marole			✓	✓	✓	
NT Moholi (chairperson)			✓	✓		
AM Mukhuba	✓					✓
JJ Ngulube					✓	
PE Speckmann	✓	✓				
Executive directors						
TC Madzinga (chief executive officer)	✓				✓	✓
HD Nel (chief financial officer)	✓					✓

Company secretary

R Eksteen was appointed as company secretary on 1 July 2022 pursuant to the resignation of T Moshakga, effective 30 April 2022.

Registered office for company secretary

PO Box 3881, Tyger Valley 7536
Santam Ltd, 1 Sportica Crescent, Bellville 7530

Auditors

PricewaterhouseCoopers Inc (PwC) will continue in office in accordance with section 90(1) of the Companies Act, 71 of 2008, as amended (the Companies Act), until the next AGM. As per the mandatory audit firm rotation requirements, PwC will be rotating as Santam Limited's external auditors at the conclusion of the audit of the financial year ending 31 December 2023. Shareholder approval will therefore be sought at Santam Ltd's AGM in 2023 with the objective to formally appoint KPMG Inc as the Santam group's external auditors for the financial year commencing 1 January 2024.

Special resolutions passed

The following special resolutions were passed by Santam Ltd at the AGM on 1 June 2022:

- Approval of non-executive directors' remuneration.
- General authority to the directors, in accordance with the JSE Listings Requirements and the Companies Act, to repurchase the company's shares.
- 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.
- General authority to provide direct or indirect financial assistance to related companies or persons (or inter-related companies or corporations). Such financial assistance provided during the year exceeded the threshold of 0.1% of the Santam group's net asset value.

Notice in terms of section 45(5) of the Companies 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 Companies Act. In accordance with section 45(5) of the Companies 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 Companies Act and in terms of the special resolution passed at the company's annual general meeting in 2022, provide such direct or indirect financial assistance to related and inter-related companies and corporations as described in section 45 of the Companies 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 0.1% of the Santam group's net asset value.

Statements of financial position

	Notes	Group 2022 R million	Group 2021 R million	Company 2022 R million	Company 2021 R million
ASSETS					
Intangible assets	13	1 073	989	285	306
Property and equipment	15	640	702	456	517
Investment in subsidiaries	10	–	–	1 029	1 029
Investment in associates and joint ventures	12	467	2 284	–	2 034
Strategic investment - unquoted SEM target shares	5.1	1 596	1 691	1 596	1 691
Deferred income tax	22	84	78	–	19
Deposit with cell owner	9.3	56	90	–	–
Cell owners' and policyholders' interest	9.1	3	11	–	–
Financial assets at fair value through income	5.1	35 850	31 047	12 434	13 673
Reinsurance assets	4.1	13 652	14 892	12 059	13 836
Deferred acquisition costs	4.1.2	1 056	961	831	804
Non-current assets held for sale	12.3	1 768	–	2 034	–
Loans and receivables including insurance receivables	4.2, 5.6	11 319	8 312	8 078	6 131
Current income tax		96	5	–	–
Cash and cash equivalents	5.7	5 387	4 496	2 356	1 842
Total assets		73 047	65 558	41 158	41 882
EQUITY					
Capital and reserves attributable to the company's equity holders					
Share capital	16	103	103	103	103
Treasury shares	16	(713)	(570)	–	–
Other reserves	18.1	(63)	37	(35)	–
Distributable reserves	18.2	11 602	11 862	9 051	9 567
		10 929	11 432	9 119	9 670
Non-controlling interest	11	669	630	–	–
Total equity		11 598	12 062	9 119	9 670
LIABILITIES					
Deferred income tax	22	94	85	17	–
Cell owners' and policyholders' interest	9.1, 9.2	7 124	4 908	–	–
Reinsurance liability relating to cell owner	9.4	56	90	–	–
Financial liabilities at fair value through income					
Debt securities	6.1	2 539	2 552	2 539	2 552
Investment contracts	6.3	2 061	1 970	–	–
Derivatives	6.4	35	1	35	1
Lease liabilities	6.9	669	764	501	575
Financial liabilities at amortised cost					
Repo liability	6.5	739	926	–	–
Collateral guarantee contracts	6.6	129	155	129	155
Insurance liabilities	4.1	39 977	36 040	23 655	24 698
Deferred reinsurance acquisition revenue	4.1.2	642	561	531	475
Provisions for other liabilities and charges	19	139	188	87	136
Trade and other payables including insurance payables	4.3, 6.7	6 911	4 851	4 278	3 284
Current income tax		334	405	267	336
Total liabilities		61 449	53 496	32 039	32 212
Total shareholders' equity and liabilities		73 047	65 558	41 158	41 882

Statements of comprehensive income

	Notes	Group 2022 R million	Group Restated[1] 2021 R million	Company 2022 R million	Company 2021 R million
Gross written premium		49 627	42 129	34 067	31 502
Less: reinsurance written premium		17 972	14 766	7 611	6 793
Net written premium		31 655	27 363	26 456	24 709
Less: change in unearned premium					
Gross amount	4.1.1	4 499	1 573	431	166
Reinsurers' share	4.1.1	(920)	(794)	23	(120)
Net insurance premium revenue		28 076	26 584	26 002	24 663
Interest income on amortised cost instruments	5.9	276	206	51	19
Interest income on fair value through income instruments	5.9	1 688	1 346	724	685
Other investment income	5.9	811	552	1 023	552
Income from reinsurance contracts ceded		2 318	2 067	1 640	1 491
Net (losses)/gains on financial assets and liabilities at fair value through income	5.10	(550)	732	(327)	314
Other income	20.1	547	352	115	89
Net income		33 166	31 839	29 228	27 813
Insurance claims and loss adjustment expenses:					
Gross amount	4.4	29 168	29 734	22 916	24 773
Recovered from reinsurers	4.4	(11 134)	(13 329)	(6 046)	(9 491)
Net insurance benefits and claims		18 034	16 405	16 870	15 282
Expenses for the acquisition of insurance contracts	20.2	5 997	5 539	6 167	5 758
Expenses for marketing and administration	20.2	5 248	4 794	3 504	3 417
Expenses for investment-related activities	20.2	124	93	83	66
Amortisation and impairment of intangible assets	13, 20.2	105	68	60	25
Investment return allocated to cell owners and structured insurance products		655	982	–	–
Total expenses		30 163	27 881	26 684	24 548
Results of operating activities		3 003	3 958	2 544	3 265
Finance costs	6.8	(323)	(313)	(246)	(230)
Net income from associates and joint ventures	12	68	70	–	–
Impairment of net investments and loans of subsidiaries	10	–	–	–	(19)
Income tax recovered from cell owners and structured insurance products	21	749	592	–	–
Profit before tax		3 497	4 307	2 298	3 016
Tax expense allocated to shareholders		(645)	(879)	(468)	(739)
Tax expense allocated to cell owners and structured insurance products		(749)	(592)	–	–
Total tax expense	21	(1 394)	(1 471)	(468)	(739)
Profit from continuing operations		2 103	2 836	1 830	2 277
(Loss)/profit from discontinued operations	12.4	(14)	8	–	–
Profit for the year		2 089	2 844	1 830	2 277
Other comprehensive income, net of tax					
Items that may subsequently be reclassified to income					
Exchange differences on translation of discontinued operations	18.1	(57)	18	–	–
Total comprehensive income for the year		2 032	2 862	1 830	2 277
Profit attributable to:					
– equity holders of the company		1 990	2 745	1 830	2 277
– non-controlling interest		99	99	–	–
		2 089	2 844	1 830	2 277
Total comprehensive income attributable to:					
– equity holders of the company		1 933	2 763	1 830	2 277
– non-controlling interest		99	99	–	–
		2 032	2 862	1 830	2 277
Total comprehensive income for the year arises from:					
Continuing operations		2 103	2 836	1 830	2 277
Discontinued operations		(71)	26	–	–
		2 032	2 862	1 830	2 277
Earnings attributable to equity shareholders	23				
Earnings per share (cents)					
Basic earnings per share		1 816	2 491		
Diluted earnings per share		1 803	2 478		

[1] *Refer to notes 2.1 and 12.4 for detail of restatement.*

Statements of changes in equity

	Attributable to equity holders of the company						
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	Total R million	Non-controlling interest R million	Total R million
GROUP							
Balance as at 1 January 2021	103	(527)	19	9 761	9 356	736	10 092
Profit for the year	–	–	–	2 745	2 745	99	2 844
Other comprehensive income:							
Exchange differences on translation of discontinued operations	–	–	18	–	18	–	18
Total comprehensive income for the year ended 31 December 2021	–	–	18	2 745	2 763	99	2 862
Issue of treasury shares in terms of share option schemes	–	77	–	(77)	–	–	–
Purchase of treasury shares	–	(120)	–	–	(120)	–	(120)
Share-based payment costs	–	–	–	86	86	–	86
Issue of equity interest in cell captive	–	–	–	–	–	22	22
Dividends paid	–	–	–	(477)	(477)	(227)	(704)
Non-controlling interest acquired	–	–	–	(176)	(176)	–	(176)
Balance as at 31 December 2021	103	(570)	37	11 862	11 432	630	12 062
Profit for the year	–	–	–	1 990	1 990	99	2 089
Other comprehensive income:							
Exchange differences on translation of discontinued operations	–	–	(57)	–	(57)	–	(57)
Total comprehensive income for the year ended 31 December 2022	–	–	(57)	1 990	1 933	99	2 032
Issue of treasury shares in terms of share option schemes	–	94	–	(94)	–	–	–
Purchase of treasury shares	–	(237)	–	–	(237)	–	(237)
Share-based payment costs	–	–	–	112	112	–	112
Hedging reserve movement	–	–	(35)	–	(35)	–	(35)
Share of associates' movements in other reserves	–	–	(8)	–	(8)	–	(8)
Issue of equity interest in cell captive	–	–	–	–	–	46	46
Repayment of equity interest in cell captive	–	–	–	–	–	(6)	(6)
Dividends paid	–	–	–	(2 264)	(2 264)	(98)	(2 362)
Non-controlling interest acquired	–	–	–	(4)	(4)	(2)	(6)
Balance as at 31 December 2022	103	(713)	(63)	11 602	10 929	669	11 598

	Attributable to equity holders of the company					
	Share capital R million	Other reserves R million	Distributable reserves R million	Total R million	Non-controlling interest R million	Total R million
COMPANY						
Balance as at 1 January 2021	103	–	7 779	7 882	–	7 882
Profit for the year	–	–	2 277	2 277	–	2 277
Total comprehensive income for the year ended 31 December 2021	–	–	2 277	2 277	–	2 277
Share-based payment costs	–	–	82	82	–	82
Loss on delivery of shares in terms of share scheme	–	–	(74)	(74)	–	(74)
Dividends paid	–	–	(497)	(497)	–	(497)
Balance as at 31 December 2021	103	–	9 567	9 670	–	9 670
Profit for the year	–	–	1 830	1 830	–	1 830
Total comprehensive income for the year ended 31 December 2022	–	–	1 830	1 830	–	1 830
Hedging reserve movement	–	(35)	–	(35)	–	(35)
Share-based payment costs	–	–	111	111	–	111
Loss on delivery of shares in terms of share scheme	–	–	(95)	(95)	–	(95)
Dividends paid	–	–	(2 362)	(2 362)	–	(2 362)
Balance as at 31 December 2022	103	(35)	9 051	9 119	–	9 119

Statements of cash flows

		Group		Company	
	Notes	2022 R million	Restated[2] 2021 R million	2022 R million	Restated[2] 2021 R million
Cash flows from operating activities					
Cash generated from operations[1]	25	9 624	3 279	2 573	1 333
Interest paid		(322)	(295)	(223)	(226)
Income tax paid	26	(802)	(626)	(500)	(527)
Net movement from the acquisition and sale of financial assets[2]		(4 957)	(474)	1 093	473
Net cash from operating activities		3 543	1 884	2 943	1 053
Cash flows from investing activities					
Acquisition of financial assets		–	(1)	–	(1)
Proceeds from the redemption of financial assets		92	–	92	–
Acquisition of subsidiaries, net of cash acquired	14	31	–	–	–
Purchases of equipment	15	(78)	(19)	(64)	(42)
Purchases of intangible assets	13	(58)	(89)	(39)	(71)
Proceeds from sale of intangible assets		16	–	–	–
Acquisition of associates and joint ventures	14	(2)	–	–	–
Net cash from/(used in) investing activities		1	(109)	(11)	(114)
Cash flows from financing activities					
Purchase of treasury shares	16	(237)	(120)	–	–
Purchase of non-controlling interest in subsidiaries		(6)	(176)	–	–
Proceeds from issue of unsecured subordinated callable notes	6.1	1 000	–	1 000	–
Redemption of unsecured subordinated callable notes	6.1	(1 000)	(500)	(1 000)	(500)
Dividends paid to company's shareholders		(2 264)	(477)	(2 362)	(497)
Dividends paid to non-controlling interest		(98)	(227)	–	–
Equity interest issued to cell captive		46	22	–	–
Repayment of equity interest in cell captive		(6)	–	–	–
Payment of principal element of lease liabilities	6.9	(123)	(156)	(91)	(107)
Net cash used in financing activities		(2 688)	(1 634)	(2 453)	(1 104)
Net increase/(decrease) in cash and cash equivalents		856	141	479	(165)
Cash and cash equivalents at beginning of year		4 496	4 383	1 842	2 036
Exchange gains/(losses) on cash and cash equivalents		35	(28)	35	(29)
Cash and cash equivalents at end of year		5 387	4 496	2 356	1 842

[1] *Refer to note 5.9 for disclosure of interest and dividends received in cash.*
[2] *Acquisition of financial assets and proceeds from sale of financial assets restated to be disclosed on a net basis instead of gross. Refer to note 33 for detail of restatement.*

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, unless otherwise indicated.

1.1 Statement of compliance

The financial statements are prepared in accordance with the JSE Ltd Listings Requirements and Debt Listings Requirements, the requirements of the Companies Act and the company's memorandum of incorporation. The JSE Ltd Listings Requirements and Debt 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 Guides as issued by the Accounting Practices Committee and Financial Pronouncements, as issued by the Financial Reporting Standards Council.

1.2 Basis of preparation

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

The consolidated annual financial statements have been prepared on a going concern basis. In adopting the going concern basis, the board has reviewed the group's ongoing commitments for the next 12 months and beyond. The board's review included the group's strategic plans and updated financial forecasts including capital position, liquidity and credit facilities, and investment portfolio.

In the context of the current challenging environment, a range of downside scenarios have been considered. These include scenarios which reflect subdued economic activity, market volatility and increased climate-related claim events.

As a result, the board believes that the group is well placed to meet future capital requirements and liquidity demands. Based on this review, no material uncertainties, that would require disclosure, have been identified in relation to the ability of the group to remain a going concern for at least the next 12 months, from the date of the approval of the consolidated annual financial statements.

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

Restatement of SAN JV

On 4 May 2022, Santam announced that it entered into an agreement with Allianz, in terms of which Santam will dispose of its 10% interest in SAN JV to Allianz. As a result, equity-accounted earnings from SAN JV has been classified as discontinued operations, with a corresponding restatement of the statement of comprehensive income. The completion of the sale is subject to various regulatory approvals that are expected to be obtained mid-2023. The investment in SAN JV of R1.768 billion for the group (R2.034 billion for the company) (previously included in "Investment in associates and joint ventures") has therefore been reclassified as "Non-current assets held for sale" from 30 June 2022. In addition, Santam's share of the results of SAN JV is no longer considered a part of the insurance-related reportable segments, but instead has been reclassified to the investments reportable segment. The December 2021 consolidated segment report was restated as a result.

Refer to notes 2.1 and 12.4 for more detail.

Restatement of statement of cash flows

Cash flows relating to the investment portfolios within operating activities have been restated and disclosed on a net basis instead of gross. Refer to note 33 for detail of restatement.

Standards effective in 2022

The following new IFRSs and/or IFRICs were effective for the first time from 1 January 2022:

- Amendment to IFRS 3 *Business combinations: Asset or liability in a business combination clarity*
- Amendment to IFRS 16 *Leases: COVID-19-related rent concessions*
- Amendments to IAS 16 *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37 *Provisions, contingent liabilities and contingent assets: Onerous contracts: Cost of fulfilling a contract*
- Annual improvements cycle 2018 – 2020, IFRS 9 *Financial instruments*
- Annual improvements cycle 2018 – 2020, IFRS 16 *Leases*

No material impact on the annual financial statements was identified resulting from the adoption of these amendments made to IFRS.

Notes to the annual financial statements

1 Summary of significant accounting policies (continued)

1.2 Basis of preparation (continued)

Standards not yet effective in 2022

The group did not early adopt any of the IFRS standards. Of the standards that are not yet effective, management expects IFRS 17 to have a future impact on the group and company.

IFRS 17 insurance contracts

Introduction

The IASB issued IFRS 17 *Insurance contracts* in May 2017 and on 25 June 2020, the IASB issued amendments to the standard. The effective date of IFRS 17 is for annual reporting periods beginning on or after 1 January 2023. Hence the group and company will apply the standard retrospectively on 1 January 2023 and restate comparatives for the 2022 financial period.

Project governance and progress

The group's audit committee and an IFRS 17 steering committee provide oversight and governance over the implementation of the new standard. The steering committee is comprised of senior management from various functions including finance, risk, information technology, operations, and group internal audit.

Accounting policy papers, actuarial methodologies and disclosure requirements have been prepared to be implemented throughout the group. The implementation team remains up to date, and closely monitors, all technical developments from the IASB and industry to evaluate the effects of such developments and, where applicable, aligns the policy and methodology papers accordingly. The tax implications regarding the adoption of IFRS 17 have been considered.

The IFRS 17 implementation team will focus on the following key areas during 2023:

- Refine disclosures for transition, interim financial statements, and annual financial statements.
- Refine remaining internal financial controls to ensure accuracy of reporting.
- Finalise the management reporting format and key performance measures.
- Engage external auditors for the sign-off of June 2022 and December 2022 results under IFRS 17.

Transition approach

The group and company will apply IFRS 17 as of 1 January 2023 on a fully retrospective basis for all its portfolios except for certain portfolios containing life contracts. For the life portfolios where the fully retrospective method is deemed impractical, the fair value approach will be applied. Comparative figures for 2022 will be restated as required by the transitional provisions of IFRS 17.

Any adjustments to the carrying amounts of insurance and reinsurance assets and liabilities at the date of transition (being 1 January 2022), will be recognised in the opening balance of retained earnings.

Estimated impact of adopting IFRS 17

The group has assessed the impact that the initial application of IFRS 17 will have on its consolidated financial statements as at 1 January 2022 (the transitional impact). It is estimated that the transitional impact will be a decrease in retained earnings of less than R100 million after tax. The decrease in retained earnings is mainly attributable to the deferral of administration fee income related to the cell captive business, only to be released as the insurance service is provided. The impact on the statement of comprehensive income for 2022 is in the process of being finalised and is not expected to be material.

Included in the estimated impact is the group's share of the transitional impact on reserves of associated companies and joint ventures, apart from the group's investment in SAN JV. As disclosed in note 12, the group entered into an agreement with Allianz during 2022 to dispose of its interest in SAN JV. The group's share of the transitional impact of IFRS 17 on SAN JV's reserves is expected to be less than R70 million after tax. Any transitional impact on the group's shareholders' equity relating to SAN JV will reverse as part of the profit/loss on disposal of the investment in SAN JV at the effective date, which is expected mid-2023. The SAN JV transitional impact will therefore not have an ongoing impact on the group's shareholders' equity after the disposal is completed.

The estimated transitional impact is still provisional as the transition assessment has not yet been finalised. The actual impact of adopting IFRS 17 may yet change due to:

- the new accounting policies, assumptions, judgements, and estimation techniques employed are subject to change until the group finalises its first interim financial statements that include the date of initial application.
- the new systems and associated internal controls have not been fully operational for a full reporting cycle and may yet require more refinement.

Notes to the annual financial statements

1 Summary of significant accounting policies (continued)

1.2 Basis of preparation (continued)

Standards not yet effective in 2022 (continued)

IFRS 17 insurance contracts (continued)

Impact of changes in tax legislation

National Treasury (NT) promulgated the 2022 Taxation Laws Amendment Act (2022 TLAA) in January 2023, that was substantively enacted on 22 December 2022 and which contained the changes to section 28 of the Income Tax Act to cater for the implementation of IFRS 17. The changes ensure that section 28 is aligned to the terminology and principles of IFRS 17. A change from the previous regime is that salvages and third-party recoveries will be taxed on accrual instead of the cash receipt basis. The required changes were made to sufficiently cater for the taxation of investment contracts and cell captive arrangements in line with the current tax treatment. The impact is however immaterial.

IFRS 17 Insurance contracts: Summarised accounting policies relating to insurance and reinsurance liabilities and assets

This section includes the draft key accounting policies to be applied to contracts within the scope of IFRS 17. These draft accounting policies are subject to change until the publication of the group's interim results for the six months ended 30 June 2023.

Classification and measurement

The group and company applies IFRS 17 *Insurance contracts* to insurance contracts issued and reinsurance contracts held.

All references to insurance contracts in these consolidated and separate financial statements apply to insurance contracts issued or acquired, and reinsurance contracts issued or held, unless specifically stated otherwise.

Once a contract has been classified as an insurance contract, the classification remains unchanged for the remainder of its lifetime, even if the insurance risk reduces significantly during the coverage period, unless the terms of the contract are modified.

A contract is classified as an insurance contract where the group provides insurance coverage by accepting significant insurance risk when agreeing with the policyholder to pay benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary.

The accounting model applied to these insurance contracts, including reinsurance contracts issued and/or held, for liability measurement purposes is the General Measurement Model (GMM) unless the Premium Allocation Approach (PAA) applies. The PAA is a modification of the GMM that allows the use of a simplified approach for measuring the insurance contract liabilities for certain eligible types of contracts.

Where the requirements are met to measure a group of insurance contracts using the PAA, the liability for remaining coverage (LRC) at initial recognition corresponds to premiums received less acquisition costs. However, the GMM remains applicable for the measurement of incurred claims.

The standard provides that the LRC of insurance contracts and asset for remaining coverage (ARC) for reinsurance contracts be measured as: fulfillment cash flows, that is, the present value of future cash flows necessary to fulfill insurance obligations under the contract; plus a risk adjustment for non-financial risk and the contractual service margin (CSM) (representing unearned profit). Under the simplified approach (PAA), the insurance and reinsurance groups of contracts are measured as the premiums received less acquisition costs (if the accounting policy choice was made to defer acquisition costs). The liability for incurred claims (LIC) is measured as the present value of future cash flows necessary to fulfill a claim, plus a risk adjustment for non-financial risk and applies to both GMM and PAA.

Based on the analysis of insurance policies issued, the group predominantly writes short-duration non-life contracts, to which the PAA will be applied. Certain portfolios within the life insurance book, will be measured under the GMM.

Based on assessments performed to date, the group does not expect to have contracts which meet the definition of insurance or investment contracts with discretionary participation features. Therefore, the group does not anticipate that the variable fee approach (VFA) measurement model will be applied to insurance contracts in the group.

Insurance revenue and insurance service expenses are recognised in the statement of comprehensive income based on the concept of services provided during the period. The standard also recognises losses earlier on contracts that are expected to be onerous.

Critical accounting estimates and judgements

The main changes in the critical estimates and judgements to be made to the group and company's accounting policies in terms of IFRS 17 – *Insurance contracts* are summarised below.

Notes to the annual financial statements

1 Summary of significant accounting policies (continued)

1.2 Basis of preparation (continued)

Standards not yet effective in 2022 (continued)

IFRS 17 insurance contracts (continued)

Contract boundaries

Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the group can compel the policyholder to pay premiums; or the group has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation ends when:

a) the group has the practical ability to reprice the risks of the policyholder or change the level of benefits so that the price fully reflects those risks; or

b) both of the following criteria are satisfied:

   i) the group has the practical ability to reprice the contract or a portfolio of contracts so that the price fully reflects the reassessed risk of that portfolio; and

   ii) the pricing of premiums up to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

In assessing the practical ability to reprice, risks transferred from the policyholder to the group, such as insurance risk and financial risk, are considered. Other risks, such as lapse, surrender and expense risk, are not included.

The group considers the legal rights and the commercial substance of the contracts in this assessment.

Cash flows outside of the boundary of the insurance contract relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

For most insurance contracts issued, the group has the practical ability to reassess the risks of a policyholder and set an appropriate premium to reflect those risks on short notice. Consequently, for most insurance contracts the contract boundary will be shorter than a year. The practical ability to reprice is not removed when management makes a commercial decision to price, or not price, at a certain level.

Most facultative reinsurance contract boundaries will align with the contract boundary of the underlying direct insurance contracts. Certain risk attaching treaty reinsurance contracts, however, cover underlying direct business that begins during a one-year coverage period of the reinsurance contract (risk-attaching reinsurance contracts). Because of this feature, the contract boundary of these reinsurance contracts can be more than one year. Such contracts will be subjected to the PAA eligibility test, described below.

The contract boundary of loss occurring treaty reinsurance contracts, is equal to the coverage period of the reinsurance contact. That is, losses must occur within the treaty's cover period.

Premium allocation approach (PAA) eligibility

The group will apply the PAA to measure a group of insurance/reinsurance contracts issued or reinsurance held if, at inception of the group: the coverage period of each contract in the group of insurance contracts is one year or less; or the group reasonably expects that the PAA would produce a measurement of the liability or asset for remaining coverage for a group of insurance contracts that would not differ materially from the measurement that would be achieved by applying the requirements of the GMM.

Where the cover period is greater than one year, the group will assess the appropriateness of the PAA measurement model as follows:

- Project the fulfillment cash flows of the group of contracts and take into account the time value of money where the time between providing each part of the services and the related premium is more than a year.
- Calculate the projected LRC under the PAA at each projected time period (initial recognition and subsequent measurement at our external reporting frequency, i.e., half-yearly or annually).
- Calculate the LRC under the GMM (including the CSM) at initial recognition as well as subsequent measurement.
- At each point in time (in the projection) calculate the difference between the LRC under the PAA and GMM ("the difference").
- Compare the difference to the pre-determined materiality threshold (relative measure) at each point in time.
- Where the difference does not exceed the determined threshold (at any time) then the group passes the PAA eligibility test (for the base case).
- Perform scenario testing using the above process to ensure differences remain immaterial.

Scenario testing will be performed, at least annually, by updating the projected fulfillment cash flows (best estimates and corresponding risk adjustments) under reasonably expected scenarios, which would affect cash flow variability.

Relative materiality thresholds will be defined for each portfolio based on ensuring that the combined absolute impacts of all IFRS 17 groups with coverage periods longer than a year applying the PAA falls within an absolute measure of materiality for the entity for each future year.

Notes to the annual financial statements

1 Summary of significant accounting policies (continued)

1.2 Basis of preparation (continued)

Standards not yet effective in 2022 (continued)

IFRS 17 insurance contracts (continued)

Unit of account

The lowest unit of account explicitly mentioned in IFRS 17 is the contract, and there is a presumption that an insurance arrangement with the legal form of a single contract would generally be considered a single unit of account.

There might be certain cases where the legal form of a contract does not reflect the substance, and thus where separation is required for accounting purposes. In such instances, the group writes multiple risks into a single contract and has concluded that each risk within the policy document is the unit of account for IFRS 17 based on the following reasons:

- Each risk in the policy is a separate transaction and therefore a separate contract concluded with the policyholder due to the risk being acquired independently by the policyholder, independently underwritten and priced and monitored and reported on separately by management.
- Depending on when the risks were acquired and added to a policy document, the risks would expire at different times. Practically however when the earliest of the contracts renew in a policy, all risks in the policy are renewed to ease the administrative burden for the policyholder. This is also permissible as in the commercial and personal lines contracts the group is allowed to give 30 days' written notice of the changes that will be made to the policy.
- The different risks covered in a policy do not have similar characteristics or commercial risks, and have no bearing to each other in consideration of future fulfillment net cash flows.
- Fulfillment cash flows for each risk is considered independently of other risks covered in a policy.

Liability for incurred claims

The best estimate provision for LIC relates to claim events that have occurred before or at the reporting date – whether the claims arising from these events have been reported (outstanding claims reserve – OCR) or not (incurred but not reported – IBNR).

The cash flow projections comprise all future claim payments, receivables from salvage as well as the claims administration expenses arising from these events.

The reinsurance cash flow projections will make allowance for the best estimate credit risk arising from the potential default of reinsurance counterparties.

Historic claims triangulations that cross-tabulate claims incurred by their date of loss and date of payment are used to determine the expected cost of future claims (equivalent to the OCR plus IBNR).

A payment pattern based on the historic claims paid triangulation is used to determine the speed at which the claims provision runs off into the future.

These future claims payments are then discounted back to the reporting date using a term-dependent discount rate.

The historic claims incurred already include an amount for allocated loss adjustment expenses (ALAE) and so are implicitly projected into the future with the claims payments. In addition, directly attributable claims management expenses is added to the best-estimate liability to allow for the cost of administering the ultimate run-off of the claims provisions.

The best-estimate liability is equal to the sum of the discounted claims and expense provisions.

Discount rates

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, plus an illiquidity premium where applicable. For the non-life business, the group will apply the 10-year government bond risk-free rates as at reporting date for the liability of incurred claims.

The risk-free rates are deemed appropriate given that:

- The risk-free rate adequately reflects the characteristics of the insurance contracts as the risk-free rate generally increases for longer durations. Further, any differences in characteristics between the risk-free rates and the insurance contracts should not be material given the short-term nature of the liabilities.
- The risk-free rates are consistent with current market prices as they reflect the rates provided in the market and will be the latest available rates.

Given the nature of the liabilities, no liquidity adjustment will be made to the risk-free rate. The discount rate used for cash flows will be based on the most current rates reflecting that variability.

Notes to the annual financial statements

1 Summary of significant accounting policies (continued)

1.2 Basis of preparation (continued)

Standards not yet effective in 2022 (continued)

IFRS 17 insurance contracts (continued)

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would require to remove the uncertainty that future cash flows will exceed the expected value amount.

The first step in the process is to calculate a best estimate reserve, where there is an equal chance that the actual amount needed to pay future claims will be higher or lower than the calculated best estimate. The risk adjustment is then calculated such that there is a 75% probability that the reserves will be sufficient to cover future claims.

For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the group to the reinsurer.

The risk adjustment percentile will be defined at the Santam group level and implemented consistently across the group. All licensed entities within the Santam group are required to target the confidence interval as defined at the Santam group level.

Foreign currency translation

The measurement of a group of insurance contracts (including the contractual service margin) with cash flows in more than one currency, will be denominated in a single currency based on the dominant currency in which expected cash flows are generated.

Refer to note 31 for new standards, amendments and interpretations effective and not yet effective in 2022, as well as a detailed analysis of the expected impact of the standards that are not yet effective.

1.3 Critical accounting estimates and judgements

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

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

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

Subsequent to the classification of the investment in SAN JV as a non-current asset held for sale, the impairment assessment of investments in associates and joint ventures is no longer considered a critical accounting estimate.

1.4 Significant events in 2022

1.4.1 Climate-related claim events

The underwriting results for the year were significantly impacted by adverse weather conditions in the first three months and the devastating floods in the KwaZulu-Natal province (KZN floods) during early April 2022. The current estimate of Santam's gross exposure to the KZN floods is R4.4 billion. Santam's reinsurance programme provided effective protection against this natural catastrophe, limiting the net impact to approximately R567 million, including reinsurance reinstatement premiums. The KZN floods were the most significant natural catastrophe in Santam's history.

1.4.2 Premium received on ART business

Growth in group gross written premium for the year was significantly impacted by an increase in the premiums received on ART mining rehabilitation business. As a result the liability for cell owners' and policyholders' interest also increased significantly.

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 the performance of the operating segments, has been identified as the chief executive officer, supported by the group executive committee.

The group conducts mainly insurance and investment activities.

Insurance activities

The group presents its insurance results in the following segments:

- Conventional insurance business written on insurance licences controlled by the group, consisting of Santam Commercial and Personal, Santam Specialist, Santam Re and MiWay;
- Alternative risk transfer (ART) insurance business written on the insurance licences of the Centriq Insurance group (Centriq) and the Santam Structured Insurance group (SSI); and
- Santam's share of the insurance results of the Sanlam Emerging Markets (SEM) general insurance businesses.

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

Growth is measured for SEM general insurance businesses based on the gross written premium generated by the underlying businesses. With regard to the SEM insurance business, this information is considered to be a reallocation of fair value movements recognised on the SEM target shares. 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.

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 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.

Investment activities

Investment activities are all investment-related activities undertaken by the group. Due to the nature of the activities conducted, investment activities are considered to be one operating segment. Investment activities are measured based on net investment income. Revenue is earned from the various investment portfolios managed in the form of interest, dividends and fair value gains or losses, as well as income from associates and joint ventures that are not considered to be strategic investments.

All activities

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

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

Santam Ltd is domiciled in South Africa. Geographical analysis of the gross written premium and non-current assets 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, SEM target shares and non-current assets held for sale.

Notes to the annual financial statements

2. Segment information (continued)

2.1 Restatement of segment report

Since the group reported its segmental results for the year ended 31 December 2021, the group entered into an agreement with Allianz, in terms of which Santam will dispose of its 10% interest in SAN JV to Allianz. As a result, Santam's share of the results of SAN JV is no longer considered a part of the insurance-related reportable segments, but instead has been reclassified to the investments reportable segment. The December 2021 segment report was restated as a result. Additional information on Santam's share of SAN JV is also no longer disclosed. The restatement had no impact on net income, profit after tax, earnings per share or headline earnings per share. It also has no impact on the statements of financial position, changes in equity or cash flows. Detail of the restatement is as follows:

For the year ended 31 December 2021 (published)

	Insurance							
Business activity	Conventional R million	Alternative risk transfer R million	Santam's share of SAN JV and SEM businesses R million	Total R million	Investment R million	Total R million	Reconciling and unallocated R million	IFRS total R million
Revenue	32 745	9 384	2 846	44 975	1 119	46 094	(3 965)	42 129
External	32 296	9 384	2 846	44 526	1 119	45 645	(3 965)	41 680
Intersegment	449	–	–	449	–	449	–	449
Operating result before non-controlling interest and tax	2 465	306	377	3 148	–	3 148	(377)	2 771
Reallocation of operating result	–	–	(377)	(377)	–	(377)	377	–
Investment income net of investment-related fees	–	1 025	152	1 177	956	2 133	–	2 133
Investment return allocated to cell owners and structured insurance products	–	(982)	–	(982)	–	(982)	–	(982)
Finance costs	–	(43)	–	(43)	(210)	(253)	–	(253)
Income from associates and joint ventures	–	–	8	8	70	78	–	78
Santam BEE costs	–	–	–	–	–	–	(2)	(2)
Amortisation and impairment of intangible assets	(21)	(1)	–	(22)	–	(22)	–	(22)
Income tax recovered from cell owners and structured insurance products	–	592	–	592	–	592	–	592
Profit before tax from continuing and discontinued operations	2 444	897	160	3 501	816	4 317	(2)	4 315

Notes to the annual financial statements

2. Segment information (continued)

2.1 Restatement of segment report (continued)

For the year ended 31 December 2021 (restatement)

Business activity	Insurance Conventional R million	Insurance Alternative risk transfer R million	Insurance Santam's share of SEM businesses R million	Insurance Total R million	Investment R million	Total R million	Reconciling and unallocated R million	IFRS total R million
Revenue	–		(1 820)	(1 820)	8	(1 812)	1 812	–
External	–	–	(1 820)	(1 820)	8	(1 812)	1 812	–
Operating result before non-controlling interest and tax	–	–	(221)	(221)	–	(221)	221	–
Reallocation of operating result	–	–	221	221	–	221	(221)	–
Income from associates and joint ventures	–	–	(8)	(8)	–	(8)	–	(8)
Profit from discontinued operations (equity-accounted income from SAN JV)	–	–	–	–	8	8	–	8
Profit before tax from continuing and discontinued operations	–	–	(8)	(8)	8	–	–	–

Notes to the annual financial statements

2. Segment information (continued)

2.1 Restatement of segment report (continued)

For the year ended 31 December 2021 (restated)

Business activity	Insurance							
	Conventional R million	Alternative risk transfer R million	Santam's share of SEM businesses R million	Total R million	Investment R million	Total R million	Reconciling and unallocated R million	IFRS total R million
Revenue	32 745	9 384	1 026	43 155	1 127	44 282	(2 153)	42 129
External	32 296	9 384	1 026	42 706	1 127	43 833	(2 153)	41 680
Intersegment	449	–	–	449	–	449	–	449
Operating result before non-controlling interest and tax	2 465	306	156	2 927	–	2 927	(156)	2 771
Reallocation of operating result	–	–	(156)	(156)	–	(156)	156	–
Investment income net of investment-related fees	–	1 025	152	1 177	956	2 133	–	2 133
Investment return allocated to cell owners and structured insurance products	–	(982)	–	(982)	–	(982)	–	(982)
Finance costs	–	(43)	–	(43)	(210)	(253)	–	(253)
Income from associates and joint ventures	–	–	–	–	70	70	–	70
Profit from discontinued operations (equity-accounted income from SAN JV)	–	–	–	–	8	8	–	8
Santam BEE costs	–	–	–	–	–	–	(2)	(2)
Amortisation and impairment of intangible assets	(21)	(1)	–	(22)	–	(22)	–	(22)
Income tax recovered from cell owners and structured insurance products	–	592	–	592	–	592	–	592
Profit before tax from continuing and discontinued operations	2 444	897	152	3 493	824	4 317	(2)	4 315

Notes to the annual financial statements

2. Segment information (continued)

2.2 Segment report

For the year ended 31 December 2022

	Insurance							
Business activity	Conventional R million	Alternative risk transfer R million	Santam's share of SEM businesses R million	Total R million	Investment R million	Total R million	Reconciling and unallocated[4] R million	IFRS total R million
Revenue	35 418	14 209	1 058	50 685	664	51 349	(1 722)	49 627
External	34 751	14 209	1 058	50 018	664	50 682	(1 722)	48 960
Intersegment[5]	667	–	–	667	–	667	–	667
Operating result before non-controlling interest and tax[1]	1 729	355	136	2 220	–	2 220	(136)	2 084
Reallocation of operating result	–	–	(136)	(136)	–	(136)	136	–
Investment income net of investment-related fees	–	698	357	1 055	486	1 541	–	1 541
Investment return allocated to cell owners and structured insurance products	–	(655)	–	(655)	–	(655)	–	(655)
Finance costs[2]	–	(43)	–	(43)	(222)	(265)	–	(265)
Income from associates and joint ventures	–	–	–	–	68	68	–	68
Loss from discontinued operations (equity-accounted loss from SAN JV)	–	–	–	–	(14)	(14)	–	(14)
Santam BEE costs	–	–	–	–	–	–	(2)	(2)
Amortisation and impairment of intangible assets[3]	(23)	–	–	(23)	–	(23)	–	(23)
Income tax recovered from cell owners and structured insurance products	–	749	–	749	–	749	–	749
Profit before tax from continuing and discontinued operations	1 706	1 104	357	3 167	318	3 485	(2)	3 483

[1] *Includes depreciation of R203 million for Conventional and R11 million for ART.*
[2] *Finance costs relating to lease liabilities is included in operating result.*
[3] *Amortisation and impairment of computer software is included as part of operating result. Santam's share of the costs to manage the SEM portfolio of R9 million is included in operating result.*
[4] *Reconciling items consist of the re-allocation of net operating results relating to the underlying investments of the SEM target shares for management reporting purposes (as a result of the investments in SEM being carried at fair value through income), and the re-allocation of investment revenue for IFRS purposes.*
[5] *Intersegment revenue includes revenue earned from the Santam's share of the SEM businesses segment.*

Notes to the annual financial statements

2. Segment information (continued)

2.2 Segment report (continued)

For the year ended 31 December 2021 (Restated)[6]

Business activity	Insurance: Conventional R million	Insurance: Alternative risk transfer R million	Insurance: Santam's share of SEM businesses R million	Insurance: Total R million	Investment R million	Total R million	Reconciling and unallocated[4] R million	IFRS total R million
Revenue	32 745	9 384	1 026	43 155	1 127	44 282	(2 153)	42 129
External	32 296	9 384	1 026	42 706	1 127	43 833	(2 153)	41 680
Intersegment[5]	449	–		449	–	449	–	449
Operating result before non-controlling interest and tax[1]	2 465	306	156	2 927	–	2 927	(156)	2 771
Reallocation of operating result	–	–	(156)	(156)	–	(156)	156	–
Investment income net of investment-related fees	–	1 025	152	1 177	956	2 133	–	2 133
Investment return allocated to cell owners and structured insurance products	–	(982)	–	(982)	–	(982)	–	(982)
Finance costs[2]	–	(43)	–	(43)	(210)	(253)	–	(253)
Income from associates and joint ventures	–	–	–	–	70	70	–	70
Profit from discontinued operations (equity-accounted income from SAN JV)	–	–	–	–	8	8	–	8
Santam BEE costs	–	–	–	–	–	–	(2)	(2)
Amortisation and impairment of intangible assets[3]	(21)	(1)	–	(22)	–	(22)	–	(22)
Income tax recovered from cell owners and structured insurance products	–	592	–	592	–	592	–	592
Profit before tax from continuing and discontinued operations	2 444	897	152	3 493	824	4 317	(2)	4 315

[1] Includes depreciation of R203 million for Conventional and R12 million for ART.
[2] Finance costs relating to lease liabilities is included in operating result.
[3] Amortisation of computer software is included as part of operating result. Santam's share of the costs to manage the SEM portfolio of R8 million is included in operating result.
[4] Reconciling items consist of the re-allocation of net operating results relating to the underlying investments of the SEM target shares for management reporting purposes (as a result of the investments in SEM being carried at fair value through income), and the re-allocation of investment revenue for IFRS purposes.
[5] Intersegment revenue includes revenue earned from the Santam's share of the SEM businesses segment.
[6] Refer to notes 2.1 and 12.4 for detail of the restatement.

Notes to the annual financial statements

2. Segment information (continued)

2.2 Segment report (continued)

Additional information on Conventional insurance activities

	2022 R million	2021 R million
Revenue	35 418	32 745
Net earned premium	27 221	25 858
Net claims incurred	17 588	16 023
Net commission	3 661	3 458
Management expenses (excluding BEE costs)[1,2]	4 583	4 313
Net underwriting result	1 389	2 064
Investment return on insurance funds	341	400
Net insurance result	1 730	2 464
Other income	129	118
Other expenses	(130)	(117)
Operating result before non-controlling interest and tax	1 729	2 465

[1] *Amortisation and impairment of computer software is included in management expenses.*
[2] *Finance costs relating to lease liabilities is included in management expenses.*

The group's conventional insurance activities are spread over various classes of general insurance.

	2022		2021	
	Gross written premium R million	Underwriting result R million	Gross written premium R million	Underwriting result R million
Accident and health	719	87	572	60
Crop	1 556	294	1 130	(92)
Engineering	1 759	518	1 730	313
Guarantee	50	25	127	(5)
Liability	1 743	375	1 550	252
Miscellaneous	99	(19)	53	14
Motor	15 124	382	14 412	1 188
Property	13 194	(292)	12 177	236
Transportation	1 174	19	994	98
Total	35 418	1 389	32 745	2 064
Comprising:				
Commercial insurance	21 327	1 223	19 206	1 126
Personal insurance	14 091	166	13 539	938
Total	35 418	1 389	32 745	2 064

Notes to the annual financial statements

2. Segment information (continued)

2.2 Segment report (continued)

Additional information on Alternative risk transfer insurance activities

The group's alternative risk insurance activities can be analysed as follows:

	2022 R million	2021 R million
Income from clients	531	470
Participation in underwriting results[1]	112	101
	643	571
Administration expenses	(288)	(265)
Operating result before non-controlling interest and tax	355	306
Non-controlling interest	(49)	(30)
Operating result before tax	306	276

[1] *This relates to Centriq Insurance and SSI's selective participation in underwriting risk across the portfolios of traditional insurance business.*

Additional information on Santam's share of SEM businesses

	2022 R million	2021 R million
Revenue	1 058	1 026
Net earned premium	766	822
Net claims incurred	505	593
Net acquisition cost	325	274
Net underwriting result	(64)	(45)
Investment return on insurance funds	200	201
Operating result before non-controlling interest and tax	136	156

Additional information on Investment activities

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

	2022 R million	Restated[1] 2021 R million
Investment income	922	869
Net (losses)/gains on financial assets and liabilities at fair value through income	(312)	180
Income from associates and joint ventures	68	70
(Loss)/profit from discontinued operations	(14)	8
Investment-related revenue	664	1 127
Expenses for investment-related activities	(124)	(93)
Finance costs	(222)	(210)
Net total investment-related transactions	318	824

[1] *Refer to notes 2.1 and 12.4 for detail of the restatement.*

For a detailed analysis of investment activities, refer to notes 5.1 and 5.10.

2.3 Geographical analysis

	Gross written premium		Non-current assets	
	2022 R million	Restated[3] 2021 R million	2022 R million	2021 R million
South Africa	44 165	36 845	2 168	2 117
Rest of Africa[1]	2 562	2 599	1 781	1 980
Southeast Asia, India and Middle East	3 719	3 245	1 596	1 346
Other	239	466	–	–
	50 685	43 155	5 545	5 443
Reconciling items[2]	(1 058)	(1 026)	–	–
Group total	49 627	42 129	5 545	5 443

[1] *Includes gross written premium relating to Santam Namibia Ltd of R1 035 million (2021: R982 million).*
[2] *Reconciling items relate to the underlying investments included in the SEM target shares for management reporting purposes (as a result of the investments in SEM being carried at fair value through income).*
[3] *Refer to notes 2.1 and 12.4 for detail of the restatement.*

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 Report on Corporate Governance™ for South Africa, 2016 (King IV), ISO 31000, Solvency and Assessment Management (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's 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.

3.2 Risk assessment process

A key component of the ERM framework is the risk assessment process. Santam's risk assessment process consists of risk identification, risk analysis, risk evaluation and risk treatment/management of 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:

- insurance risk (consisting of underwriting and 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, outsourcing and cyber 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 committee as well as the board on a quarterly basis for consideration.

The group issues contracts that transfer insurance risk or financial risk or both (refer to note 4 for the general terms of insurance contracts). Insurance risk (i.e. underwriting and reinsurance risk) and investment risk (i.e. market and credit risk) impacts the balances and transactions reported in a financial period. The discussions that will follow provide more detail on how Santam and its subsidiaries manage insurance and investment risk from a financial reporting perspective. The table below is a summary of all the financial balances that are affected by insurance and/or investment risk. It provides a summary of all balances that management considers to be either directly or indirectly exposed to foreign currency risk. For this reason, the investment in SAN JV is also included in the table although it is not a financial or insurance instrument. In the current year, it was reclassified to "Non-current assets held for sale" (refer note 14). On the same day, Santam entered into a 12-month zero-cost collar to protect the sale proceeds from the rand strengthening against the euro. The remaining exposure to foreign currency risk is therefore insignificant.

Notes to the annual financial statements

3 Risk and capital management (continued)

3.2 Risk assessment process (continued)

	Notes	Group total 2022 R million	Group total 2021 R million	Group foreign 2022 R million	Group foreign 2021 R million
Financial and insurance assets					
Equity securities					
Listed equities and similar securities	5.1, 5.3	2 861	3 061	319	321
Unlisted equities and similar securities	5.1, 5.3	1 738	1 765	1 613	1 708
Interest-bearing investments					
Government interest-bearing investments	5.1, 5.3	4 640	5 666	1 067	1 229
Corporate interest-bearing investments	5.1, 5.3	15 340	14 802	1 899	1 987
Mortgages and loans	5.1, 5.3	87	84	10	10
Structured transactions					
Structured notes	5.1, 5.3	238	216	–	–
Investment funds	5.1, 5.3	9 065	6 113	298	297
Cash, deposits and similar securities	5.1, 5.3	3 477	1 031	561	47
Total investment assets		37 446	32 738	5 767	5 599
Receivables due from contract holders/ intermediaries (net of provisions)	4.2, 4.5, 4.7	6 872	6 035	2 238	2 168
Receivables due from reinsurers (net of provisions)	4.2, 4.5, 4.7	1 724	386	13	48
Loans and receivables excluding insurance receivables	5.6, 5.8	2 723	1 891	153	67
Cell owners' and policyholders' interest	9.1, 9.2	3	11	–	–
Reinsurance assets	4.1, 4.6	13 652	14 892	2 037	1 535
Deposit with cell owner	9.3	56	90	–	–
Deferred acquisition costs	4.1.2, 4.5	1 056	961	–	–
Cash and cash equivalents	5.7, 5.8	5 387	4 496	1 346	1 249
Total financial and insurance assets		68 919	61 500	11 554	10 666
Investment in associates and joint ventures		467	2 284	–	1 848
Non-current assets held for sale		1 768	–	1 768	–
Total assets with direct or indirect foreign currency exposure		71 154	63 784	13 322	12 514
Financial and insurance liabilities					
Debt securities	6.1	2 539	2 552	–	–
Investment contracts	6.3	2 061	1 970	–	–
Derivatives	6.4	35	1	35	1
Cell owners' and policyholders' interest	9.1, 9.2	7 124	4 908	–	–
Repo liability	6.5	739	926	–	–
Collateral guarantee contracts	6.6	129	155	–	–
Insurance liabilities	4.1, 4.5	39 977	36 040	6 981	6 499
Deferred reinsurance acquisition revenue	4.1.2, 4.6	642	561	–	–
Reinsurance liability relating to cell owner	9.4	56	90	–	–
Total trade and other payables including insurance payables					
Amounts due to contract holders/intermediaries	4.3	3 609	2 290	586	568
Trade and other payables excluding insurance payables	6.7	3 302	2 561	243	164
Total financial and insurance liabilities		60 213	52 054	7 845	7 232

Notes to the annual financial statements

3 Risk and capital management (continued)

3.2 Risk assessment process (continued)

		Company total		Company foreign	
	Notes	2022 R million	2021 R million	2022 R million	2021 R million
Financial and insurance assets					
Equity securities					
Listed equities and similar securities	5.1, 5.3	1 430	1 528	–	–
Unlisted equities and similar securities	5.1, 5.3	1 738	1 765	1 613	1 708
Interest-bearing investments					
Government interest-bearing investments	5.1, 5.3	1 730	3 166	865	1 038
Corporate interest-bearing investments	5.1, 5.3	7 680	7 859	1 834	1 886
Mortgages and loans	5.1, 5.3	66	61	–	–
Structured transactions					
Structured notes	5.1, 5.3	112	137	–	–
Investment funds	5.1, 5.3	332	437	149	174
Cash, deposits and similar securities	5.1, 5.3	942	411	561	47
Total investment assets		14 030	15 364	5 022	4 853
Receivables due from contract holders/ intermediaries (net of provisions)	4.2, 4.5, 4.7	5 641	5 142	2 210	2 146
Receivables due from reinsurers (net of provisions)	4.2, 4.5, 4.7	1 568	238	–	–
Loans and receivables excluding insurance receivables	5.6, 5.8	869	751	–	–
Reinsurance assets	4.1, 4.5, 4.6	12 059	13 836	1 799	1 308
Deferred acquisition costs	4.1.2, 4.5	831	804	–	–
Cash and cash equivalents	5.5, 5.7, 5.8	2 356	1 842	964	820
Total financial and insurance assets		37 354	37 977	9 995	9 127
Investment in associates and joint ventures		–	2 034	–	2 034
Non-current assets held for sale		2 034	–	2 034	–
Total assets with direct or indirect foreign currency exposure		39 388	40 011	12 029	11 161
Financial and insurance liabilities					
Debt securities	6.1, 6.2	2 539	2 552	–	–
Derivatives	6.4	35	1	35	1
Collateral guarantee contracts	6.6	129	155	–	–
Insurance liabilities	4.1, 4.5	23 655	24 698	6 660	6 194
Deferred reinsurance acquisition revenue	4.1.2, 4.6	531	475	–	–
Total trade and other payables including insurance payables					
Amounts due to contract holders/ intermediaries	4.3	2 598	1 486	392	407
Trade and other payables excluding insurance payables	6.7	1 680	1 798	–	–
Total financial and insurance liabilities		31 167	31 165	7 087	6 602

Notes to the annual financial statements

3 Risk and capital management (continued)

3.2 Risk assessment process (continued)

3.2.1 Insurance risk

Insurance risk refers to the risk of loss as a result of underwriting insurance contracts. More specifically, Santam group defines insurance risk to include:

- Underwriting risk
- Reinsurance risk

Santam's group risk management function has developed a group-wide governance and risk management framework in terms of the board-approved underwriting and reinsurance policies, and as required by the regulator's prudential standards.

This framework is implemented at business unit level through underwriting practice policies (approved by the business unit boards) that set out the specific requirements and parameters within which insurance risks are managed. Through the group risk management's ongoing monitoring and review processes, business units are held accountable to the framework.

A key benefit of the framework from a risk management perspective is that it facilitates enhanced oversight and collaboration between business units and significantly improves the understanding and management of risk concentrations that arise from time to time and that extend over several business unit portfolios in most instances.

3.2.1.1 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 19 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 it.

3.2.1.2 Reinsurance risk

Reinsurance risk is the risk of loss due to either insufficient or inappropriately structured reinsurance cover relative to the group and company's risk management strategy and objectives. It also includes the risk that the reinsurance programme is inappropriately administered. 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 group and company's capital.

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

3.2.2 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 and premium collection agencies (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 notes 4.7 and 5.8 as indicated above for detail on credit risk.

Notes to the annual financial statements

3 Risk and capital management (continued)

3.2 Risk assessment process (continued)

3.2.3 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 and similar securities
- Interest-bearing investments
- Investment funds
- Receivables due from contract holders/intermediaries
- Reinsurance receivables
- Reinsurance assets
- Other loans and receivables
- Cash and cash equivalents
- Cash, deposits and similar securities
- Cell owners' and policyholders' interest
- Structured transactions
- Non-current assets held for sale

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

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

3.2.3.1 Price risk

The group and company are 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, audit committee and the board. The internal economic capital model is used to model the asset mix and absolute level of equity exposure on at least a quarterly basis and to compare the results to Santam's risk appetite. The analysis is presented to the risk committee for consideration in terms of required actions.

Refer to note 5.4 for detail on price risk.

3.2.3.2 Interest rate risk

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

The impact of a change in the interest rate on the asset mix as well as the economic capital requirements is determined using the internal economic capital model. The result of this analysis is presented to the risk 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.

3.2.3.3 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 the SEM target shares and SAN JV. Santam is also expanding its reinsurance offerings to predominantly other countries in Africa, as well as Southeast Asia and India. 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 enters into currency hedges only when approved by the investment committee.

Refer to note 7 for detail on foreign currency risk.

Notes to the annual financial statements

3 Risk and capital management (continued)

3.2 Risk assessment process (continued)

3.2.4 Liquidity risk

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

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

Shareholder funds are invested in a combination of financial instruments (i.e. interest-bearing instruments, preference shares, listed and unlisted shares).

Refer to note 8 for more detail on liquidity risk.

3.2.5 Operational risk

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

The group and company manage operational risk by a comprehensive system of internal controls. From a risk governance perspective, the three lines of defence approach is used to identify the various levels of controls, oversight and assurance, including consideration of role-player independence. Risk management processes for oversight include using a range of techniques and tools to identify, monitor and mitigate its operational risk in accordance with the group's risk appetite. These tools include risk and control self-assessments and questionnaires, key risk indicators (e.g. fraud and service indicators), scenario analyses and loss reporting. In addition, the group and company have developed a number of contingency plans including incident management and business continuity plans. Quantitative analysis of operational risk exposures material to the group and company are used to inform decisions on controls and the overall amount of capital held for potential risk exposures. A compulsory annual internal control declaration is completed by senior and executive management and results reported to the risk and audit committees. The outcome of the declaration is reviewed to ensure material control breakdowns have been noted and appropriately addressed. The declaration process supports the board in their assessment of the system of internal controls.

3.3 Solvency and capital management

Capital adequacy risk is the risk that the group and company are holding insufficient funds to cover material negative variations in actual future experience.

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 of 145% to 165%, while at all times achieving specific threshold levels for its regulatory capital requirement. The group remains committed to efficient capital management.

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

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

The group economic capital requirement at 31 December 2022, based on the internal economic capital model, amounted to R8.6 billion (2021: R8.3 billion) resulting in an economic capital coverage ratio of 156% (2021: 169%).

Notes to the annual financial statements

3 Risk and capital management (continued)

3.4 Regulatory and compliance risk management

Regulatory and compliance risks are risks that the group and company will be negatively affected by changes in regulations or non-compliance with regulations or internal policies that are already in place, resulting in regulatory sanctions and significantly impacting Santam's reputation.

The Financial Sector Regulation Act, 2017 commenced on 1 April 2018 and established two regulatory authorities, the Financial Sector Conduct Authority (the FSCA), to regulate and supervise financial services providers and improve market conduct to ensure fair outcomes to financial clients, and the Prudential Authority (the PA) who is focused on the financial soundness of the financial system and insurers.

Santam's conduct of business committee is aligned with the FSCA's focus to improve market conduct to protect financial clients. As a result of the well-entrenched treating customers fairly culture in the organisation, Santam is well positioned to ensure fair treatment and protection of financial clients through its commitment to doing ***Insurance good and proper***.

National Treasury published the second draft Conduct of Financial Institutions (COFI) Bill for public comment in September 2020. One of the purposes of the COFI Bill is to build a consistent, strong and effective market conduct legislative framework for all institutions rendering financial services. The industry awaits the third version of the Bill which is to be presented to Parliament. The Santam board of directors and management are actively monitoring the changes. The possible implications in the business plans and governance structures going forward are analysed on a continuous basis and the necessary changes are implemented where deemed reasonable.

The company and its subsidiaries engage actively with their various regulatory authorities and policymakers. This is done through appropriate participation in industry forums.

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

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

3.5 Conduct risk

Conduct risk is the risk that an entity's behaviour may result in unfair treatment of its clients. These risks can manifest through insurance product design, sales process, various distributional channels adopted by the entity, conflicts of interest between distribution channels that may arise in the distribution of insurance products, remuneration strategies, handling of claims and/or complaints management.

Santam constituted a conduct of business committee which is a sub-committee of the Santam group executive committee (exco), consisting of representatives from various areas of the business within the Santam group such as Commercial and Personal business, Specialist business, Claims, Client Care and Product Development, to monitor the conduct risks and manner in which treating customers fairly outcomes are evidenced within Santam and across the Santam group. This committee meets on a quarterly basis. Quarterly reports are also submitted to the Santam social, ethics and sustainability (SES) committee, the risk committee and a summary to the board containing relevant information, progress and risk profiles pertaining to market conduct outcomes. The Conduct Framework was formalised and presented to the SES committee.

The South African market conduct regulator aligned its market conduct legislation with the principles of fair treatment of clients. Santam, by complying with the South African market conduct legislation, implicitly adopts the principles of fair treatment as a fundamental cornerstone of its business.

4 Insurance liabilities and reinsurance assets

		Group		Company	
	Notes	2022 R million	2021 R million	2022 R million	2021 R million
Insurance liabilities	4.1	39 977	36 040	23 655	24 698
Reinsurance assets	4.1	(13 652)	(14 892)	(12 059)	(13 836)
Receivables arising from insurance and reinsurance contracts	4.2	(8 596)	(6 421)	(7 209)	(5 380)
Payables arising from insurance and reinsurance contracts	4.3	3 609	2 290	2 598	1 486
		21 338	17 017	6 985	6 968

Risk management

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

Notes to the annual financial statements

4 Insurance liabilities and reinsurance assets (continued)

4.1 Insurance liabilities and reinsurance assets

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Gross				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	205	163	–	–
– claims incurred but not reported	160	123	–	–
General insurance contracts				
– claims reported and loss adjustment expenses	17 348	17 779	15 563	16 827
– claims incurred but not reported	3 609	3 884	3 182	3 336
– unearned premiums	18 655	14 091	4 910	4 535
Total insurance liabilities – gross	39 977	36 040	23 655	24 698
Expected to be settled after 12 months	2 752	2 328	2 394	2 033
Expected to be settled within 12 months	37 225	33 712	21 261	22 665
Recoverable from reinsurers				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	12	6	–	–
– claims incurred but not reported	24	11	–	–
General insurance contracts				
– claims reported and loss adjustment expenses	10 876	11 926	9 816	11 433
– claims incurred but not reported	426	704	350	493
– unearned premiums	2 314	2 245	1 893	1 910
Total reinsurers' share of insurance liabilities	13 652	14 892	12 059	13 836
Expected to be recovered after 12 months	626	489	629	494
Expected to be recovered within 12 months	13 026	14 403	11 430	13 342
Net				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	193	157	–	–
– claims incurred but not reported	136	112	–	–
General insurance contracts				
– claims reported and loss adjustment expenses	6 472	5 853	5 747	5 394
– claims incurred but not reported	3 183	3 180	2 832	2 843
– unearned premiums	16 341	11 846	3 017	2 625
Total insurance liabilities – net	26 325	21 148	11 596	10 862

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 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. Unearned premium for crop business is modelled using a method that more accurately matches the incidence of claims experienced by these businesses, using more than 10 years of data. For policies written within the alternative risk business whose risk is not spread evenly over the period of insurance, unearned premium is provided for using discounted cash flow projections, adjusted for a risk margin to recognise uncertainty inherent in the cash flow projection.

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 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 an asset. All other costs are recognised as expenses when incurred.

Notes to the annual financial statements

4 Insurance liabilities and reinsurance assets (continued)

4.1 Insurance liabilities and reinsurance assets (continued)

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 (refer to note 4.2 for more detail) 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 reinsurers' 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 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. A provision for impairment of reinsurance assets is established when there is objective evidence that the group will not be able to collect all amounts due according to their original terms.

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 loans and receivables 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

	2022			2021		
	Gross R million	Reinsurance R million	Net R million	Gross R million	Reinsurance R million	Net R million
a) Claims and loss adjustment expenses						
GROUP						
Notified claims	17 942	(11 932)	6 010	12 359	(5 675)	6 684
Incurred but not reported	4 007	(715)	3 292	4 052	(1 211)	2 841
Total at the beginning of the year	21 949	(12 647)	9 302	16 411	(6 886)	9 525
Cash paid for claims settled in the year	(29 806)	12 365	(17 441)	(24 460)	7 537	(16 923)
Increase in liabilities						
– arising from current year claims	29 168	(11 134)	18 034	29 734	(13 329)	16 405
– arising from portfolio transfer	15	2	17	–	–	–
– arising from foreign currency adjustments	(4)	(66)	(70)	264	(74)	190
Transfer to cell owners' and policyholders' interest	–	142	142	–	105	105
Total at the end of the year	21 322	(11 338)	9 984	21 949	(12 647)	9 302
Notified claims	17 553	(10 888)	6 665	17 942	(11 932)	6 010
Incurred but not reported	3 769	(450)	3 319	4 007	(715)	3 292
Total at the end of the year	21 322	(11 338)	9 984	21 949	(12 647)	9 302
COMPANY						
Notified claims	16 827	(11 433)	5 394	11 523	(5 406)	6 117
Incurred but not reported	3 336	(493)	2 843	3 238	(789)	2 449
Total at the beginning of the year	20 163	(11 926)	8 237	14 761	(6 195)	8 566
Cash paid for claims settled in the year	(24 330)	7 870	(16 460)	(19 633)	3 836	(15 797)
Increase in liabilities						
– arising from current year claims	22 916	(6 046)	16 870	24 773	(9 491)	15 282
– arising from foreign currency adjustments	(4)	(64)	(68)	262	(76)	186
Total at the end of the year	18 745	(10 166)	8 579	20 163	(11 926)	8 237
Notified claims	15 563	(9 816)	5 747	16 827	(11 433)	5 394
Incurred but not reported	3 182	(350)	2 832	3 336	(493)	2 843
Total at the end of the year	18 745	(10 166)	8 579	20 163	(11 926)	8 237
b) Provision for unearned premiums						
GROUP						
At the beginning of the year	14 091	(2 245)	11 846	12 460	(2 060)	10 400
Charged to the statement of comprehensive income	4 499	(920)	3 579	1 573	(794)	779
Foreign currency movement	(56)	(6)	(62)	59	(5)	54
Other	(2)	1	(1)	(1)	–	(1)
Portfolio transfer	123	–	123	–	–	–
Transfer to cell owners' and policyholders' interest	–	856	856	–	614	614
Total at the end of the year	18 655	(2 314)	16 341	14 091	(2 245)	11 846
COMPANY						
At the beginning of the year	4 535	(1 910)	2 625	4 309	(1 783)	2 526
Charged to the statement of comprehensive income	431	23	454	166	(120)	46
Foreign currency movement	(56)	(6)	(62)	60	(7)	53
Total at the end of the year	4 910	(1 893)	3 017	4 535	(1 910)	2 625

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

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
a) Deferred acquisition costs				
At the beginning of the year	961	839	804	732
Movement for the period (included in "Expenses for the acquisition of insurance contracts")	95	122	27	72
Total at the end of the year	1 056	961	831	804
b) Deferred reinsurance acquisition revenue				
At the beginning of the year	561	517	475	442
Movement for the period (included in "Income from reinsurance contracts ceded")	81	44	56	33
Total at the end of the year	642	561	531	475

Deferred acquisition costs and deferred reinsurance acquisition revenue are expected to be realised and settled within 12 months.

Insurance liabilities calculations

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

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.

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)

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 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 upon 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.

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 R116 million (2021: R91 million) (before taxation), 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 R101 million (2021: R78 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.

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)

iv) Claims incurred but not reported (IBNR) (continued)
Estimation methodologies and reserving processes remained consistent for the year ended 31 December 2022. The ultimate costs of claims are always uncertain and different outcomes to those assumed are possible.

COVID-19-related claim estimates
Judgement is applied in the determination of the best estimate of the insurance liability and reinsurance asset associated with the group's exposure to CBI claims. There remains, however, uncertainty regarding the ultimate outcome of these claims (and the related reinsurance recovery). The judgement applied includes:

Insurance liabilities:

- The assumptions used to determine the underlying exposure at a policy level
- The impact of the claims payment experience to date

Reinsurance assets:

- The proportion of CBI claims which aggregate as a single loss occurrence under Santam's catastrophe reinsurance treaty
- Expected recoveries from applicable reinsurance contracts

The group and company's projected ultimate net insurance liability at 31 December 2021 was R2.55 billion. This comprised gross claims payments of R3.2 billion, a gross liability provision of R3.2 billion for open claims, a reinsurance recovery net of reinstatement premiums of R0.6 billion and a reinsurance asset of R3.2 billion.

Following the payment of a significant number of claims and a review of CBI provisions, the group and company's projected ultimate net insurance exposure at 31 December 2022 was R1.9 billion. This comprised gross claims payments of R4.7 billion, a gross liability provision of R1 billion for open claims, a reinsurance recovery net of reinstatement premiums of R2.9 billion and a reinsurance asset of R0.9 billion.

There are a number of interdependent judgements applied in the measurement of the insurance liability and reinsurance asset in relation to this exposure, and therefore when assessing the potential impact on the group, consideration should be applied to the ultimate net impact.

Santam has reviewed its provisions for CBI claims at year-end, considering the underlying exposure, claims payment experience to date, the level of claims aggregating for reinsurance recovery purposes, as well as expected recoveries from applicable reinsurance contracts.

Following this review, Santam's projected net ultimate liability for CBI claims has reduced by R714 million. The reduction is mainly due to the actual claims to date being lower than initial estimates. There is still, however, uncertainty in relation to the ultimate liability which will only be eliminated once the process has been finalised.

A sensitivity analysis on the net CBI provision of R1.9 billion (2021: R2.55 billion) has been performed by assuming a 10% positive and negative combined impact on the assumptions used to derive the provision. A 10% positive movement in the combined assumptions used would result in a decrease in the projected ultimate net insurance exposure of 4% (2021: 6%). A 10% negative movement in the assumptions used would result in an increase in the projected ultimate net insurance exposure of 4% (2021: 6%).

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.

Notes to the annual financial statements

4 Insurance liabilities and reinsurance assets (continued)

4.2 Receivables arising from insurance and reinsurance contracts

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Due from contract holders/intermediaries	7 192	6 362	5 854	5 355
Less provision for impairment of receivables from intermediaries	(320)	(327)	(213)	(213)
Due from reinsurers	1 762	435	1 606	285
Less provision for impairment of receivables from reinsurers	(38)	(49)	(38)	(47)
Total	8 596	6 421	7 209	5 380
Receivables arising from insurance and reinsurance contracts are expected to be received within 12 months.				
Reconciliation of provisions for impairment of receivables from intermediaries and reinsurers				
At the beginning of the year	376	371	260	271
Charge to the statement of comprehensive income:				
– (Decrease)/Increase in provisions	(7)	17	–	–
– Provisions reversed	(11)	(12)	(9)	(11)
Total at the end of the year	358	376	251	260

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. Included is a provision for impairment of R222 million (2021: R222 million) for group and R213 million (2021: R213 million) for company relating to a third-party premium-collection agency that went into voluntary curatorship in September 2018.

Accounting policy - Receivables arising from insurance and reinsurance contracts

Receivables are recognised when due. These include amounts due from agents, reinsurers, 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. A provision for impairment of insurance 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.

Notes to the annual financial statements

4 Insurance liabilities and reinsurance assets (continued)

4.3 Payables arising from insurance and reinsurance contracts

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Amounts due to intermediaries	1 712	1 273	1 639	1 210
Amounts due to reinsurers	1 721	876	959	276
Amounts due to policyholders	176	141	–	–
Total	3 609	2 290	2 598	1 486

Payables arising from insurance and reinsurance contracts are expected to be settled within 12 months.

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, reinsurers, intermediaries and insurance contract holders.

4.4 Insurance benefits and claims

	Gross R million	Reinsurance R million	Net R million
2022			
GROUP			
Claims paid	29 806	(12 365)	17 441
Movement in the expected cost of outstanding claims	(638)	1 231	593
Total claims and loss adjustment expenses	29 168	(11 134)	18 034
COMPANY			
Claims paid	24 330	(7 870)	16 460
Movement in the expected cost of outstanding claims	(1 414)	1 824	410
Total claims and loss adjustment expenses	22 916	(6 046)	16 870
2021			
GROUP			
Claims paid	24 460	(7 537)	16 923
Movement in the expected cost of outstanding claims	5 274	(5 792)	(518)
Total claims and loss adjustment expenses	29 734	(13 329)	16 405
COMPANY			
Claims paid	19 633	(3 836)	15 797
Movement in the expected cost of outstanding claims	5 140	(5 655)	(515)
Total claims and loss adjustment expenses	24 773	(9 491)	15 282

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

The presentation of the claims development tables for the Santam group and company, 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

		Claims paid in respect of								
	Total R million	2022 R million	2021 R million	2020 R million	2019 R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 and prior R million
GROUP										
– General insurance claims – gross										
Reporting year										
Actual claims costs:										
– 2022	**29 806**	21 236	6 613	1 503	242	103	100	5	4	–
– 2021	**24 460**	–	18 596	4 932	508	206	150	62	2	4
– 2020	**21 077**	–	–	14 165	3 951	1 804	176	445	49	487
– 2019	**18 898**	–	–	–	14 055	3 667	606	244	101	225
– 2018	**17 997**	–	–	–	–	12 231	4 627	503	371	265
– 2017	**18 823**	–	–	–	–	–	13 623	4 032	534	634
– 2016	**16 112**	–	–	–	–	–	–	11 087	3 909	1 116
– 2015	**14 019**	–	–	–	–	–	–	–	9 786	4 233
– 2014	**13 556**	–	–	–	–	–	–	–	–	13 556
Cumulative payments to date		21 236	25 209	20 600	18 756	18 011	19 282	16 378	14 756	20 520
– General insurance claims – net										
Reporting year										
Actual claims costs:										
– 2022	**17 441**	13 604	2 968	628	132	46	61	1	1	–
– 2021	**16 923**	–	12 847	3 447	326	152	103	48	–	–
– 2020	**15 022**	–	–	11 293	2 868	342	62	337	37	83
– 2019	**14 805**	–	–	–	11 746	2 574	177	129	89	90
– 2018	**14 107**	–	–	–	–	10 955	2 563	246	191	152
– 2017	**13 819**	–	–	–	–	–	10 852	2 359	242	366
– 2016	**12 808**	–	–	–	–	–	–	9 865	2 386	557
– 2015	**11 476**	–	–	–	–	–	–	–	8 734	2 742
– 2014	**11 040**	–	–	–	–	–	–	–	–	11 040
Cumulative payments to date		13 604	15 815	15 368	15 072	14 069	13 818	12 985	11 680	15 030

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)

Payment development (continued)

	Total R million	Claims paid in respect of 2022 R million	2021 R million	2020 R million	2019 R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 and prior R million
COMPANY										
– General insurance claims – gross										
Reporting year										
Actual claims costs:										
– 2022	**24 330**	**16 544**	6 024	1 389	181	92	100	–	–	–
– 2021	**19 633**	**–**	14 356	4 439	431	193	152	62	–	–
– 2020	**17 467**	**–**	–	11 138	3 403	1 791	146	459	47	483
– 2019	**15 891**	**–**	–	–	11 680	3 098	559	236	97	221
– 2018	**15 377**	**–**	–	–	–	10 804	3 671	367	300	235
– 2017	**16 136**	**–**	–	–	–	–	12 114	3 056	412	554
– 2016	**14 338**	**–**	–	–	–	–	–	10 414	2 996	928
– 2015	**12 335**	**–**	–	–	–	–	–	–	9 009	3 326
– 2014	**11 901**	**–**	–	–	–	–	–	–	–	11 901
Cumulative payments to date		**16 544**	20 380	16 966	15 695	15 978	16 742	14 594	12 861	17 648
– General insurance claims – net										
Reporting year										
Actual claims costs:										
– 2022	**16 460**	**12 907**	2 706	592	128	54	73	–	–	–
– 2021	**15 797**	**–**	12 015	3 196	292	134	113	47	–	–
– 2020	**13 694**	**–**	–	10 375	2 499	320	67	325	34	74
– 2019	**13 153**	**–**	–	–	10 429	2 207	241	117	80	79
– 2018	**12 560**	**–**	–	–	–	9 716	2 341	204	153	146
– 2017	**12 501**	**–**	–	–	–	–	9 935	2 049	194	323
– 2016	**11 714**	**–**	–	–	–	–	–	9 208	2 032	474
– 2015	**10 399**	**–**	–	–	–	–	–	–	8 053	2 346
– 2014	**10 021**	**–**	–	–	–	–	–	–	–	10 021
Cumulative payments to date		**12 907**	14 721	14 163	13 348	12 431	12 770	11 950	10 546	13 463

Notes to the annual financial statements

4 Insurance liabilities and reinsurance assets (continued)

4.4 Insurance benefits and claims (continued)

4.4.2 Reporting development

		Financial year in which claim occurred								
	Total R million	2022 R million	2021 R million	2020 R million	2019 R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 and prior R million
GROUP										
– General insurance claims provision – gross										
Reporting year										
Provision raised:										
– 2022	**17 553**	**8 569**	4 817	1 385	485	468	511	715	115	488
– 2021	**17 942**	**–**	12 071	2 765	663	713	421	655	100	554
– 2020	**12 358**	**–**	–	7 887	1 335	1 031	579	743	164	619
– 2019	**9 208**	**–**	–	–	4 353	2 646	772	675	170	592
– 2018	**8 497**	**–**	–	–	–	5 033	1 405	1 082	221	756
– 2017	**8 348**	**–**	–	–	–	–	5 240	1 541	493	1 074
– 2016	**6 814**	**–**	–	–	–	–	–	3 870	1 143	1 801
– 2015	**6 279**	**–**	–	–	–	–	–	–	3 100	3 179
– 2014	**6 240**	**–**	–	–	–	–	–	–	–	6 240
– General insurance claims provision – net										
Reporting year										
Provision raised:										
– 2022	**6 665**	**4 056**	683	431	287	313	193	213	72	417
– 2021	**6 010**	**–**	3 488	912	307	384	191	215	75	438
– 2020	**6 684**	**–**	–	4 128	796	565	301	252	108	534
– 2019	**4 900**	**–**	–	–	2 813	767	363	298	133	526
– 2018	**4 345**	**–**	–	–	–	2 679	602	321	175	568
– 2017	**4 442**	**–**	–	–	–	–	3 031	451	252	708
– 2016	**3 973**	**–**	–	–	–	–	–	2 334	512	1 127
– 2015	**4 056**	**–**	–	–	–	–	–	–	2 291	1 765
– 2014	**3 968**	**–**	–	–	–	–	–	–	–	3 968

Notes to the annual financial statements

4 Insurance liabilities and reinsurance assets (continued)

4.4 Insurance benefits and claims (continued)

4.4.2 Reporting development (continued)

		Financial year in which claim occurred								
	Total R million	2022 R million	2021 R million	2020 R million	2019 R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 and prior R million
COMPANY										
– General insurance claims provision – gross										
Reporting year										
Provision raised:										
– 2022	**15 563**	**7 407**	4 350	1 255	384	425	489	706	60	487
– 2021	**16 827**	**–**	11 485	2 552	519	646	400	643	79	503
– 2020	**11 523**	**–**	–	7 729	1 081	874	517	665	136	521
– 2019	**7 959**	**–**	–	–	3 570	2 379	698	659	144	509
– 2018	**7 469**	**–**	–	–	–	4 171	1 290	1 067	222	719
– 2017	**7 462**	**–**	–	–	–	–	4 396	1 523	503	1 040
– 2016	**6 191**	**–**	–	–	–	–	–	3 431	1 068	1 692
– 2015	**5 675**	**–**	–	–	–	–	–	–	2 782	2 893
– 2014	**5 711**	**–**	–	–	–	–	–	–	–	5 711
– General insurance claims provision – net										
Reporting year										
Provision raised:										
– 2022	**5 747**	**3 316**	620	404	255	300	184	206	49	413
– 2021	**5 394**	**–**	3 027	855	281	362	182	206	65	416
– 2020	**6 117**	**–**	–	3 771	708	527	283	238	94	496
– 2019	**4 300**	**–**	–	–	2 436	659	325	282	114	484
– 2018	**3 729**	**–**	–	–	–	2 125	567	313	171	553
– 2017	**3 829**	**–**	–	–	–	–	2 495	435	241	658
– 2016	**3 570**	**–**	–	–	–	–	–	2 208	405	957
– 2015	**3 656**	**–**	–	–	–	–	–	–	2 104	1 552
– 2014	**3 556**	**–**	–	–	–	–	–	–	–	3 556

Notes to the annual financial statements

4 Insurance liabilities and reinsurance assets (continued)

4.5 Insurance risk

As mentioned in note 3.2, Santam manages insurance risk in two main components which are discussed in more detail below:

- Underwriting risk
- Reinsurance risk (refer to note 4.6)

Underwriting risk

In general, the group issues personal, commercial, niche and cell/policyholder insurance policies, as well as reinsurance contracts in respect of most of the classes of business listed below:

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.

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. This includes cover for mining rehabilitation.

Aviation – Covers property (both moveable and immovable) risks associated with aircraft (i.e. in respect of their use, ownership, storage, loss or damage), as well as liability and transport risks associated with this class of business.

Bonds and Guarantees – 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. This business is in run-off.

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.

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.

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.

Marine – Covers property (both moveable and immovable) risks associated with watercraft (i.e. in respect of their use, ownership, storage, loss or damage), as well as liability and transport risks (both on land and on water bodies) associated with this class of business.

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.

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. Policies including an extension for CBI cover, for both physical and non-physical damage, are included in the property class.

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.

Travel – Covers risks associated with local and international travel, for both business and leisure purposes.

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

In order to quantify the underwriting risk faced by Santam, a stochastic simulation of Santam's claims is performed at a line of business level within Santam's internal economic capital model. Assumptions for each line of business are determined based on more than 19 years' worth of historical 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.

Notes to the annual financial statements

4 Insurance liabilities and reinsurance assets (continued)

4.5 Insurance risk (continued)

Underwriting risk (continued)

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
- Economic downturn

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

Loss history	2022	2021	2020	2019	2018	2017	2016
Net claims paid and provided[1, 2]	64.6	62.0	68.2	62.1	60.3	65.8	64.9

[1] *Expressed as a percentage of net earned premiums.*
[2] *The net claims ratio for conventional insurance is disclosed, as it is the key ratio for this business segment. The key drivers for the performance of the ART business segment are income from clients and investment results. Refer note 2.2 for more detail.*

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 (per risk and, where relevant, per event) are set for business units, underwriting managers and intermediaries to ensure that the group's risk appetite is appropriately delegated. Underwriting performance is monitored continuously and the pricing policy is revised accordingly. Risk factors considered as part of the review are unique to each class of business (listed above) and constantly evolve as the risk environment changes. The group has the right to reprice and change the conditions for accepting risks on renewal and/or, in most cases, 30 days.

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

The underwriting strategy aims to ensure that the risks underwritten are well diversified in terms of type and amount of risk, size, economic sector 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 (which underwrites inward reinsurance contracts only) and the Santam Specialist business. The current geographical allocation of premium income is provided in the segmental report.

Underwriting risk is further mitigated by ensuring that reserve and reinsurance risk (discussed in note 4.6) 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 4.1.

Notes to the annual financial statements

4 Insurance liabilities and reinsurance assets (continued)

4.5 Insurance risk (continued)

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.

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.

4.6 Reinsurance risk

Santam has an extensive reinsurance programme that has developed over many years to suit the risk management needs of the business units in the group.

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 per risk and catastrophe and stop loss arrangements.

The core components of the reinsurance programme comprised:

- The individual excess-of-loss cover for property, liability, engineering, aviation, and marine risks, which provides protection to limit single losses to between the range of R17 million to R85 million (2021: R17 million to R80 million) per risk, excluding reinstatement premiums and inclusive of Santam Re's participations. Santam's C&P business was protected down to a maximum of R75 million for individual risks, while Emerald's (corporate property) was protected down to R75 million for the first claim and R62.5 million for the second and subsequent claims.
- Santam buys catastrophe cover exceeding the 1 in 250 year earthquake catastrophe loss using an external validated earthquake loss prediction model. This model typically results in cover of up to 1.06% of the total exposure of the significant geographical areas, amounting to protection of R11 billion per event. For 2022 (similar to 2021) the Santam group purchased catastrophe cover up to R10.5 billion with a R150 million retention. This represented 1.11% of the total exposure of the significant geographical areas.

The ultimate cost of a loss that would exhaust the total Santam catastrophe programme of R11 billion in 2022, amounted to the retention of R150 million plus additional premiums to reinstate the cover to provide for a second catastrophe loss.

South African insurers, because of CBI losses in 2020 and the KZN flood in 2022, transferred significant losses to international reinsurers under their catastrophe programmes. This resulted in significant increases in pricing and the level at which catastrophe protection attaches and Santam's own covers were affected. The attachment point for 2023 is now just over R500 million for the group's South African and African business. This meaningful increase remains within the range of an acceptable figure as regards the company's shareholders funds, as well as a percentage of retained net premium income. Outside of the African continent, Santam Re still enjoys protection for catastrophe events down to R150 million in 2023.

- In 2018 Santam purchased a multi-year aggregate excess of loss treaty, which protects the Santam group against the accumulation of multiple catastrophe losses over a financial year, which losses are below the catastrophe excess of loss retention of R150 million. The 2021 financial year was the third year of the multi-year cover, which ended in 2022 and was not renewed. Santam is comfortable to assume the increase in earnings volatility going forward.
- 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 aggregate loss events.

Santam has 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 2019, Santam entered into an agreement with New Reinsurance Company Ltd Switzerland (New Re), which is a wholly-owned Munich Re company. In terms of the agreement, selected Santam business units can write inwards international reinsurance business on New Re's AA- credit rating licence. The five-year agreement between Santam and New Re became effective 1 January 2020.

In the prior year, Santam Re had a reinsurance quota share programme with several key international reinsurers, with reinsurance quota share premium of R1.8 billion. This programme was ended. Santam Re has adjusted its underwriting policy and strategy so that it is not dependent on such support other than for catastrophe and large per risk losses which are placed under a multi-year contract at better than market-related terms. The agreement 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- (2021: 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 Insurance liabilities and reinsurance assets (continued)

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 and premium collection agencies

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

Santam uses a large panel of high quality 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 Munich Re. The credit risk exposure is further monitored throughout the year to ensure that changes in credit risk positions are adequately addressed. Regarding receivables from contract holders/intermediaries, the balance includes receivables from individuals and commercial entities that don't generally have published credit ratings. Santam has credit control teams that monitor receivables and ensures appropriate governance is applied.

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

31 December 2022	AAA R million	AA+ R million	AA R million
GROUP			
Receivables due from contract holders/intermediaries	–	58	112
Reinsurance receivables	18	–	115
Total	18	58	227
COMPANY			
Receivables due from contract holders/intermediaries	–	58	112
Reinsurance receivables	18	–	115
Total	18	58	227

31 December 2021	AA+ R million	AA R million	AA- R million	A+ R million
GROUP				
Receivables due from contract holders/intermediaries	–	149	10	–
Reinsurance receivables	6	35	37	37
Total	6	184	47	37
COMPANY				
Receivables due from contract holders/intermediaries	–	149	10	–
Reinsurance receivables	–	35	–	27
Total	–	184	10	27

Notes to the annual financial statements

AA- R million	A+ R million	A R million	A- R million	BBB+ R million	BBB- R million	BB R million	Not rated R million	Carrying value R million
443	25	42	63	–	171	251	5 707	6 872
56	1 057	192	74	13	–	45	154	1 724
499	1 082	234	137	13	171	296	5 861	8 596
443	25	42	63	–	171	–	4 727	5 641
6	1 045	182	69	13	–	–	120	1 568
449	1 070	224	132	13	171	–	4 847	7 209

A R million	A- R million	BBB+ R million	BBB R million	BB+ R million	BB R million	BB- R million	Not rated R million	Carrying value R million
32	165	–	5	25	13	85	5 551	6 035
13	32	7	–	–	–	24	195	386
45	197	7	5	25	13	109	5 746	6 421
32	165	–	5	25	13	–	4 743	5 142
11	21	7	–	–	–	–	137	238
43	186	7	5	25	13	–	4 880	5 380

Notes to the annual financial statements

4 Insurance liabilities and reinsurance assets (continued)

4.7 Insurance-related credit risk (continued)

Ageing of Insurance-related receivables

The following table provides information regarding the carrying value of insurance assets that have been impaired and the ageing of these 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 Insurance Act.

31 December 2022	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[1] R million	Amounts that have been impaired R million	Impair-ment R million	Carrying value R million
GROUP								
Receivables due from contract holders/ intermediaries	4 577	1 587	447	31	230	320	(320)	6 872
Reinsurance receivables	824	729	139	53	(21)	38	(38)	1 724
Total	5 401	2 316	586	84	209	358	(358)	8 596
COMPANY								
Receivables due from contract holders/ intermediaries	3 918	1 241	221	31	230	213	(213)	5 641
Reinsurance receivables	764	671	122	53	(42)	38	(38)	1 568
Total	4 682	1 912	343	84	188	251	(251)	7 209

31 December 2021	Neither past due nor impaired R million	0 – 3 months R million	3 – 6 months R million	6 months – 1 year[1] R million	Greater than 1 year R million	Amounts that have been impaired R million	Impair-ment R million	Carrying value R million
GROUP								
Receivables due from contract holders/ intermediaries	4 199	986	240	297	313	327	(327)	6 035
Reinsurance receivables	199	104	72	(28)	39	49	(49)	386
Total	4 398	1 090	312	269	352	376	(376)	6 421
COMPANY								
Receivables due from contract holders/ intermediaries	3 672	704	163	296	307	213	(213)	5 142
Reinsurance receivables	69	103	70	(36)	32	47	(47)	238
Total	3 741	807	233	260	339	260	(260)	5 380

[1] *The group has net-settling agreements in place with reinsurers which allow the set off of amounts due to and from reinsurers. In some instances, the group may have an amount due to, and an amount due from, the same reinsurer with different due dates.*

Notes to the annual financial statements

5 Financial assets

	Notes	Group 2022 R million	Group 2021 R million	Company 2022 R million	Company 2021 R million
Financial assets mandatorily measured at fair value through income					
Strategic investment – unquoted SEM target shares	5.1.1	**1 596**	1 691	**1 596**	1 691
Financial assets at fair value through income	5.1	**35 850**	31 047	**12 434**	13 673
Financial assets measured at amortised cost					
Loans and receivables excluding insurance receivables	5.6	**2 723**	1 891	**869**	751
Cash and cash equivalents	5.7	**5 387**	4 496	**2 356**	1 842
Financial assets		**45 556**	39 125	**17 255**	17 957

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
- 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 investment type.

	Notes	Group 2022 R million	Group 2021 R million	Company 2022 R million	Company 2021 R million
Equity securities					
Listed equities and similar securities		**2 861**	3 061	**1 430**	1 528
Unlisted equities and similar securities		**1 738**	1 765	**1 738**	1 765
Interest-bearing investments					
Government interest-bearing investments		**4 640**	5 666	**1 730**	3 166
Corporate interest-bearing investments		**15 340**	14 802	**7 680**	7 859
Mortgages and loans		**87**	84	**66**	61
Structured transactions					
Structured notes		**238**	216	**112**	137
Investment funds	5.2	**9 065**	6 113	**332**	437
Cash, deposits and similar securities		**3 477**	1 031	**942**	411
Financial assets at fair value through income		**37 446**	32 738	**14 030**	15 364
Financial assets at fair value through income (excluding SEM target shares)					
Expected to be realised after 12 months		**24 671**	24 287	**8 679**	10 304
Expected to be realised within 12 months		**11 179**	6 760	**3 755**	3 369
Strategic investments – unquoted SEM target shares					
Expected to be realised after 12 months		**1 596**	1 691	**1 596**	1 691
Expected to be realised within 12 months		**–**	–	**–**	–

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

The group classifies the following financial assets at fair value through income:

- equity instruments that are held for trading
- equity instruments for which the group has not elected to recognise fair value gains and losses through other comprehensive income (OCI), and
- debt instruments that do not qualify for measurement at either amortised cost or fair value through OCI. A key input in the assessment of the classification of debt instruments held was the business model applied to manage the financial assets. Financial assets that are held to sell and those that are managed and whose performance is evaluated on a fair value basis will be measured at fair value through income because they are neither held to collect contractual cash flows nor held to collect contractual cash flows and sell.

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 classified 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.

The carrying amount of the assets best represents its maximum exposure to credit risk.

Notes to the annual financial statements

5 Financial assets (continued)

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

5.1.1 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 596 million (2021: R1 691 million). The shares were classified as unlisted equity securities.

In April 2022, KKR, a leading global investment fund acquired a 9.99% stake in SGI from the Shriram group. Before the transaction, Santam held a 15% economic participatory interest in SGI by way of a target share issued by SEM, which target share references SEM's effective shareholding in SGI. The transaction diluted SEM's effective shareholding in SGI, resulting in a commensurate dilution of Santam's economic interest in SGI from 15% to 14.1%.

On 14 December 2022, SEM redeemed the target shares through which the Santam group held economic participation rights in the general insurance businesses of SEM in Africa (the African target shares). The Santam group retained its economic participation rights in the general insurance investments of SEM in India and Malaysia and these two investments now make up the SEM general insurance business segment.

	Incorporated in	Type of business	Santam effective holding 2022 %	Santam effective holding 2021 %
Pacific & Orient Insurance Co. Berhad (P&O)	Malaysia	P&O is a niche general insurer based in Kuala Lumpur, Malaysia.	**15.4**	15.4
Shriram General Insurance Company Ltd (SGI)[1]	India	SGI is the general insurance business of the Shriram group, a financial conglomerate based in India.	**14.1**	15.0
NICO Holdings general insurance subsidiaries	Malawi, Zambia	The NICO subsidiaries offer predominantly personal and commercial insurance products.	**–**	5.6
Sanlam General Insurance (Uganda) Ltd	Uganda	The company offers predominantly personal and commercial insurance products.	**–**	9.5
Sanlam General Insurance (Tanzania) Ltd	Tanzania	The company offers predominantly personal and commercial insurance products.	**–**	5.0
Soras Assurance Generales Ltd	Rwanda	The company offers motor, medical, fire, goods in transit, weather index and other miscellaneous insurance products.	**–**	9.0
Socar s.a. Burundi	Burundi	Forms part of the Soras group and offers general insurance products.	**–**	3.1
FBN General Insurance Ltd	Nigeria	FBN General Insurance Ltd offers a wide range of general insurance products.	**–**	10.0
Sanlam General Insurance (Kenya) Ltd	Kenya	Sanlam General Insurance Ltd offers a wide range of general insurance products.	**–**	3.9
Zimnat Lion Insurance Company Ltd	Zimbabwe	Zimnat Lion Insurance Company Ltd offers a wide range of general insurance products.	**–**	4.0
Grand Reinsurance Company (Private) Ltd (Grand Re)	Zimbabwe	Grand Re provides reinsurance solutions to cover all general insurance business.	**–**	4.0
Botswana Insurance Company Ltd	Botswana	Botswana Insurance Company Ltd offers a wide range of general insurance products.	**–**	2.9

[1] *This is currently the most material investment due to its relative size to the entire SEM target share investment portfolio.*

Notes to the annual financial statements

5 Financial assets (continued)

5.2 Structured entities

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls it. The group considers collective investment schemes and other unit-linked investments to be structured entities. The following note provides information on significant unconsolidated structured entities in which the group holds an interest. Collective investment schemes are categorised into equity, property or money market 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.

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Collective investment schemes				
Local and foreign				
Property	152	245	–	89
Money market	6 794	3 656	147	140
Equity	594	656	149	174
Mixed	1 525	1 556	36	34
Total investment in unconsolidated structured entities	9 065	6 113	332	437

5.3 Financial Instruments measured at fair value on a recurring basis

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 2021. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Input other than quoted prices included within level 1 that is observable for the asset or liability, either directly (that is, by prices) or indirectly (that is, derived from prices). The fair value of level 2 instruments are determined as follows:
  - » Listed equity and similar securities are valued using quoted prices with the main assumption that quoted prices might require adjustments due to an inactive market.
  - » Unlisted equity and similar securities are valued using the discounted cash flow (DCF) or net asset value method based on market input.
  - » Interest-bearing investments:
    - – Quoted interest-bearing investments: valued using yield of benchmark bond, DCF benchmarked against similar instruments with the same issuer, price quotations of JSE interest rate market or issue price of external valuations based on market input.[1]
    - – Unquoted interest-bearing investments: valued using DCF, real interest rates, benchmark yield plus fixed spread or deposit rates based on market input.
  - » Structured transactions are valued using DCF, real interest rates, benchmark yield plus fixed spread or deposit rates based on market input.
  - » Investment funds:
    - – Quoted investment funds with underlying equity securities: valued using quoted prices with the main assumption that quoted prices might require adjustments due to an inactive market.
    - – Quoted investment funds with underlying debt securities: valued using DCF, external valuations and published price quotations on the JSE equity and interest rate market or external valuations that are based on published market input with the main assumptions being market input, uplifted with inflation.[1]
  - » Derivatives are valued using the Black-Scholes model, net present value of estimated floating costs less the performance of the underlying index over contract term, DCF (using fixed contract rates and market-related variable rates adjusted for credit risk, credit default swap premiums, offset between strike price and market projected forward value, yield curve of similar market-traded instruments) with the main assumptions being market input, credit spreads and contract inputs.
- Level 3: Input for the asset or liability that is not based on observable data (that is, unobservable input).

There were no significant transfers between level 1 and level 2 during the current or 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.

[1] *These investments are classified as level 2 as the markets that they trade on are not considered to be active.*

Notes to the annual financial statements

5 Financial assets (continued)

5.3 Financial Instruments measured at fair value on a recurring basis (continued)

31 December 2022	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
GROUP				
Financial assets				
Equities and similar securities				
Listed equities and similar securities	2 861	–	–	2 861
Unlisted equities and similar securities	–	–	1 738	1 738
Interest-bearing investments				
Government interest-bearing investments	–	4 640	–	4 640
Corporate interest-bearing investments	–	15 280	60	15 340
Mortgages and loans	–	87	–	87
Structured transactions				
Structured notes	–	238	–	238
Investment funds	–	9 065	–	9 065
Cash, deposits and similar securities	–	3 477	–	3 477
Financial assets at fair value through income	2 861	32 787	1 798	37 446

31 December 2022	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
COMPANY				
Financial assets				
Equities securities				
Listed equities and similar securities	1 430	–	–	1 430
Unlisted equities and similar securities	–	–	1 738	1 738
Interest-bearing investments				
Government interest-bearing investments	–	1 730	–	1 730
Corporate interest-bearing investments	–	7 680	–	7 680
Mortgages and loans	–	66	–	66
Structured transactions				
Structured notes	–	112	–	112
Investment funds	–	332	–	332
Cash, deposits and similar securities	–	942	–	942
Financial assets at fair value through income	1 430	10 862	1 738	14 030

Notes to the annual financial statements

5 Financial assets (continued)

5.3 Financial Instruments measured at fair value on a recurring basis (continued)

31 December 2021	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
GROUP				
Financial assets				
Equities and similar securities				
Listed equities and similar securities	3 061	–	–	3 061
Unlisted equities and similar securities	–	–	1 765	1 765
Interest-bearing investments				
Government interest-bearing investments	–	5 666	–	5 666
Corporate interest-bearing investments	–	14 742	60	14 802
Mortgages and loans	–	84	–	84
Structured transactions				
Structured notes	–	216	–	216
Investment funds	–	6 113	–	6 113
Cash, deposits and similar securities	–	1 031	–	1 031
Financial assets at fair value through income	3 061	27 852	1 825	32 738

31 December 2021	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
COMPANY				
Financial assets				
Equities and similar securities				
Listed equities and similar securities	1 528	–	–	1 528
Unlisted equities and similar securities	–	–	1 765	1 765
Interest-bearing investments				
Government interest-bearing investments	–	3 166	–	3 166
Corporate interest-bearing investments	–	7 859	–	7 859
Mortgages and loans	–	61	–	61
Structured transactions				
Structured notes	–	137	–	137
Investment funds	–	437	–	437
Cash, deposits and similar securities	–	411	–	411
Financial assets at fair value through income	1 528	12 071	1 765	15 364

Level 1

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

Level 2

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

- Investment funds
- Derivatives
- Interest-bearing investments
- Structured transactions
- Cash, deposits and similar securities

where the fair value is determined by using market observable input, e.g. JIBAR, prime lending rate, foreign currency rates, listed bond yields of similar instruments, without significant adjustments.

Notes to the annual financial statements

5 Financial assets (continued)

5.3 Financial Instruments measured at fair value on a recurring basis (continued)

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:

- **Unlisted 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 multiples of net asset value ranging between 0.6 and 1.0 (2021: based on price/earnings multiples ranging between 2.3 and 8.5). The value of unlisted equity instruments (excluding SEM target shares) is not material.

  The fair value of the SEM target shares is determined using predominantly discounted cash flow (DCF) models, with the remainder valued at or within close proximity of the latest available net asset value of the underlying company. The most significant investment at 31 December 2022 relates to the SEM target share which provides a participatory interest in Shriram General Insurance Company Ltd (SGI) in India to the value of R1 459 million (2021: R1 419 million).

  The fair value of the SGI target share is determined using a discounted cash flow (DCF) model, and significant assumptions are tested with local management as well as Santam's representative on the SGI board of directors. Given the short volatility of earnings patterns, the group uses a 10 year discounting period, rather than a five year one, in order to provide a more robust valuation of the SGI business. The 10 year DCF model discounts expected cash flows and a perpetual value (after providing for regulatory capital requirements) at an appropriate risk-adjusted discount rate. The most significant unobservable inputs used in this DCF model are the discount rate of 15.1% (2021: 14.3%). A rand/Indian rupee exchange rate of 0.205 (2021: 0.214) was used to translate the DCF valuation result in Indian rupee to rand. An average net insurance margin over a 10 year period of 21.4% (2021: 24.0%) was incorporated. Should the discount rate increase or decrease by 10%, the investment would decrease by R277 million (2021: R265 million) or increase by R438 million (2021: R436 million), respectively. If the relative foreign exchange rate increase or decrease by 10%, the fair value will increase or decrease by R146 million (2021: R142 million). Should the net insurance margin profile (projected over a period of 10 years) increase or decrease by 10%, the fair value will increase or decrease by R117 million (2021: R110 million). The remaining target share is valued with reference to the net asset value of the underlying company and was mostly impacted by changes in the exchange rate.

Accounting policy – Determination of fair value

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

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

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

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

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

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

Notes to the annual financial statements

5 Financial assets (continued)

5.3 Financial Instruments measured at fair value on a recurring basis (continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2022:

31 December 2022	Equity securities R million	Interest-bearing investments R million	Derivative (liabilities)/ assets[1] R million	Total R million
GROUP				
Opening balance	1 765	60	(1)	1 824
Acquisitions	62	–	–	62
Redemptions	(92)	–	(23)	(115)
Gains recognised in profit or loss	3	–	24	27
Losses recognised directly in equity	–	–	(35)	(35)
Closing balance	1 738	60	(35)	1 763

31 December 2022	Equity securities R million	Interest-bearing investments R million	Derivative (liabilities)/ assets[1] R million	Total R million
COMPANY				
Opening balance	1 765	–	(1)	1 764
Acquisitions	62	–	–	62
Redemptions	(92)	–	(23)	(115)
Gains recognised in profit or loss	3	–	24	27
Losses recognised directly in equity	–	–	(35)	(35)
Closing balance	1 738	–	(35)	1 703

[1] *Refer to note 6.4 for detail on derivative (liabilities)/assets.*

The unquoted equity instruments recognised as level 3 instruments consist mainly of the participation target shares issued by SEM.

Of the R3 million gain (2021: R155 million) recognised on equity securities, a R3 million loss (2021: R152 million gain) relates to the SEM target shares, of which R58 million (2021: R100 million gain) relates to foreign exchange losses, and R55 million (2021: R52 million) to an increase in fair value in local currency terms. The key drivers of the fair value movements of Santam's share of the SEM investment portfolio were:

In April 2022, KKR, a leading global investment fund, acquired a 9.99% stake in SGI from the Shriram Group. KKR's investment will position SGI for continued growth in India's fast-growing general insurance industry. Before the transaction, Santam held a 15% economic participatory interest in SGI by way of a target share issued by SEM, which target share references SEM's effective shareholding in SGI. The transaction diluted SEM's effective shareholding in SGI, resulting in a commensurate dilution of Santam's economic interest in SGI from 15% to 14.1%. The enterprise value attributed to SGI for the transaction was around R38 billion (Rs 18 000 crore) and exceeded Santam's internal valuation of SGI at 31 December 2022 of R10 billion (Rs 5 046 crore) for the 100% stake. Pursuant to the transaction, Santam received a distribution in respect of the SGI target share at the end of May 2022, amounting to R217 million.

On 14 December 2022, SEM redeemed the target shares through which the Santam group held economic participation rights in the general insurance businesses of SEM in Africa (the African target shares). The African target shares were redeemed following the cash payment by SEM of aggregate redemption distributions to the amount of R126 million to Santam, comprising a capital distribution of R92 million and an income distribution of R34 million. The capital distribution was recognised directly in the statement of financial position as a reduction of the African target share investment value. The income distribution was recognised in the statement of comprehensive income, where it was countered with a release of the realised fair value adjustment of the same value. The Santam group retained its economic participation rights in the general insurance investments of SEM in India and Malaysia.

In 2022, the increase in the value of SGI of R187 million (excluding the impact of exchange rate movements) was positively impacted by strong growth in the direct channel coupled with expected recovery of the credit extension business where car financing extended is coupled with insurance policies. SGI also reported a better claims experience than prior years and expects the claims ratio to gradually improve over the short term.

Notes to the annual financial statements

5 Financial assets (continued)

5.3 Financial Instruments measured at fair value on a recurring basis (continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2021:

31 December 2021	Equity securities R million	Interest-bearing investments R million	Derivative (liabilities)/assets[1] R million	Total R million
GROUP				
Opening balance	1 609	60	(80)	1 589
Acquisitions	1	–	–	1
Redemptions	–	–	132	132
Gains/(losses) recognised in profit or loss	155	–	(53)	102
Closing balance	1 765	60	(1)	1 824

31 December 2021	Equity securities R million	Interest-bearing investments R million	Derivative (liabilities)/assets[1] R million	Total R million
COMPANY				
Opening balance	1 611	–	(80)	1 531
Acquisitions	1	–	–	1
Redemptions	–	–	132	132
Gains/(losses) recognised in profit or loss	153	–	(53)	100
Closing balance	1 765	–	(1)	1 764

[1] *Refer to note 6.4 for detail on derivative (liabilities)/assets.*

Notes to the annual financial statements

5 Financial assets (continued)

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, but does have indirect commodity price exposure via various equity share holdings. Any change in valuation of these companies due to change in commodity prices will reflect in the change in share price of these companies.

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			
	2022		2021		2022		2021	
	Number of shares	Market value R million	Number of shares	Market value R million	Number of shares	Market value R million	Number of shares	Market value R million
Direct listed equity exposure								
Blue Label Telecoms Ltd	**25 504 782**	**124**	21 550 045	110	**460 621**	**2**	488 713	2
Redefine Properties Ltd	**26 991 840**	**114**	21 031 843	93	**726 505**	**3**	770 813	3
Naspers Ltd	**36 698**	**104**	42 240	104	**31 650**	**89**	37 129	92
Anglo Plc	**134 204**	**89**	148 149	97	**124 326**	**82**	131 908	86
Firstrand Group Ltd	**1 366 878**	**85**	1 250 512	76	**1 278 813**	**79**	1 091 967	66
Mr Price Group Ltd	**457 884**	**73**	131 981	26	**79 007**	**13**	128 944	26
MTN Group Ltd	**567 791**	**72**	501 216	86	**514 113**	**65**	461 919	79
Prosus N.V.	**60 781**	**72**	186 038	244	**46 071**	**54**	96 608	127
Standard Bank Group Ltd	**410 124**	**69**	374 451	52	**350 490**	**59**	338 152	47
Impala Platinum Holdings Ltd	**294 897**	**63**	234 432	53	**267 809**	**57**	208 557	47
British American Tobacco Plc	**92 142**	**62**	104 326	61	**71 652**	**48**	76 022	45
Absa Group Ltd	**298 414**	**58**	183 719	28	**269 924**	**52**	172 291	26
Investec Plc	**507 904**	**55**	543 375	47	**494 711**	**53**	524 883	46
Sasol Ltd[2]	**153 709**	**41**	149 774	39	**121 826**	**33**	129 256	33
BHP Group Ltd[1, 2]	**75 223**	**40**	–	–	**69 201**	**36**	–	–
Nedbank Group Ltd[2]	**179 468**	**38**	166 814	29	**163 507**	**35**	140 226	25
Exxaro Resources Ltd[1, 2]	**129 880**	**28**	109 138	17	**117 174**	**25**	92 487	14
African Rainbow Minerals Ltd[1, 2]	**97 696**	**28**	71 574	17	**92 427**	**27**	65 225	15
Investec Bank Ltd – SXEIIP[2]	**2 000**	**27**	1 900	25	**2 000**	**27**	1 900	25
Royal Bafokeng Platinum Ltd[2]	**164 122**	**27**	174 132	27	**164 122**	**27**	174 132	27
Vodacom Group Ltd[1, 2]	**220 457**	**27**	141 058	19	**214 743**	**26**	135 904	18
Anglo American Platinum Ltd[2]	**18 825**	**27**	24 689	45	**17 983**	**26**	23 816	43
Investec Ltd – SPXIII[1, 2]	**20 000**	**23**	19 000	21	**20 000**	**23**	19 000	21
Shoprite Holdings Ltd[2]	**99 421**	**22**	188 488	39	**99 421**	**22**	175 591	37
Other	**–**	**1 493**	–	1 705	**–**	**467**	–	577
		2 861		3 060		**1 430**		1 527
Irredeemable preference shares		**–**		1		**–**		1
		2 861		3 061		**1 430**		1 528
Indirect listed equity exposure								
Investment funds		**746**		901		**149**		263

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

Notes to the annual financial statements

5 Financial assets (continued)

5.4 Price risk (continued)

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 4.3% (2021: 8%) of the total quoted equities and 0.2% (2021: 0.4%) of the total assets. The company's largest investment in any one company comprises 6.2% (2021: 8.3%) of the total quoted equities and 0.2% (2021: 0.3%) of the total assets.

Sensitivity analysis on listed equities and similar securities

At 31 December 2022, the group's listed equities and similar securities were recorded at their fair value of R3 607 million (2021: R3 962 million). A 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R361 million (2021: R396 million).

The company's listed equities and similar securities were recorded at their fair value of R1 579 million (2021: R1 791 million). A 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R158 million (2021: R179 million).

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 2022 (2021: 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:

	2022		2021	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
GROUP				
Financial assets – fixed rate				
Interest-bearing investments				
Government interest-bearing investments	(101)	98	(150)	152
Corporate interest-bearing investments	(41)	39	(56)	55
Structured transactions				
Structured notes	–	–	(1)	1
Cash, deposits and similar securities	(34)	33	(16)	16
Total	(176)	170	(223)	224
Financial assets – variable rate				
Interest-bearing investments				
Government interest-bearing investments	13	(13)	13	(13)
Corporate interest-bearing investments	136	(136)	72	(72)
Mortgages and loans	1	(1)	1	(1)
Structured transactions				
Structured notes	2	(2)	–	–
Cash, deposits and similar securities	16	(16)	12	(12)
Cash and cash equivalents	15	(15)	42	(42)
Total	183	(183)	140	(140)

Notes to the annual financial statements

5 Financial assets (continued)

5.5 Interest rate risk – financial assets (continued)

	2022		2021	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
COMPANY				
Financial assets – fixed rate				
Interest-bearing investments				
Government interest-bearing investments	**(57)**	**56**	(113)	113
Corporate interest-bearing investments	**(36)**	**34**	(48)	48
Cash, deposits and similar securities	**(5)**	**5**	(6)	6
Total	**(98)**	**95**	(167)	167
Financial assets – variable rate				
Interest-bearing investments				
Corporate interest-bearing investments	**64**	**(64)**	64	(64)
Mortgages and loans	**1**	**(1)**	1	(1)
Structured transactions				
Structured notes	**1**	**(1)**	–	–
Cash and cash equivalents	**15**	**(15)**	3	(3)
Total	**81**	**(81)**	68	(68)

5.6 Loans and receivables excluding insurance receivables

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Accrued investment income	**265**	153	**128**	97
Loans to policyholders	**856**	615	**–**	–
Premium financing receivables	**710**	492	**–**	–
Other loans and receivables	**1 010**	745	**417**	443
Less provision for impairment	**(118)**	(114)	**(89)**	(97)
Loans to subsidiaries (refer note 10.1)	**–**	–	**413**	308
Total[1]	**2 723**	1 891	**869**	751
Expected to be realised within 12 months	**2 723**	1 891	**456**	443
Expected to be realised after 12 months	**–**	–	**413**	308
Reconciliation of provisions for impairment of other receivables				
At the beginning of the year	**114**	127	**97**	102
Charge to the statement of comprehensive income:				
– movement in provisions	**4**	(13)	**(8)**	(5)
Total at the end of the year	**118**	114	**89**	97

[1] *During the current year the disclosure has been enhanced by adding more detailed line items.*

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. Gross carrying amounts are written off if interest and/or principal repayments are past due and there is no reasonable expectation of recovery.

Notes to the annual financial statements

5 Financial assets (continued)

5.6 Loans and receivables excluding insurance receivables (continued)

Accounting policy – Loans and receivables

Classification

The group classifies its loans and receivables as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principle and interest

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 expected credit losses.

Impairment

The group applies the general approach to providing for expected credit losses prescribed by IFRS 9. To measure the expected credit losses, loans and receivables have been grouped based on shared credit risk characteristics and the days past due to create three categories namely performing, underperforming and not performing. The expected loss rates are based on the payment profiles of receivables over a period of 36 months before year-end. The loss rates are adjusted to reflect current and forward looking information on macro-economic factors, such as the socio-economic environment affecting the ability of the debtors to settle the receivables. Receivables that are 30 days or more past due are considered to be "not performing" and the default rebuttable presumption of 90 days prescribed by IFRS 9 is not applied.

Expected credit loss summary

Group							
2022		ECL rate	ECL method	Gross R million	Provision opening balance R million	Raised/ (released) in the period R million	Provision closing balance R million
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	0.39%	12 month	2 556	4	6	10
Underperforming	Loans for which there is a significant increase in credit risk; a significant increase in credit risk is presumed if interest and/or principal repayments are past due	10.91%	Lifetime	110	11	1	12
Not performing	Interest and/or principal repayments are 30 days past due	54.86%	Lifetime	175	99	(3)	96
Total				2 841	114	4	118

Company							
2022		ECL rate	ECL method	Gross R million	Provision opening balance R million	(Released)/ raised in the period R million	Provision closing balance R million
Performing[1]	Customers have a low risk of default and a strong capacity to meet contractual cash flows	1.32%	12 month	759	4	6	10
Underperforming	Loans for which there is a significant increase in credit risk; a significant increase in credit risk is presumed if interest and/or principal repayments are past due	10.91%	Lifetime	110	11	1	12
Not performing	Interest and/or principal repayments are 30 days past due	75.28%	Lifetime	89	82	(15)	67
Total				958	97	(8)	89

[1] *Included in performing loans are amounts due from other group companies. Given that the companies that funding has been provided to have no history of default and sufficient net asset values, it is unlikely that the company will experience credit losses in respect of these loans and as such no amounts have been provided for.*

Notes to the annual financial statements

5 Financial assets (continued)

5.6 Loans and receivables excluding insurance receivables (continued)

The forward looking information considered was deemed to have an immaterial impact on expected credit loss.

Group

2021		ECL rate	ECL method	Gross R million	Provision opening balance R million	(Released)/ raised in the period R million	Provision closing balance R million
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	0.24%	12 month	1 674	20	(16)	4
Underperforming	Loans for which there is a significant increase in credit risk; a significant increase in credit risk is presumed if interest and/or principal repayments are past due	11.96%	Lifetime	92	19	(8)	11
Not performing	Interest and/or principal repayments are 30 days past due	41.42%	Lifetime	239	88	11	99
Total				2 005	127	(13)	114

Company

2021		ECL rate	ECL method	Gross R million	Provision opening balance R million	(Released)/ raised in the period R million	Provision closing balance R million
Performing[1]	Customers have a low risk of default and a strong capacity to meet contractual cash flows	0.67%	12 month	598	11	(7)	4
Underperforming	Loans for which there is a significant increase in credit risk; a significant increase in credit risk is presumed if interest and/or principal repayments are past due	11.96%	Lifetime	92	19	(8)	11
Not performing	Interest and/or principal repayments are 30 days past due	51.90%	Lifetime	158	72	10	82
Total				848	102	(5)	97

[1] *Included in performing loans are amounts due from other group companies. Given that the companies that funding has been provided to have no history of default and sufficient net asset values, it is unlikely that the company will experience credit losses in respect of these loans and as such no amounts have been provided for.*

These loans and receivables are mostly unrated. Refer to note 5.8 for credit ratings.

Notes to the annual financial statements

5 Financial assets (continued)

5.7 Cash and cash equivalents

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Cash at bank and in hand	5 387	4 496	2 356	1 842
	5 387	4 496	2 356	1 842

The carrying value of cash and cash equivalents approximates fair value. The full value is expected to be realised within 12 months.

Refer to note 5.8 where it is noted that cash and cash equivalents are invested with reputable banking institutions with no less than a B+ (2021: B+) credit rating. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, due to the credit ratings being favourable for these institutions, the impairment loss on cash and cash equivalent was assessed to be immaterial.

Accounting policy – Cash and cash equivalents
Cash and cash equivalents include cash on hand and deposits held on call with banks. Cash and cash equivalents are carried at amortised cost.

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.

The credit quality of Santam's counterparties are determined using rating agencies' assessments of the probability of default over a one-year time horizon. The underlying default probabilities are based on the credit migration models developed by S&P, Moody's, Fitch and GCR, which incorporate up to 90 years' worth of credit default information. The probability of default assigned are based on the highest credit rating assigned by the various rating agencies.

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

For concentration risk Santam uses the 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.

The following table provides information regarding the aggregated credit risk exposure for financial assets without taking into account collateral. The credit ratings provided in this table were determined as follows: SIM provided management with reports generated from their credit system on a quarterly basis, detailing all counterparty, duration and credit risk. These reports include international, national and internal ratings. SIM also provides management with a conversion table that is then applied to standardise the ratings to standardised international long-term rates. For assets held by subsidiaries and not managed by SIM, a process is agreed with the subsidiaries to align the credit rating analysis with group requirements.

As can be seen from the table below, the majority of financial asset investments have remained in BB following the credit rating of BB for the South African government's issuer ratings by major credit rating agencies. Most issuers in South Africa will have their credit ratings capped at the sovereign credit rating, and therefore the rating BB represents the best available ratings within the South African investable market. This still falls within Santam's documented risk appetite and does not pose a significant risk for the group. It has had no significant impact on expected credit losses provided for.

Notes to the annual financial statements

5 Financial assets (continued)

5.8 Credit risk (continued)

31 December 2022	Credit rating						
	AAA R million	AA+ R million	AA R million	AA- R million	A+ R million	A R million	A- R million
GROUP							
Financial assets:							
Government interest-bearing investments	158	46	–	–	–	–	–
Corporate interest-bearing investments	–	23	110	219	249	153	306
Mortgages and loans	–	–	–	–	–	–	–
Interest-bearing investments	158	69	110	219	249	153	306
Structured notes	–	–	–	–	–	–	–
Structured transactions	–	–	–	–	–	–	–
Investment funds[1]	–	–	–	–	–	–	–
Cash, deposits and similar securities	–	–	–	–	–	–	–
Other loans and receivables	–	–	–	–	–	–	–
Cash and cash equivalents	–	160	–	839	72	–	68
Total financial assets	158	229	110	1 058	321	153	374

31 December 2022	Credit rating						
	AAA R million	AA+ R million	AA R million	AA- R million	A+ R million	A R million	A- R million
COMPANY							
Financial assets:							
Government interest-bearing investments	158	46	–	–	–	–	–
Corporate interest-bearing investments	–	23	110	219	249	153	306
Mortgages and loans	–	–	–	–	–	–	–
Interest-bearing investments	158	69	110	219	249	153	306
Structured notes	–	–	–	–	–	–	–
Structured transactions	–	–	–	–	–	–	–
Investment funds[1]	–	–	–	–	–	–	–
Cash, deposits and similar securities	–	–	–	–	–	–	–
Other loans and receivables	–	–	–	4	2	1	2
Cash and cash equivalents	–	160	–	157	72	–	68
Total financial assets	158	229	110	380	323	154	376

[1] *Investment funds are generally unrated, but operated in a highly regulated environment.*

Credit rating								
BBB+ R million	BBB R million	BB R million	BB- R million	B+ R million	B R million	Below B- R million	Not rated R million	Carrying value R million
–	–	4 389	7	1	23	16	–	4 640
58	62	12 617	939	387	180	1	36	15 340
–	–	25	10	31	11	10	–	87
58	62	17 031	956	419	214	27	36	20 067
–	–	193	45	–	–	–	–	238
–	–	193	45	–	–	–	–	238
–	–	716	–	–	–	–	7 603	8 319
–	–	3 477	–	–	–	–	–	3 477
–	–	242	68	1	1	–	2 411	2 723
–	–	4 193	35	20	–	–	–	5 387
58	62	25 852	1 104	440	215	27	10 050	40 211

Credit rating								
BBB+ R million	BBB R million	BB R million	BB- R million	B+ R million	B R million	Below B- R million	Not rated R million	Carrying value R million
–	–	1 490	–	–	21	15	–	1 730
58	62	5 705	608	92	95	–	–	7 680
–	–	25	7	13	11	10	–	66
58	62	7 220	615	105	127	25	–	9 476
–	–	98	14	–	–	–	–	112
–	–	98	14	–	–	–	–	112
–	–	–	–	–	–	–	183	183
–	–	942	–	–	–	–	–	942
–	1	90	6	1	1	–	761	869
–	–	1 898	–	1	–	–	–	2 356
58	63	10 248	635	107	128	25	944	13 938

Notes to the annual financial statements

5 Financial assets (continued)

5.8 Credit risk (continued)

31 December 2021	Credit rating AAA R million	AA+ R million	AA- R million	A+ R million	A R million	A- R million
GROUP						
Financial assets:						
Government interest-bearing investments	–	–	–	–	–	–
Corporate interest-bearing investments	68	40	72	277	169	158
Mortgages and loans	–	–	–	–	–	–
Interest-bearing investments	68	40	72	277	169	158
Structured notes	–	–	–	–	–	–
Structured transactions	–	–	–	–	–	–
Investment funds[1]	–	–	–	–	–	–
Cash, deposits and similar securities	–	–	–	48	–	–
Other loans and receivables	–	–	–	–	–	–
Cash and cash equivalents	–	117	749	102	–	–
Total financial assets	68	157	821	427	169	158

31 December 2021	Credit rating AAA R million	AA+ R million	AA- R million	A+ R million	A R million	A- R million
COMPANY						
Financial assets:						
Government interest-bearing investments	–	–	–	–	–	–
Corporate interest-bearing investments	68	40	72	277	169	158
Mortgages and loans	–	–	–	–	–	–
Interest-bearing investments	68	40	72	277	169	158
Structured notes	–	–	–	–	–	–
Structured transactions	–	–	–	–	–	–
Investment funds[1]	–	–	–	–	–	–
Cash, deposits and similar securities	–	–	–	48	–	–
Other loans and receivables	–	–	1	1	1	1
Cash and cash equivalents	–	117	575	102	–	–
Total financial assets	68	157	648	428	170	159

[1] *Investment funds are generally unrated, but operated in a highly regulated environment.*

Notes to the annual financial statements

Credit rating									
BBB+ R million	BBB R million	BB R million	BB- R million	B+ R million	B R million	B- R million	Below B R million	Not rated R million	Carrying value R million
–	–	5 284	326	–	–	–	12	44	5 666
3	58	12 178	831	388	36	–	5	519	14 802
–	–	24	12	27	2	5	14	–	84
3	58	17 486	1 169	415	38	5	31	563	20 552
–	–	206	–	10	–	–	–	–	216
–	–	206	–	10	–	–	–	–	216
–	–	975	–	–	–	–	–	4 237	5 212
–	–	947	–	–	–	–	–	36	1 031
–	–	326	63	1	–	–	–	1 501	1 891
–	–	3 343	167	18	–	–	–	–	4 496
3	58	23 283	1 399	444	38	5	31	6 337	33 398

Credit rating									
BBB+ R million	BBB R million	BB R million	BB- R million	B+ R million	B R million	B- R million	Below B- R million	Not rated R million	Carrying value R million
–	–	3 113	41	–	–	–	12	–	3 166
3	58	5 912	521	130	24	–	4	423	7 859
–	–	20	12	8	2	5	14	–	61
3	58	9 045	574	138	26	5	30	423	11 086
–	–	127	–	10	–	–	–	–	137
–	–	127	–	10	–	–	–	–	137
–	–	27	–	–	–	–	–	147	174
–	–	363	–	–	–	–	–	–	411
–	1	80	5	1	–	–	–	660	751
–	–	1 042	6	–	–	–	–	–	1 842
3	59	10 684	585	149	26	5	30	1 230	14 401

Notes to the annual financial statements

5 Financial assets (continued)

5.9 Investment income

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Interest income derived from[1]	**1 964**	1 552	**775**	704
Financial assets measured at amortised cost	**276**	206	**51**	19
Financial assets mandatorily measured at fair value through income	**1 688**	1 346	**724**	685
Other investment income	**811**	552	**1 023**	552
Dividend income[2, 3]	**520**	250	**796**	302
Foreign exchange differences	**291**	302	**227**	250
	2 775	2 104	**1 798**	1 256

[1] *Includes interest income received in cash of R1 541 million (2021: R1 555 million) for the group and R774 million (2021: R705 million) for the company.*

[2] *Includes dividend income received in cash of R457 million (2021: R249 million) for the group and R563 million (2021: R285 million) for the company.*

[3] *Dividend income for the company includes dividends received from subsidiaries and SEM target shares.*

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

	Group 2022 R million	Group 2021 R million	Company 2022 R million	Company 2021 R million
Net fair value (losses)/gains on financial assets mandatorily at fair value through income	**(600)**	989	**(352)**	284
Net realised (losses)/gains on financial assets excluding derivative instruments	**(128)**	157	**(162)**	80
Net unrealised fair value (losses)/gains on financial assets excluding derivative instruments	**(496)**	885	**(214)**	258
Net realised/fair value gains/(losses) on derivative instruments	**24**	(53)	**24**	(54)
Net fair value gains/(losses) on financial liabilities designated as at fair value through income	**50**	(257)	**25**	30
Net fair value gains on debt securities	**25**	30	**25**	30
Net fair value gains/(losses) on investment contracts	**25**	(287)	**–**	–
	(550)	732	**(327)**	314

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

Gains and losses arising from changes in the fair value of the 'financial assets mandatorily 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 mandatorily 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 mandatorily 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 mandatorily at fair value through income and liabilities designated at fair value through income. Interest is accrued on financial assets mandatorily at fair value through income on the effective yield basis.

Notes to the annual financial statements

6 Financial liabilities

	Notes	Group 2022 R million	Group 2021 R million	Company 2022 R million	Company 2021 R million
The group's financial liabilities are summarised below.					
Financial liabilities designated at fair value through income					
Debt securities	6.1	**2 539**	2 552	**2 539**	2 552
Investment contracts	6.3	**2 061**	1 970	**–**	–
Derivative liabilities	6.4	**35**	1	**35**	1
Financial liabilities at amortised cost					
Repo liability	6.5	**739**	926	**–**	–
Collateral guarantee contracts	6.6	**129**	155	**129**	155
Trade and other payables excluding insurance payables	6.7	**3 302**	2 561	**1 680**	1 798
Financial liabilities		**8 805**	8 165	**4 383**	4 506

Risk management

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

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

6.1 Debt securities

	Group 2022 R million	Group 2021 R million	Company 2022 R million	Company 2021 R million
At the beginning of the year	**2 533**	3 063	**2 533**	3 063
Cash movements				
New debt securities issued	**1 000**	–	**1 000**	–
Debt securities redeemed	**(1 000)**	(500)	**(1 000)**	(500)
Non-cash movements				
Net fair value gains on debt securities	**(25)**	(30)	**(25)**	(30)
	2 508	2 533	**2 508**	2 533
Accrued interest	**31**	19	**31**	19
	2 539	2 552	**2 539**	2 552
Expected to be settled after 12 months	**2 004**	1 533	**2 004**	1 533
Expected to be settled within 12 months	**535**	1 019	**535**	1 019
Estimated redemption value on maturity date	**2 500**	2 500	**2 500**	2 500

During April 2016, the company issued unsecured subordinated callable notes to the value of R1 billion in two equal tranches of fixed and floating rate notes. The effective rate for the floating rate notes represents the three-month JIBAR plus 245 basis points, while the rate for the fixed rate notes amounted to 11.77%. The floating rate notes of R500 million have all been redeemed on the optional redemption date on 12 April 2021, and the fixed rate notes have an optional redemption date of 12 April 2023 with a final maturity date of 12 April 2028.

During June 2017, the company issued additional unsecured subordinated callable floating rate notes to the value of R1 billion in anticipation of the redemption of the R1 billion subordinated debt issued in 2007 and redeemed in September 2017. The effective interest rate for the floating rate notes represented the three-month JIBAR plus 210 basis points. The notes have all been redeemed on the optional redemption date of 27 June 2022.

During November 2020, the company issued additional unsecured subordinated callable floating rate notes to the value of R1 billion. The effective interest rate for the floating rate notes represents the three-month JIBAR plus 198 basis points. The notes have an optional redemption date of 30 November 2025 with a final maturity date of 30 November 2030.

During May 2022, the company issued additional unsecured subordinated callable floating rate notes to the value of R1 billion. The effective interest rate for the floating rate notes represents the three-month JIBAR plus 159 basis points. The notes have an optional redemption date of 16 May 2027 with a final maturity date of 16 May 2032.

Notes to the annual financial statements

6 Financial liabilities (continued)

6.1 Debt securities (continued)

Per the conditions set by the Prudential Authority, Santam is required to maintain liquid assets equal to the value of the callable notes until maturity. The callable notes are therefore measured at fair value to minimise undue volatility in the statement of comprehensive income. The fair value of the fixed rate notes is calculated using the yield provided by JSE and adding accrued interest. The fair value of the floating rate notes is calculated using the price provided by JSE and adding accrued interest.

Santam's international credit rating was reaffirmed as BB in November 2022. No reviewed credit rating has been issued since. The movement in the fair value of the unsecured subordinated callable notes is considered immaterial and 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 as these instruments are managed at fair value in terms of the related business model.

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.

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.

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

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

	2022		2021	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
GROUP				
Financial liabilities – fixed rate				
Debt securities – quoted	1	(1)	6	(6)
Derivative instruments	34	(38)	48	(52)
Financial liabilities – variable rate				
Debt securities – quoted	(10)	10	(20)	20
Total change in finance cost and net fair value movement before tax	25	(29)	34	(38)

	2022		2021	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
COMPANY				
Financial liabilities – fixed rate				
Debt securities – quoted	**1**	**(1)**	6	(6)
Derivative instruments	**34**	**(38)**	48	(52)
Financial liabilities – variable rate				
Debt securities – quoted	**(10)**	**10**	(20)	20
Total change in finance cost and net fair value movement before tax	**25**	**(29)**	34	(38)

Notes to the annual financial statements

6 Financial liabilities (continued)

6.3 Investment contracts

	Group	
	2022 R million	**2021 R million**
At the beginning of the year	**1 970**	1 838
Cash movements		
Investment contracts issued	**800**	378
Investment contracts sold/matured	**(684)**	(533)
Non-cash movements		
Net fair value (gains)/losses	**(25)**	287
	2 061	1 970
Expected to be settled after 12 months	**1 571**	1 683
Expected to be settled within 12 months	**490**	287

The net fair value losses on investment contracts are equal to the net fair value losses 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 losses on financial assets and liabilities at fair value through income in the statement of comprehensive income. The movement in the fair value of the investment contracts mainly represents the market movement. The maturity values of these financial liabilities are determined by the fair values of the linked assets. They are classified as level 2 per the fair value hierarchy.

Accounting policy – Investment contracts
The group recognises the following investment contracts:

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

b) Policies with no significant risk transfer
A risk is a significant risk if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding those that lack commercial substance and is assessed on a contract-by-contract basis except in circumstances where there is a relatively homogeneous book of small contracts which are known to transfer risk. Should an insurance contract not result in significant risk transfer, the contract will be accounted for as an investment contract.

Investment contract liabilities are recognised when the group becomes party to the contractual provisions of the instrument. It is initially recognised at fair value. The fair value is determined using the fair value of the underlying financial assets linked to the financial liability. Based on the principle of eliminating an accounting mismatch in the financial statements, investment contracts are designated to be measured at fair value through income.

6.4 Derivative liabilities

	Group		Company	
	2022 R million	**2021 R million**	**2022 R million**	**2021 R million**
Exchange-traded futures	–	1	–	1
Over the counter				
Foreign exchange collar	35	–	35	–
	35	1	35	1

Notes to the annual financial statements

6 Financial liabilities (continued)

6.4 Derivative liabilities (continued)

At 31 December 2022, the group had exchange traded futures with an exposure value of R968 million (2021: R1 233 million). The exchange traded futures relate to interest rate derivates used to manage interest rate risk in Santam's fixed income portfolios.

On 4 May 2022, Santam announced that it entered into an agreement with Allianz, in terms of which Santam will dispose of its 10% interest in SAN JV to Allianz. On the same day Santam entered into a 12-month zero-cost collar to the amount of EUR125 million to protect the sale proceeds from the rand strengthening against the euro. The structure provides full downside protection below a EUR/ZAR exchange rate of R16.66 and entitles Santam to share in rand weakness against the euro up to a cap of R19.16. On 31 December 2022 the fair value of the structure amounted to a R35 million liability. The collar was designated as a cash flow hedge instrument on 4 May 2022. The impact of this was that foreign currency losses of R35 million recognised on the collar since implementation date were not recognised in the statement of comprehensive income, but were accounted for as a hedging reserve.

On 30 June 2022, the group entered into a zero-cost collar over listed equities to the value of R1.4 billion, based on the SWIX 40, to provide capital protection under continued volatile market conditions. The structure offered full downside protection from the implementation level of 11 789, with upside participation (excluding dividends) of 0.78% and expired on 15 December 2022. The final loss on the contract was R90 million.

At 31 December 2022, the group had no interest rate swaps (2021: had interest rate swaps as part of the international bond portfolio). In the prior year the fair value of the swap was disclosed on a net basis in the statement of financial position as well as the statement of comprehensive income due to the contractual right to settle the instrument on a net basis. They were classified as level 3 per the fair value hierarchy. The gross exposure asset and liability as at 31 December 2021 amounted to R11 million and R11 million respectively.

On 3 February 2021, the company rolled the collar structure that has been in place since 3 November 2020. The structure offered almost full downside protection from the implementation level 11 857. It expired on 3 May 2021 and realised a loss of R31 million. On 3 May 2021, the company rolled the collar again until expiry on 3 August 2021, at an implementation level of 12 223. The structure was not renewed on 3 August 2021 and a final gain of R15 million was realised (inclusive of the fair value gain of R19 million at 30 June 2021).

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.

6.5 Repo liability

	Group	
	2022 R million	2021 R million
At the beginning of the year	926	867
Cash movements		
New repurchase agreements entered into	1 582	1 278
Repurchase agreements settled	(1 790)	(1 234)
	718	911
Accrued interest	21	15
	739	926
Expected to be settled after 12 months	413	806
Expected to be settled within 12 months	326	120

The repo liability relates to a sale and repurchase agreement within SSI's portfolio. This liability is secured by debt securities with a value of R1 190 million (2021: R854 million). The liability is classified as level 2 per the fair value hierarchy. The group continues to receive income derived from the underlying assets over the term of the agreement. The group cannot realise profit or losses on disposing of the underlying assets for the duration of the agreements, as the group does not have custody of the assets during this time.

Notes to the annual financial statements

6 Financial liabilities (continued)

6.5 Repo liability (continued)

Accounting policy – Repo liability
Repo repurchase liabilities consist of sale and repurchase of assets agreements. These agreements contain financial liabilities consisting of financial instruments sold with an agreement to repurchase these instruments at a fixed price at a later date. These financial liabilities are classified as financial liabilities at amortised cost.

Where financial instruments are sold subject to a commitment to repurchase them, the financial instrument is not derecognised and remains in the statement of financial position and is valued according to the group's accounting policy relevant to that category of financial instrument. The proceeds received are recorded as a liability (repo liability) carried at amortised cost.

The difference between the sale and repurchase price is treated as finance cost and is accrued over the life of the agreement using the effective interest rate method.

6.6 Collateral guarantee contracts

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
At the beginning of the year	155	128	155	128
Cash movements				
New contracts entered into	3	71	3	71
Contracts ended	(34)	(46)	(34)	(46)
Non-cash movements				
Interest	5	2	5	2
	129	155	129	155
Expected to be settled after 12 months	–	–	–	–
Expected to be settled within 12 months	129	155	129	155

Liabilities arising out of collateral guarantee contracts are payable on demand should a claim be made against the policy, and is therefore treated as current.

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 R129 million (2021: R155 million) as at 31 December 2022. These assets are managed in a separate investment portfolio and are sold when required to settle obligations arising from the collateral guarantee contracts. 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 IFRS 9.

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.

Notes to the annual financial statements

6 Financial liabilities (continued)

6.7 Trade and other payables excluding insurance payables

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Amounts due to subsidiaries (refer to note 10.1)	–	–	326	472
Accrued expenses	871	676	143	93
Employee benefits and accruals[1]	686	829	418	585
Other trade payables	1 745	1 056	793	648
Total[2]	3 302	2 561	1 680	1 798

[1] *In the prior year employee benefits other than leave pay provisions were included in trade payables and accrued expenses.*
[2] *During the current year the disclosure has been enhanced by adding more detailed line items.*

The carrying value of trade and other payables approximates fair value. All trade payables are expected to be settled within 12 months.

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.

6.8 Finance costs

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Interest expense				
– collateral guarantee contracts	5	2	5	2
– lease liabilities	58	60	38	46
– subordinated callable note	203	182	203	182
– repo liability	44	36	–	–
– other	13	33	–	–
	323	313	246	230

Accounting policy – Finance costs
Finance costs are recognised using the effective-interest method.

6.9 Lease liabilities

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Opening balance	764	782	575	585
Cash movements				
Payment of principle element of lease liabilities	(123)	(156)	(91)	(107)
Payment of interest	(58)	(60)	(38)	(46)
Non-cash movements				
Acquisition of subsidiary	30	–	–	–
New leases entered into and lease extensions during the year	79	139	44	98
Termination of lease agreements	(81)	(1)	(27)	(1)
Interest	58	60	38	46
	669	764	501	575

Notes to the annual financial statements

6 Financial liabilities (continued)

6.9 Lease liabilities (continued)

The following table summarises the contractual maturity dates for lease liabilities. The maturity analysis is presented on an undiscounted contractual cash flow basis.

31 December 2022	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
GROUP				
Lease liabilities	189	477	153	819

31 December 2022	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
COMPANY				
Lease liabilities	134	344	136	614

31 December 2021	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
GROUP				
Lease liabilities	189	520	225	934

31 December 2021	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
COMPANY				
Lease liabilities	144	399	198	741

Accounting policy – Leases

Agreements where the counterparty retains control of the underlying asset are classified as leases. The group leases various offices, motor vehicles and office equipment.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest, the incremental borrowing rate, on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Offices consist mainly of head office buildings and branches. Rental contracts are typically made for fixed periods of three to eight years but may have extension options that exist. Head office buildings are typically leased for longer periods than branches and are the main contributor to the carrying value of the right-of-use asset. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Periods covered by an option to extend the lease are included if the group is reasonably certain to exercise that option taking into account, among others, the remaining term of the original lease, refurbishments, changing technology and cost-saving initiatives. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Vehicles consist of a fleet of vehicles that the group leases for use by various field agents including assessors. The terms of these leases are typically between three and five years. Lease extensions are not considered in the valuation of these leases, as the group does not expect to extend leases on motor vehicles as they are generally replaced with a new lease.

The incremental borrowing rate for the company uses the company's bonds' borrowing rate as starting point, while all subsidiaries use a rate at which borrowings can be obtained by them commercially. The rate is then adjusted based on factors relating to the specific lease and underlying asset, including but not limited to, the term of the borrowing, the property yield (for property) and the ability to provide security for the purchase of the specific asset.

The group does not account for short-term leases, with a term shorter than 12 months as lease liabilities or right-of-use assets. These are accounted for as operating leases.

Notes to the annual financial statements

6 Financial liabilities (continued)

6.9 Lease liabilities (continued)

Accounting policy – Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments, but excluding payments for service components), less any lease incentives receivable
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

After initial recognition, lease liabilities are remeasured where there is a change in the future lease payments or if there is a change in the group's assessment of whether it will exercise an extension or termination option. When the lease is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or recognised in the income statement if the carrying amount of the right-of-use assets has been reduced to zero.

7 Currency risk

The group has two sources of currency risk:

- Operational currency risk – underwriting liabilities in currencies other than the currency of the primary environment in which the business units operate (non-functional currencies)
- Structured currency risk – investing in SEM target shares and previously 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 are 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 were recognised directly in the foreign currency translation reserve in the statement of changes in equity up to June 2022. These movements will only be released to profit or loss when the investment in SAN JV is disposed of.

In order to mitigate the foreign currency mismatch risk, Santam monitors the level of foreign currency assets relative to foreign currency liabilities and foreign currency capital requirements.

The tables presented on pages 89 to 92 provide a summary of the foreign exposures (including structured currency risk) relating to assets and liabilities included in the statement of financial position at the reporting date. Only the material currencies held at the reporting date are disclosed in the table. The exposure disclosed in rand value does, however, represent the group and the company's total exposure to all currencies held at the reporting date irrespective of whether it was separately disclosed in the table. The foreign currency exposure for reinsurance assets disclosed in the table only includes reinsurance contracts denominated in foreign currencies.

Structured currency risk relating to the investments in SEM target shares and SAN JV expose the group and company to multiple underlying currencies, which are not separately disclosed, as it is not direct currency exposure. The group and company has structured currency exposure of R1 596 million (2021: R1 691 million) relating to its investment in SEM target shares. In 2021 the group had structured currency exposure of R1 848 million relating to its investment in SAN JV, and the company had exposure of R2 034 million. Refer to note 5.3 for additional disclosure on the group's sensitivity in its exposure to structured currency risk arising from the investment in SEM target shares.

On 4 May 2022, Santam announced that it entered into an agreement with Allianz, in terms of which Santam will dispose of its 10% interest in SAN JV to Allianz. On the same day Santam entered into a 12-month zero-cost collar to the amount of EUR125 million to protect the sale proceeds from the rand strengthening against the euro. The structure provides full downside protection below a EUR/ZAR exchange rate of R16.66 and entitles Santam to share in rand weakness against the euro up to a cap of R19.16. On 31 December 2022 the fair value of the structure amounted to a R35 million liability. The collar was designated as a cash flow hedge instrument on 4 May 2022. The impact of this was that foreign currency losses of R35 million recognised on the collar since implementation date were accounted for as a hedging reserve.

The movement in the hedging instrument and hedged item during the period was as follows:

	Hedging instrument R million	Hedged item R million
Carrying/fair value on 4 May 2022	–	2 039
Movement in carrying/fair value	(35)	225
Carrying/fair value on 31 December 2022	(35)	2 264

The hedging instrument is the foreign exchange collar, and the hedged item is the forecast transaction for the disposal of the group's interest in SAN JV. The hedge remains fully effective, and no hedge ineffectiveness was accounted for in profit or loss during the year.

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

7 Currency risk (continued)

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

31 December 2022	Euro € million	United States dollar US$ million	Moroccan dirham MAD million	Chinese yuan CNY million	Indian rupee INR million	South Korean won KRW million	Israeli shekel ILS million	Total exposure R million
GROUP								
Debentures, insurance policies, public sector stocks and other loans	–	190.91	–	–	–	–	–	3 375.44
Cash, deposits and similar securities	1.46	54.54	–	–	–	–	–	964.44
Reinsurance assets	0.07	126.22	39.40	–	0.04	–	–	1 799.28
Trade and other receivables	5.37	53.04	29.79	28.47	208.70	439.17	172.11	2 210.03
Insurance liabilities	(17.00)	(216.82)	(42.11)	(64.55)	(939.84)	(13 723.65)	(288.09)	(6 660.47)
Trade and other payables	(0.22)	(16.89)	(3.76)	(18.13)	(21.45)	(1 888.39)	–	(392.06)
Total foreign currency exposure relating to insurance business (excluding alternative risk)	(10.32)	191.00	23.32	(54.21)	(752.55)	(15 172.87)	(115.98)	1 296.66
Cash, deposits and similar securities:								
– relating to alternative risk business	0.40	16.46	–	–	–	–	–	287.26
Trade and other payables:								
– relating to alternative risk business	(0.24)	(4.51)	–	–	–	–	–	(81.10)
Reinsurance assets								
– relating to alternative risk business	–	5.41	–	–	–	–	–	92.10
Quoted equity securities	2.65	9.78	–	–	–	–	–	214.06
Derivative instruments	(2.05)	–	–	–	–	–	–	(34.82)
Foreign currency exposure	(9.56)	218.14	23.32	(54.21)	(752.55)	(15 172.87)	(115.98)	1 774.16

Notes to the annual financial statements

7 Currency risk (continued)

Assets and liabilities denominated in foreign currencies included in the statement of financial position (continued)

31 December 2022	Euro € million	United States dollar US$ million	Moroccan dirham MAD million	Chinese yuan CNY million	Indian rupee INR million	South Korean won KRW million	Israeli shekel ILS million	Total exposure R million
COMPANY								
Debentures, insurance policies, public sector stocks and other loans	–	190.91	–	–	–	–	–	3 375.44
Cash, deposits and similar securities	1.46	54.54	–	–	–	–	–	964.44
Reinsurance assets	0.07	126.22	39.40	–	0.04	–	–	1 799.28
Trade and other receivables	5.37	53.04	29.79	28.47	208.70	439.17	172.11	2 210.03
Insurance liabilities	(17.00)	(216.82)	(42.11)	(64.55)	(939.84)	(13 723.65)	(288.09)	(6 660.47)
Trade and other payables	(0.22)	(16.89)	(3.76)	(18.13)	(21.45)	(1 888.39)	–	(392.06)
Total foreign currency exposure relating to insurance business	(10.32)	191.00	23.32	(54.21)	(752.55)	(15 172.87)	(115.98)	1 296.66
Derivative instruments	(2.05)	–	–	–	–	–	–	(34.82)
Foreign currency exposure	(12.37)	191.00	23.32	(54.21)	(752.55)	(15 172.87)	(115.98)	1 261.84
Exchange rates:								
Closing rate	18.16	17.02	1.60	2.45	0.21	0.01	4.81	
Average rate	17.18	16.31	1.60	2.43	0.21	0.01	4.87	

Notes to the annual financial statements

7 Currency risk (continued)

Assets and liabilities denominated in foreign currencies included in the statement of financial position (continued)

31 December 2021	Euro € million	United States dollar US$ million	Moroccan dirham MAD million	Chinese yuan CNY million	Indian rupee INR million	South Korean won KRW million	Israeli shekel ILS million	Total exposure R million
GROUP								
Debentures, insurance policies, public sector stocks and other loans	0.52	175.71	–	–	–	–	–	3 144.88
Cash, deposits and similar securities	0.43	44.04	–	–	–	–	–	820.65
Reinsurance assets	0.10	107.67	32.00	–	0.47	–	–	1 308.04
Trade and other receivables	3.83	53.05	38.24	43.39	322.00	994.83	136.57	2 145.93
Insurance liabilities	(23.32)	(208.11)	(35.95)	(82.34)	(928.60)	(18 478.81)	(228.14)	(6 193.88)
Trade and other payables	(0.07)	(18.21)	(7.36)	(18.41)	(21.47)	(2 080.56)	–	(407.33)
Total foreign currency exposure relating to insurance business (excluding alternative risk)	(18.51)	154.15	26.93	(57.36)	(627.60)	(19 564.54)	(91.57)	818.29
Cash, deposits and similar securities:								
– relating to alternative risk business	0.27	20.64	–	–	–	–	–	333.79
Trade and other payables:								
– relating to alternative risk business	(0.23)	(3.22)	–	–	–	–	–	(63.42)
Reinsurance assets								
– relating to alternative risk business	–	6.00	–	–	–	–	–	95.81
Quoted equity securities	3.29	10.61	–	–	–	–	–	227.70
Derivative instruments	–	(0.05)	–	–	–	–	–	(0.77)
Foreign currency exposure	(15.18)	188.13	26.93	(57.36)	(627.60)	(19 564.54)	(91.57)	1 411.40

Notes to the annual financial statements

7 Currency risk (continued)

Assets and liabilities denominated in foreign currencies included in the statement of financial position (continued)

31 December 2021	Euro € million	United States dollar US$ million	Moroccan dirham MAD million	Chinese yuan CNY million	Indian rupee INR million	South Korean won KRW million	Israeli shekel ILS million	Total exposure R million
COMPANY								
Debentures, insurance policies, public sector stocks and other loans	0.52	175.71	–	–	–	–	–	3 144.88
Cash, deposits and similar securities	0.43	44.04	–	–	–	–	–	820.65
Reinsurance assets	0.10	107.67	32.00	–	0.47	–	–	1 308.04
Trade and other receivables	3.83	53.05	38.24	43.39	322.00	994.83	136.57	2 145.93
Insurance liabilities	(23.32)	(208.11)	(35.95)	(82.34)	(928.60)	(18 478.81)	(228.14)	(6 193.88)
Trade and other payables	(0.07)	(18.21)	(7.36)	(18.41)	(21.47)	(2 080.56)	–	(407.33)
Total foreign currency exposure relating to insurance business	(18.51)	154.15	26.93	(57.36)	(627.60)	(19 564.54)	(91.57)	818.29
Derivative instruments	–	(0.05)	–	–	–	–	–	(0.77)
Foreign currency exposure	(18.51)	154.10	26.93	(57.36)	(627.60)	(19 564.54)	(91.57)	817.52
Exchange rates:								
Closing rate	18.15	15.96	1.72	2.50	0.21	0.01	5.12	
Average rate	17.47	14.76	1.64	2.29	0.20	0.01	4.58	

Notes to the annual financial statements

7 Currency risk (continued)

Assets and liabilities denominated in foreign currencies included in the statement of financial position (continued)

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 the US dollar and Israeli shekel (ILS) would have the following impact on income before taxation:

31 December 2022	10% strengthening in rand/ILS R million	10% weakening in rand/ILS R million	10% strengthening in rand/USD R million	10% weakening in rand/USD R million
GROUP				
Impact on profit or loss	55.84	(55.84)	(371.15)	371.15
COMPANY				
Impact on profit or loss	55.84	(55.84)	(324.96)	324.96

31 December 2021	10% strengthening in rand/ILS R million	10% weakening in rand/ILS R million	10% strengthening in rand/USD R million	10% weakening in rand/USD R million
GROUP				
Impact on profit or loss	46.88	(46.88)	(300.27)	300.27
COMPANY				
Impact on profit or loss	46.88	(46.88)	(245.94)	245.94

Notes to the annual financial statements

7 Currency risk (continued)

Assets and liabilities denominated in foreign currencies included in the statement of financial position (continued)

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

The foreign exchange profits or losses arising from the translation of international business unit statements of financial position from their functional currencies into rand are recognised in the foreign 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 liquid interest-bearing instruments while the company's subordinated debt obligation is covered by matching cash and interest-bearing instruments.

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 and financial assets are presented using discounted values. 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, except for Investment contracts, reinsurance liability relating to cell owners and cell owners interest which are presented using discounted values. The open ended instruments are available to use within one year.

Notes to the annual financial statements

8 Liquidity risk (continued)

31 December 2022	Within 1 year R million	1 – 5 years[1] R million	More than 5 years R million	Open ended R million	Carrying value R million
GROUP					
Financial and insurance assets					
Equity securities					
Listed equities and similar securities	–	–	–	2 861	2 861
Unlisted equities and similar securities	–	–	–	1 738	1 738
Interest-bearing investments					
Government interest-bearing investments	2 475	1 226	939	–	4 640
Corporate interest-bearing investments	5 940	8 388	1 012	–	15 340
Mortgages and loans	10	73	4	–	87
Structured transactions					
Structured notes	27	201	10	–	238
Investment funds	–	–	–	9 065	9 065
Cash, deposits and similar securities	2 172	1 269	36	–	3 477
Total investment assets	10 624	11 157	2 001	13 664	37 446
Receivables due from contract holders/ intermediaries	6 872	–	–	–	6 872
Reinsurance receivables	1 724	–	–	–	1 724
Cell owners' and policyholders' interest	3	–	–	–	3
Other loans and receivables	2 715	–	8	–	2 723
Reinsurance assets (including DAC)	12 223	2 267	212	6	14 708
Deposit with cell owner	26	30	–	–	56
Total	23 563	2 297	220	6	26 086
Cash and cash equivalents	5 387	–	–	–	5 387
Total financial and insurance assets	39 574	13 454	2 221	13 670	68 919

[1] *Cash flows in the 1-5 years category are spread evenly.*

31 December 2022	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
GROUP				
Financial and insurance liabilities				
Debt securities	738	2 564	–	3 302
Investment contracts	490	–	1 571	2 061
Cell owners' and policyholders' interest	–	7 124	–	7 124
Repo liability	326	413	–	739
Collateral guarantee contracts	129	–	–	129
Derivative liabilities	35	–	–	35
Insurance liabilities (including reinsurance deferred acquisition revenue)	35 501	4 682	436	40 619
Reinsurance liability relating to cell owners	26	30	–	56
Trade and other payables including insurance payables	6 893	8	10	6 911
Total financial and insurance liabilities	44 138	14 821	2 017	60 976

8 Liquidity risk (continued)

31 December 2022	Within 1 year R million	1 – 5 years[1] R million	More than 5 years R million	Open ended R million	Carrying value R million
COMPANY					
Financial and insurance assets					
Equity securities					
Listed equities and similar securities	–	–	–	1 430	1 430
Unlisted equities and similar securities	–	–	–	1 738	1 738
Interest-bearing investments					
Government interest-bearing investments	309	949	472	–	1 730
Corporate interest-bearing investments	1 789	5 094	797	–	7 680
Mortgages and loans	9	53	4	–	66
Structured transactions					
Structured notes	–	105	7	–	112
Investment funds	–	–	–	332	332
Cash, deposits and similar securities	877	65	–	–	942
Total investment assets	2 984	6 266	1 280	3 500	14 030
Receivables due from contract holders/ intermediaries	5 643	–	–	–	5 643
Reinsurance receivables	1 566	–	–	–	1 566
Other loans and receivables	869	–	–	–	869
Reinsurance assets (including DAC)	10 340	2 332	218	–	12 890
Total	18 418	2 332	218	–	20 968
Cash and cash equivalents	2 356	–	–	–	2 356
Total financial and insurance assets	23 758	8 598	1 498	3 500	37 354

[1] *Cash flows in the 1-5 years category are spread evenly.*

31 December 2022	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
COMPANY				
Financial and insurance liabilities				
Debt securities	738	2 564	–	3 302
Collateral guarantee contracts	129	–	–	129
Insurance liabilities (including reinsurance deferred acquisition revenue)	19 485	4 299	402	24 186
Derivative liabilities	35	–	–	35
Trade and other payables including insurance payables	4 278	–	–	4 278
Total financial and insurance liabilities	24 665	6 863	402	31 930

Notes to the annual financial statements

8 Liquidity risk (continued)

31 December 2021	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Open ended R million	Carrying value R million
GROUP					
Financial and insurance assets					
Equity securities					
Listed equities and similar securities	–	–	–	3 061	3 061
Unlisted equities and similar securities	–	–	–	1 765	1 765
Interest-bearing investments					
Government interest-bearing investments	2 521	2 041	1 104	–	5 666
Corporate interest-bearing investments	5 158	7 881	1 703	60	14 802
Mortgages and loans	22	52	10	–	84
Structured transactions					
Structured notes	122	87	7	–	216
Investment funds	–	–	–	6 113	6 113
Cash, deposits and similar securities	246	765	20	–	1 031
Total investment assets	8 069	10 826	2 844	10 999	32 738
Receivables due from contract holders/ intermediaries	6 035	–	–	–	6 035
Reinsurance receivables	386	–	–	–	386
Cell owners' and policyholders' interest	11	–	–	–	11
Other loans and receivables	1 750	122	19	–	1 891
Reinsurance assets (including DAC)	13 257	2 380	208	8	15 853
Deposit with cell owner	37	51	2	–	90
Total	21 476	2 553	229	8	24 266
Cash and cash equivalents	4 496	–	–	–	4 496
Total financial and insurance assets	34 041	13 379	3 073	11 007	61 500

31 December 2021	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
GROUP				
Financial and insurance liabilities				
Debt securities	1 147	1 705	–	2 852
Investment contracts	287	–	1 683	1 970
Cell owners' and policyholders' interest	–	4 908	–	4 908
Repo liability	120	806	–	926
Collateral guarantee contracts	155	–	–	155
Derivative liabilities	1	–	–	1
Insurance liabilities (including reinsurance deferred acquisition revenue)	31 764	4 459	378	36 601
Reinsurance liability relating to cell owners	37	51	2	90
Trade and other payables including insurance payables	4 843	6	2	4 851
Total financial and insurance liabilities	38 354	11 935	2 065	52 354

Notes to the annual financial statements

8 Liquidity risk (continued)

31 December 2021	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Open ended R million	Carrying value R million
COMPANY					
Financial and insurance assets					
Equity securities					
Listed equities and similar securities	–	–	–	1 528	1 528
Unlisted equities and similar securities	–	–	–	1 765	1 765
Interest-bearing investments					
Government interest-bearing investments	585	1 838	743	–	3 166
Corporate interest-bearing investments	1 680	4 916	1 263	–	7 859
Mortgages and loans	22	39	–	–	61
Structured transactions					
Structured notes	89	48	–	–	137
Investment funds	–	–	–	437	437
Cash, deposits and similar securities	135	276	–	–	411
Total investment assets	2 511	7 117	2 006	3 730	15 364
Receivables due from contract holders/ intermediaries	5 095	–	–	–	5 095
Reinsurance receivables	285	–	–	–	285
Other loans and receivables	751	–	–	–	751
Reinsurance assets (including DAC)	11 982	2 444	214	–	14 640
Total	18 113	2 444	214	–	20 771
Cash and cash equivalents	1 842	–	–	–	1 842
Total financial and insurance assets	22 466	9 561	2 220	3 730	37 977

31 December 2021	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
COMPANY				
Financial and insurance liabilities				
Debt securities	1 147	1 705	–	2 852
Collateral guarantee contracts	155	–	–	155
Insurance liabilities (including reinsurance deferred acquisition revenue)	20 629	4 179	365	25 173
Derivative liabilities	1	–	–	1
Trade and other payables including insurance payables	3 284	–	–	3 284
Total financial and insurance liabilities	25 216	5 884	365	31 465

Notes to the annual financial statements

9 Cell owners' and policyholders' interest and other assets and liabilities relating to cells

9.1 Reconciliation of cell owners' interest

	Group	
	2022 R million	2021 R million
At the beginning of the year	3 150	2 822
Cash movements in cells		
Preference shares issued by subsidiary	1 079	77
Redemption of preference shares	(44)	(27)
Dividends paid to preference shareholders	(726)	(1 172)
Non-cash movements		
Net increase in cell owners' interest	1 933	1 450
	5 392	3 150
Insolvent cells	3	11
	5 395	3 161
Expected to be settled after 12 months	5 395	3 161
Expected to be settled within 12 months	–	–

Amounts owed by cell owners are unrated and neither past due nor impaired. The increase in the current year's net increase in cell owners' interest is due to profitability of new cell agreements. The group also has cell contracts classified as equity. According to these contracts, the group has sole discretion on payment of dividends and redemption of the cell share capital. As the group has an unconditional right to avoid payment of remaining capital and accrued profits in the cell, the shares issued are classified as equity. Refer to note 11 for more detail.

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.

a) First-party cell captive arrangements: refer to note 6.3

b) 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 principal 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, measured in accordance with accounting policies set out in note 4, 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 cell owners' interest.

Notes to the annual financial statements

9 Cell owners' and policyholders' interest and other assets and liabilities relating to cells (continued)

9.2 Reconciliation of policyholders' interest

	Group	
	2022 R million	2021 R million
At the beginning of the year	**1 747**	1 402
Cash movements		
Dividends paid to preference shareholders	**(95)**	(113)
Non-cash movements		
Net increase in policyholders' interest	**77**	458
	1 729	1 747
Expected to be settled after 12 months	**1 729**	1 747
Expected to be settled within 12 months	**–**	–

Accounting policy – Liabilities to policyholders

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

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

9.3 Reconciliation of deposit with cell owner

	Group	
	2022 R million	2021 R million
At the beginning of the year	**90**	161
Movement for the year (refer to note 9.4)	**(34)**	(71)
	56	90
Expected to be realised after 12 months	**30**	53
Expected to be realised within 12 months	**26**	37

9.4 Reconciliation of reinsurance liability relating to cell owners

	Group	
	2022 R million	2021 R million
At the beginning of the year	**90**	161
Impact of discounting (unwinding)	**4**	6
Repayments	**(42)**	(52)
Impact of change in basis	**–**	(1)
Other	**4**	(24)
	56	90
Expected to be settled after 12 months	**30**	53
Expected to be settled within 12 months	**26**	37

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 the cell owner. 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. This liability unwind through policy lapses and claims payment. The deposit is classified as unrated and is neither past due nor impaired.

Notes to the annual financial statements

10 Investment in subsidiaries

	Company	
	2022 R million	2021 R million
At the beginning of the year	1 029	1 109
Impairment	–	(19)
Settlement	–	(61)
Unlisted shares at cost price less impairment	1 029	1 029

All investments in subsidiaries are expected to be realised after 12 months.

In May 2022, the Santam group acquired the remaining 76% shareholding in Indwe Broker Holdings Group (Pty) Ltd for R125 million in cash. As a result of this transaction, the Santam group now effectively owns 100% shareholding in Indwe Broker Holdings Group (Pty) Ltd.

The Santam group purchased the 49% non-controlling interest in JaSure Financial Services (Pty) Ltd, effective 1 June 2022 for R6 million in cash. The Santam group now effectively owns 100% shareholding in JaSure Financial Services (Pty) Ltd.

During April 2021, the Santam group acquired a shareholding of 100% in Mirabilis Holding Company (Pty) Ltd for R176 million in cash. Mirabilis Holding Company (Pty) Ltd owns a 45% shareholding in Mirabilis Engineering Underwriting Managers (Pty) Ltd. As a result of this transaction, the Santam group now effectively owns 100% shareholding in Mirabilis Engineering Underwriting Managers (Pty) Ltd.

Refer to note 14 for more detail on these acquisitions.

Management performed an impairment review on all investments in subsidiaries. No impairments were required in the current year. In the prior year, as part of the unwinding of dormant entities, a non-cash distribution of R61 million was made by Thebe Risk Services Holdings (Pty) Ltd and Main Street 409 (Pty) Ltd, resulting in the recognition of an impairment of R19 million in 2021.

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 IFRS 9 in profit or loss. 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

Unlisted companies

	Nature of business	Country of incorporation	Issued capital R
Direct			
Centriq Insurance Holdings Ltd[6]	Holding company	RSA	102 330 000
Guardian National Insurance Company Ltd	Insurance	RSA	178 603 840
Main Street 409 (Pty) Ltd[4]	Holding company	RSA	–
Mirabilis Engineering Underwriting Managers (Pty) Ltd[5]	Underwriting	RSA	84 000 850
Riscor Underwriting Managers (Pty) Ltd[4]	Underwriting	RSA	37 500 100
Santam Namibia Holdings Pty (Ltd)	Holding company	RSA	445 000 001
Sentinel Insurance Corporation Ltd[4]	Investments	RSA	1 000 000
Swanvest 120 (Pty) Ltd	Holding company	RSA	100
Thebe Risk Services Holdings (Pty) Ltd[4]	Holding company	RSA	–
Indirect			
Admiral Professional Underwriting Agency (Pty) Ltd	Underwriting	RSA	2 270 403
Africa Group Financial Services (Pty) Ltd[4]	Holding company	RSA	100
Beyonda Group (Pty) Ltd	Insurance	RSA	200
Broker Funding Solutions (Pty) Ltd	Underwriting	RSA	1 000
Brolink (Pty) Ltd	Administration company	RSA	146 325 847
Centriq Insurance Company Ltd	Insurance	RSA	55 000 084
Centriq Life Insurance Company Ltd	Insurance	RSA	15 000 000
Cenviro Solutions (Pty) Ltd	Underwriting	RSA	100
Credit Innovation (Pty) Ltd	Insurance	RSA	6 428 571
C-Sure Underwriting Managers (Pty) Ltd[4]	Underwriting	RSA	1 000
Echelon Private Client Solutions (Pty) Ltd	Underwriting	RSA	1 000
Emerald Risk Transfer (Pty) Ltd	Underwriting	RSA	2 000 174
Ground up Risk Partners (Pty) Ltd	IT Services	RSA	100
H&L Underwriting Managers (Pty) Ltd[4]	Underwriting	RSA	100
Indwe Broker Holdings Group (Pty) Ltd[1]	Underwriting	RSA	28 552 225
Indwe Financial Services (Pty) Ltd[1]	Underwriting	RSA	19 599 146
Indwe Risk Services (Pty) Ltd[1]	Underwriting	RSA	–
JaSure Financial Services (Pty) Ltd[2]	Underwriting	RSA	1
Just I-Insure Consultants (Pty) Ltd[4]	Underwriting	RSA	120
Misty Sea Trading 267 (Pty) Ltd[4]	Investments	RSA	11 200 952
MiAdmin (Pty) Ltd	Administration company	RSA	–
Mirabilis Holdings (Pty) Ltd	Holding company	RSA	100
MiWay Group Holdings (Pty) Ltd	Holding company	RSA	1 101 111
MiWay Insurance Ltd	Insurance	RSA	2 434 600
Multiplex Investment Holding Company (Pty) Ltd[4]	Holding company	RSA	–
Premium Finance Partners (Pty) Ltd	Lending specialist	RSA	500
Plus Ecosystem Ventures (Pty) Ltd[3]	IT Services	RSA	–
Santam Namibia Ltd	Insurance	Namibia	8 307 147
Santam Financial Services Ltd DAC[4]	Insurance	Ireland	14 991 989
Santam SI Investments Mauritius Ltd (Mauritius)	Insurance	Mauritius	12
Santam SI Investments (Pty) Ltd	Insurance	RSA	78 551 582
Santam Specialist Business Ltd	Administration company	UK	19
Santam Structured Insurance Ltd	Insurance	RSA	215 476 226
Santam Structured Insurance Ltd PCC	Insurance	Mauritius	70 467 005
Santam Structured Life Ltd (Life)	Insurance	RSA	40 000 000
Santam Structured Reinsurance Ltd PCC	Insurance	Mauritius	797 707 193
Snyman en Van der Vyver Finansiele Dienste (Pty) Ltd	Broker	RSA	58 389 804
Stalker Hutchison Admiral (Pty) Ltd	Underwriting	RSA	7 914 393
Vantage Insurance Acceptances (Pty) Ltd	Underwriting	RSA	100
XS Sure (Pty) Ltd	Insurance	RSA	100
Total investments in subsidiaries			

[1] *In May 2022, the Santam group acquired the remaining 76% shareholding in Indwe Broker Holdings Group (Pty) Ltd for R125 million in cash.*
[2] *On 1 June 2022, the Santam group purchased the remaining 49% in JaSure Financial Services (Pty) Ltd for R6 million in cash.*
[3] *In March 2022, the group incorporated Plus Ecosystem Ventures (Pty) Ltd.*
[4] *These entities are currently in the process of being liquidated.*
[5] *During April 2021, the Santam group acquired a shareholding of 100% in Mirabilis Holding Company (Pty) Ltd for R176 million in cash. Mirabilis Holding Company (Pty) Ltd owns a 45% shareholding in Mirabilis Engineering Underwriting Managers (Pty) Ltd. As a result of this transaction, the Santam group now effectively owns 100% shareholding in Mirabilis Engineering Underwriting Managers (Pty) Ltd.*
[6] *During 2021, Centriq Insurance Holdings (Pty) Ltd was converted to a private company.*

Expected credit losses on amounts owing to the company are considered immaterial. These amounts have been included in the assessment in note 5.6.

Notes to the annual financial statements

	2022				2021			
	Proportion held by the company	Book value R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million	Proportion held by the company	Book value R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
	100.0%	150	–	–	100.0%	150	–	–
	100.0%	626	217	–	100.0%	626	237	–
	100.0%	–	–	–	100.0%	–	–	–
	100.0%	84	–	–	100.0%	84	–	–
	100.0%	–	–	–	100.0%	–	5	–
	100.0%	168	–	–	100.0%	168	–	–
	100.0%	1	1	–	100.0%	1	1	–
	100.0%	–	39	–	100.0%	–	183	–
	100.0%	–	–	–	100.0%	–	–	–
		1 029	257	–		1 029	426	–
	100.0%	12	–	–	100.0%	12	–	–
	100.0%	–	–	–	100.0%	–	–	–
	87.5%	14	–	–	87.5%	14	–	–
	75.0%	–	–	–	75.0%	–	–	–
	100.0%	26	–	–	100.0%	26	–	–
	100.0%	102	–	–	100.0%	102	–	–
	100.0%	16	–	–	100.0%	16	–	–
	51.0%	–	–	–	51.0%	–	–	–
	80.3%	6	–	–	80.3%	6	–	–
	100.0%	3	–	–	100.0%	2	–	1
	100.0%	–	–	–	100.0%	–	–	–
	100.0%	94	–	–	100.0%	94	–	–
	100.0%	–	–	–	100.0%	–	–	–
	100.0%	–	–	–	100.0%	–	–	–
	100.0%	146	–	–	0.0%	–	–	–
	100.0%	25	–	–	0.0%	–	–	–
	100.0%	40	–	–	0.0%	–	–	–
	100.0%	12	–	–	51.0%	6	–	–
	100.0%	–	–	–	100.0%	–	–	–
	100.0%	–	–	–	100.0%	–	22	–
	100.0%	–	–	–	100.0%	–	–	–
	100.0%	176	8	–	100.0%	176	–	–
	100.0%	59	–	–	100.0%	59	–	–
	100.0%	2	–	–	100.0%	2	–	–
	100.0%	–	–	–	100.0%	–	–	–
	75.0%	–	–	404	75.0%	–	–	307
	100.0%	1	–	9	0.0%	–	–	–
	60.0%	5	–	–	60.0%	5	24	–
	100.0%	15	–	–	100.0%	15	–	–
	100.0%	–	–	–	100.0%	5	–	–
	100.0%	193	–	–	100.0%	193	–	–
	100.0%	–	–	–	100.0%	–	–	–
	100.0%	215	–	–	100.0%	215	–	–
	100.0%	176	–	–	100.0%	63	–	–
	100.0%	40	–	–	100.0%	40	–	–
	100.0%	798	–	–	100.0%	798	–	–
	100.0%	90	–	–	100.0%	90	–	–
	100.0%	–	61	–	100.0%	–	–	–
	100.0%	31	–	–	100.0%	31	–	–
	100.0%	36	–	–	100.0%	36	–	–
		2 333	69	413		2 006	46	308
		3 362	326	413		3 035	472	308

Notes to the annual financial statements

10 Investment in subsidiaries (continued)

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. These inter-Santam group balances have been eliminated on consolidation (for detail on balances, refer table above).

During the year Santam renewed a contingent capital facility with Centriq Insurance Company Ltd of R50 million, at an annual facility fee of 0.5% (excluding value added tax) of the contingent capital facility. The capital facility ensured appropriate economic capital levels for the prudential management of the entity. The agreement will be in place until 18 December 2023.

The following is a summary of transactions and balances with subsidiaries:

	Company	
	2022 R million	2021 R million
a) Insurance contracts and other services		
– Centriq Insurance Holdings (Pty) Ltd		
Insurance premiums	126	136
Insurance claims paid	(95)	(72)
– MiWay Group Holdings Ltd		
Insurance premiums	2 765	2 695
Insurance claims paid	(1 714)	(1 629)
– Santam Namibia Ltd		
Insurance premiums	69	77
Reinsurance claims recovered	4	25
Reinsurance commission	2	15
Insurance claims paid	(36)	(44)
Reinsurance services	(1)	(32)
– Subsidiaries		
Administration services rendered	51	45
Administration services received	(258)	(197)
Brokerage commission	(1 088)	(973)
b) Year-end balances with related parties		
Emthunzini Black Economic Empowerment staff trust	1	1

For loans with subsidiaries, refer to table in note 10.1.

11 Non-controlling interest in subsidiaries

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

		Group	
	Principle place of business	2022 R million	2021 R million
Santam Namibia Ltd	Namibia	454	440
Santam Structured Reinsurance Ltd PCC	Mauritius	175	183
Other	RSA	40	7
Total		669	630

Notes to the annual financial statements

11 Non-controlling interest in subsidiaries (continued)

	Santam Namibia Ltd	
	2022 R million	2021 R million
Ownership and voting right	40.0%	40.0%
Target share interest	37.4%	37.4%
Current assets	384	388
Non-current assets	568	545
Current liabilities	587	586
Non-current liabilities	14	12
Net assets	351	335
Carrying amount of NCI	454	440
SEM target shares	314	305
Ordinary shareholders	140	135
Revenue	1 035	982
Profit after tax	72	84
Total comprehensive income	72	84
Profit allocated to NCI	56	65
Cash flows from operating activities	114	64
Cash flows from investing activities	(52)	131
Cash flows from financing activities, before dividends to NCI	(18)	(44)
Cash flows from financing activities – cash dividends to NCI	(44)	(147)
Net increase in cash and cash equivalents	–	4

	Santam Structured Reinsurance Ltd PCC			
	Attributable to NCI		Attributable to shareholders of the group	
	2022 R million	2021 R million	2022 R million	2021 R million
Current assets	316	323	3 138	3 431
Non-current assets	10	6	3	–
Current liabilities	151	146	1 084	934
Non-current liabilities	–	–	1 052	1 531
Net assets	175	183	1 005	966
Carrying amount of NCI	175	183	1 005	966
Revenue	197	215	597	433
Profit after tax	20	25	66	481
Total comprehensive income	20	25	66	481
Profit allocated to NCI	20	25	66	481
Cash flows from operating activities	16	10	(65)	62
Cash flows from investing activities	(10)	5	156	165
Cash flows from financing activities, before dividends to NCI	12	17	(142)	(148)
Cash flows from financing activities – cash dividends to NCI	(36)	(30)	–	–
Net (decrease)/increase in cash and cash equivalents	(18)	2	(51)	79

Notes to the annual financial statements

11 Non-controlling interest in subsidiaries (continued)

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. Santam ultimately directs the relevant activities of Santam Namibia through a technical services level agreement. The agreement provides Santam with the ability to make key operational and financial decisions relating to the relevant activities of Santam Namibia.

Accounting policy – Non-controlling interest

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

Accounting policy – Cell equity

The group offers cell captive facilities to clients which are similar to the cell captive disclosed in note 9.1, except that the group has sole discretion on the payment of dividends and redemption of the cell share capital. As the group has an unconditional right to avoid payment of remaining capital and accrued profits in the cell, the cell owners interest is classified as equity as non-controlling interest. Unlike other third-party cell captives, the insurance company does not reinsure business to the cell shareholder, and the cell shareholder participates in the operating results of the cell as an attribution of profit.

12 Investment in associates and joint ventures

	Group	
	2022 R million	2021 R million
At the beginning of the year	2 284	2 205
Acquisitions	2	–
Share of results after tax – continuing operations	68	70
Share of results before tax	108	148
Share of tax	(40)	(78)
Share of results after tax – discontinued operations	(14)	8
Share of results before tax	(24)	16
Share of tax	10	(8)
Dividends received from associates and joint ventures	(6)	(7)
Disposals	(34)	(10)
Reclassification to non-current assets held for sale	(1 768)	–
Share of associates other reserves	(65)	18
Foreign currency translation	(57)	18
Share of associates' movements in other reserves	(8)	–
At the end of the year	467	2 284

The Santam group purchased additional shares in Ctrl Investment Holdings (Pty) Ltd, effective 1 June 2022 for R2 million in cash, increasing the effective holding from 20.41% to 21.97%. The investment continues to be accounted for as an investment in associate.

Current year disposals reflects a deemed disposal on Indwe Broker Holdings Group (Pty) Ltd. In May 2022, the Santam group acquired the remaining 76% shareholding in Indwe Broker Holdings Group (Pty) Ltd for R125 million in cash. As a result of this transaction, the Santam group now effectively owns 100% shareholding in Indwe Broker Holdings Group (Pty) Ltd, and it is reported as an investment in subsidiary. Refer to notes 10.1 and 14 for more detail.

On 4 May 2022, Santam announced that it entered into an agreement with Allianz, in terms of which Santam will dispose of its 10% interest in SAN JV to Allianz. On the same day Santam entered into a 12-month zero-cost collar to the amount of EUR125 million to protect the sale proceeds from the rand strengthening against the euro. The structure provides full downside protection below a EUR/ZAR exchange rate of R16.66 and entitles Santam to share in rand weakness against the euro up to a cap of R19.16. The investment in SAN JV has been reclassified as "Non-current assets held-for-sale" from 30 June 2022 and equity-accounted earnings from SAN JV as discontinued operations. Refer to note 12.3 for details.

Management performed an impairment review on all investments in associates and joint ventures. No impairment was required.

Notes to the annual financial statements

12 Investment in associates and joint ventures (continued)

The group's share of results of SAN JV in 2020 included an impairment of the underlying investments. The details relating to the impairment test performed in 2021 is included below (similar methodology was applied to group and company). No such impairment test was required for 2022.

Associates – Impairment of goodwill, other intangible assets and other assets

The recoverable amount of goodwill and other intangible assets (non-insurance related) for impairment testing purposes was determined based on the value in use of the businesses. Impairment testing in respect of insurance-related other intangible assets formed part of the liability adequacy test of insurance liabilities. For life businesses this was determined as the embedded value of life insurance businesses plus a value of new life insurance business multiple. For general insurance businesses the value in use was determined on a discounted cash flow valuation basis. These were considered to be the appropriate measure of value in use.

SAN JV (100%)

At 31 December 2021, the group's investment in SAN JV was recognised as an investment in associate. The results of the impairment testing concluded for 2021 is summarised in this note. At 31 December 2022, the investment is classified as a non-current asset held for sale (refer to note 12.3). The expected selling price of the investment is EUR120.5 million, which is in excess of the carrying value, and a detailed impairment test was not required for 2022.

In 2021 the consolidated carrying value of SAN JV comprised of net asset value (NAV), other intangible assets and goodwill. SAN JV holds 100% of the formerly known Saham Finances Group. The recoverable amount was based on the value in use. The impairment test compared the value in use with the carrying value. Santam holds 10% of SAN JV, in 2021 classified as an investment in associate.

Changes to SAN JV's NAV impacted the carrying value directly. Some valuation impacts would correspond to changes in the NAV. Other valuation impacts, such as assumption changes that affect longer-term cash flows, as well as impairment tests performed as part of the liability adequacy test, affected the carrying value through other intangible assets.

SAN JV's value in use at 31 December 2021 was R22.6 billion and the carrying value was R20.4 billion. The valuation at 31 December 2021 supported the carrying value and did not result in additional impairments for the 2021 reporting period.

In 2021 the rand weakened against most currencies in the portfolio, most notably against the Morocco dirham by some 4.4%. The recoverable amount increased in Morocco dirham terms by 6.3%.

The valuation of the general insurance and life operations in Lebanon were maintained at zero as a meaningful economic recovery was not expected in the foreseeable future.

Premium growth had outperformed the valuation assumptions since 2020, but at a lower than expected margin. Although the environment remained uncertain and the emergence of new COVID-19 variants could still impact the recovery significantly, the outlook was more positive than in 2020. Equity markets in Morocco and Côte d'Ivoire recovered strongly and supported investment returns on the investments backing the policyholder liabilities. On aggregate, the general insurance portfolio's risk discount rates increased in line with the US risk free yield. This rate was used as a starting point in the determination of local country risk adjusted risk free rates. Realisation of the synergies would take longer than originally anticipated due to the slowdown in economic growth across the SAN JV footprint as a result of COVID-19.

The table below reflect the key assumptions in determining the value in use for cash-generating units (excluding Lebanon).

	31 December 2021	
	General Insurance	Life
Weighted average local discount rate[1]	11.4%	14.2%
Weighted average perpetuity growth rate	5.4%	6.1%
VNB multiples	n/a	10.0 – 16.9
Revenue: compounded annual growth rate (range of values over the 10 years)	6.6% – 10.9%	n/a
Net insurance result margin[2]	9.6% – 17.3%	n/a

[1] *It represented the total weighted average risk discount rate (RDR) in local currency terms. The devaluation of the rand was expected to increase this return over time.*
[2] *Expressed as a percentage of net earned premiums.*

For life embedded values, cash flows were projected over the lifetime of the in-force book. Future life new business and non-life cash flows were projected over 10 years. The year 10 cash flow was expected to be at a stable level and sustainable into perpetuity. This was projected into perpetuity and discounted accordingly.

Notes to the annual financial statements

12 Investment in associates and joint ventures (continued)

SAN JV (100%) (continued)

Management had determined the values assigned to each of the key assumptions above as follows:

Assumption	Approach used to determine the values
Discount rates	This was a function of the local risk free rates (reflecting country risk) plus a specific risk premium per business.
Perpetuity growth rate	This was a function of expected long-term inflation and Gross Domestic Product (GDP) growth rates of each country.
Revenue annual growth rates	This was a function of expected long-term inflation and GDP growth rates of each country, including industry growth rates and management's expectations for the future.

As reflected per the table below the value in use was higher than the carrying value and as a result no additional impairment was required. Impairment recognised during prior years amounted to R6 560 million.

	General insurance R million	Life R million	Lebanon R million	Total R million
31 December 2021				
Value in use	19 697	2 955	–	22 652
Carrying value	17 918	2 452	–	20 370
Excess over carrying value	1 779	503	–	2 282
Gross impairment previously reported	(4 327)	(502)	(1 731)	(6 560)

General insurance businesses sensitivity analysis (excluding Lebanon, as the base value was zero)

The sensitivities below were based on 10% shareholding of Santam.

	Value R million	% change
31 December 2021		
Base value[1]	1 956	
Risk discount rate +1%	1 785	(8.7)
Risk discount rate -1%	2 212	13.1
Perpetuity growth rate +1%	2 116	8.2
Rand exchange rate depreciation +10%	2 152	10.0

[1] *This value included notional dividends.*

Life businesses sensitivity analysis (excluding Lebanon, as the base value was zero)

The sensitivities below were based on 10% shareholding. The total value in use of the businesses comprised the embedded value of R170 million and the value of new business of R137 million of which the sensitivities were as provided below:

1. Embedded value sensitivity analysis

	Embedded value R million	% change
31 December 2021		
Base value	170	
Risk discount rate increase by 1%	165	(3.1)

2. Value of new business sensitivity analysis

	Present value of future new business R million	% change
31 December 2021		
Base value	137	
Risk discount rate increase by 1%	125	(8.8)

Notes to the annual financial statements

12 Investment in associates and joint ventures (continued)

	Company 2022 R million	Company 2021 R million
At the beginning of the year	2 034	2 034
Reclassification to non-current assets held for sale[1]	(2 034)	-
At the end of the year	–	2 034

[1] *Please refer to note 12.3 for details on the reclassification of the investment in SAN JV to non-current assets held for sale.*

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 group's share of other post-acquisition movements in equity reserves (other than those related to dividends) is recognised in reserves. 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)[2] R million	SAN JV (RF) (Pty) Ltd (associate)[3] R million	Western National Insurance Ltd (associate)[1] R million	Other (associates) R million	Total R million
2022					
Revenue	280	1 774	1 678	34	3 766
Depreciation and amortisation	3	375	–	1	379
Interest income	5	64	67	1	137
Interest expense	–	1	–	1	2
Income tax expense	(7)	67	(68)	(3)	(11)
Profit/(loss) from continuing operations	9	(204)	178	(5)	(22)
Total comprehensive income/(loss)	9	(1 236)	178	(5)	(1 054)
Current assets	–	–	359	18	377
Non-current assets	–	–	1 028	12	1 040
Current liabilities	–	–	(325)	(5)	(330)
Non-current liabilities	–	–	–	(22)	(22)
Net asset value	–	–	1 062	3	1 065
Carrying value[4]	–	–	462	5	467

	Indwe Broker Holdings Group (Pty) Ltd (joint venture) R million	SAN JV (RF) (Pty) Ltd (associate) R million	Western National Insurance Ltd[1] (associate) R million	Other (associates) R million	Total R million
2021					
Revenue	327	18 768	1 524	43	20 662
Depreciation and amortisation	7	885	–	–	892
Interest income	6	2 023	79	1	2 109
Interest expense	–	41	–	1	42
Income tax expense	(6)	(579)	(64)	(1)	(650)
Profit/(loss) from continuing operations	11	523	175	(8)	701
Total comprehensive income/(loss)	11	1 304	175	(8)	1 482
Current assets	208	17 458	404	36	18 106
Non-current assets	86	59 231	811	21	60 149
Current liabilities	(177)	(9 989)	(330)	(15)	(10 511)
Non-current liabilities	(15)	(40 539)	–	(22)	(40 576)
Non-controlling interest	–	(5 791)	–	–	(5 791)
Net asset value	102	20 370	885	20	21 377
Carrying value[4]	35	1 848	395	6	2 284

[1] *Western National Insurance has a financial year-end of 28 February. The information included in the summary is based on the management accounts for the 12 months ended 31 August 2022 (2021: 12 months ended 31 August 2021).*

[2] *In May 2022, the Santam group acquired the remaining 76% shareholding in Indwe Broker Holdings Group (Pty) Ltd for R125 million in cash. As a result of this transaction, the Santam group now effectively owns 100% shareholding in Indwe Broker Holdings Group (Pty) Ltd, and it is reported as an investment in subsidiary. Refer note 14 for more detail. The information included in the summary is based on the management accounts for the 5 months ended 31 May 2022 (2021: 12 months ended 31 December 2021).*

[3] *Transferred to non-current assets held for sale from 30 June 2022. The information included in the summary is thus for the six months ended 30 June 2022. Refer note 14 for more detail.*

[4] *No intangible assets are recognised in the carrying value of investments in associates and joint ventures.*

12 Investment in associates and joint ventures (continued)

Additional information regarding joint ventures is as follows (not applicable for 2022):

	Indwe Broker Holdings Group (Pty) Ltd R million
2021	
Cash and cash equivalents	180
Current liabilities (excluding trade and other payables and provisions)	153
Non-current liabilities (excluding trade and other payables and provisions)	15

Notes to the annual financial statements

12 Investment in associates and joint ventures (continued)

12.1 Analysis of investments in associates and joint ventures

Investment in associates and joint ventures

Unlisted companies

	Nature of business	Country of incorporation	Issued capital R
Direct			
SAN JV (RF) (Pty) Ltd[1]	Insurance	RSA	28 021 414 171
South African Nuclear Pool Administrators (Pty) Ltd	Insurance	RSA	120
Indirect			
Indwe Broker Holdings Group (Pty) Ltd[2]	Intermediary	RSA	28 552 225
STRIDE South Africa (RF) (Pty) Ltd	IT company	RSA	25 140 000
Ctrl Investment Holdings (Pty) Ltd[3]	IT company	RSA	15 172 451
Vulindlela Underwriting Managers (Pty) Ltd	Underwriting	RSA	800
Western National Insurance Ltd	Insurance	RSA	165 000 000
Total investments in associates and joint ventures			

[1] *On 4 May 2022, Santam announced that it entered into an agreement with Allianz, in terms of which Santam will dispose of its 10% interest in SAN JV to Allianz. The completion of the sale is subject to various regulatory approvals that are expected to be obtained mid-2023. The investment in SAN JV of R1.768 billion (previously included in "Investment in associates and joint ventures") has therefore been reclassified as "Non-current assets held for sale" from 30 June 2022.*

[2] *In May 2022, the Santam group acquired the remaining 76% shareholding in Indwe Broker Holdings Group (Pty) Ltd for R125 million in cash. As a result of this transaction, the Santam group now effectively owns 100% shareholding in Indwe Broker Holdings Group (Pty) Ltd, and it is classified as a subsidiary from May 2022.*

[3] *The Santam group purchased additional shares in Ctrl Investment Holdings (Pty) Ltd, effective 1 June 2022 for R2 million in cash, increasing the effective holding from 20.41% to 21.97%. The investment continues to be accounted for as an investment in associate.*

Notes to the annual financial statements

Proportion held by the company 2022	Carrying value including equity-accounted earnings R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million	Proportion held by the company 2021	Carrying value including equity-accounted earnings R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
0.0%	–	–	–	10.0%	1 848	15	236
33.3%	–	–	–	33.3%	–	–	–
	–	–	–		1 848	15	236
0.0%	–	–	–	24.0%	35	–	–
33.3%	–	–	–	33.3%	–	–	–
22.0%	3	–	21	20.4%	5	–	19
47.0%	2	–	–	47.0%	1	–	–
40.0%	462	24	–	40.0%	395	30	–
	467	24	21		436	30	19
	467	24	21		2 284	45	255

Notes to the annual financial statements

12 Investment in associates and joint ventures (continued)

12.2 Transactions with entities in the group

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

The following is a summary of transactions and balances with associates and joint ventures:

	Company	
	2022 R million	2021 R million
a) Insurance contracts and other services		
– SAN JV (RF) (Pty) Ltd group[1]		
Inward reinsurance contracts	230	410
Inward reinsurance claims	(169)	(210)
Inward reinsurance commissions	(40)	(47)
Outward reinsurance contracts	(48)	(66)
Outward reinsurance claims	33	16
Outward reinsurance commissions	9	17
– other associates and joint ventures		
Inward reinsurance contracts	181	235
Inward reinsurance claims	(98)	(177)
Inward reinsurance commissions	(78)	(65)
Outward reinsurance contracts	(265)	(288)
Outward reinsurance claims	182	167
Outward reinsurance commissions	30	32
Administration services	(48)	(63)
Brokerage commission	(32)	(79)

[1] *SAN JV (RF) (Pty) Ltd was classified as an associate up until 30 June 2022 when it was reclassified to non-current assets held for sale. Transactions after 30 June 2022 are included in note 27.*

	Company	
	2022 R million	2021 R million
b) Year-end balances with related parties		
Western National Insurance Ltd	(24)	(30)
SAN JV (RF) (Pty) Ltd group	–	221
Ctrl Investment Holdings (Pty) Ltd	21	19

For loans with associates, refer to table in note 12.1.

12.3 Non-current assets held for sale

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
SAN JV	1 768	–	2 034	–
Non-current assets held for sale	1 768	–	2 034	–

On 4 May 2022, Santam announced that it entered into an agreement with Allianz, in terms of which Santam will dispose of its 10% interest in SAN JV to Allianz. The completion of the sale is subject to various regulatory approvals that are expected to be obtained mid-2023. The investment in SAN JV of R1.768 billion for group (R2.034 billion for company) (previously included in "Investment in associates and joint ventures") has therefore been reclassified as "Non-current assets held for sale" from 30 June 2022.

In accordance with IFRS 5: *Non-current assets held for sale and discontinued operations*, the assets held for sale were recognised at their carrying value as at 30 June 2022, being lower than the fair value less costs to sell. This is a non-recurring fair value based on the net asset value of the business. It is therefore also recognised within level 3 of the fair value hierarchy. Reserves relating to non-current assets held for sale are disclosed in note 18.1.

On 4 May 2022, Santam also entered into a 12-month zero-cost collar to the amount of EUR125 million to protect the sale proceeds from the rand strengthening against the euro. The structure provides full downside protection below a EUR/ZAR exchange rate of R16.66 and entitles Santam to share in rand weakness against the euro up to a cap of R19.16. On 31 December 2022 the structure amounted to a R35 million liability.

12 Investment in associates and joint ventures (continued)

12.3 Non-current assets held for sale (continued)

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 the statement of comprehensive income 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.

12.4 Discontinued operations

Financial information relating to the discontinued operations for the year is set out below.

	2022 R million	2021 R million
(Loss)/income from associate	(24)	16
Tax credit/(expense) on (loss)/income from associate	10	(8)
(Loss)/profit from discontinued operations	(14)	8
Exchange differences on translation of discontinued operations	(57)	18
Other comprehensive (loss)/income from discontinued operations	(57)	18

The prior year statement of comprehensive income was restated by transferring a profit of R8 million from "Net income from associates and joint ventures" to "(Loss)/profit from discontinued operations".

Accounting policy – Discontinued operations

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of comprehensive income.

Notes to the annual financial statements

13 Intangible assets

	Goodwill R million	Computer software R million	Brand, trademark and trade names R million	Key business relationships R million	Total R million
GROUP					
At 1 January 2021					
Cost	789	618	7	100	1 514
Accumulated impairment/amortisation	(104)	(378)	(5)	(59)	(546)
Net book amount	685	240	2	41	968
Movement for the year ended 31 December 2021					
Acquisitions	–	89	–	–	89
Amortisation	–	(51)	(2)	(15)	(68)
At 31 December 2021					
Cost	789	707	7	100	1 603
Accumulated impairment/amortisation	(104)	(429)	(7)	(74)	(614)
Net book amount	685	278	–	26	989
Movement for the year ended 31 December 2022					
Acquisitions	–	58	–	–	58
Disposals	–	–	–	(1)	(1)
Amortisation	–	(43)	(6)	(17)	(66)
Impairment	–	(39)	–	–	(39)
Acquisition of subsidiary	66	–	24	42	132
At 31 December 2022					
Cost	855	765	31	140	1 791
Accumulated impairment/amortisation	(104)	(511)	(13)	(90)	(718)
Net book amount	751	254	18	50	1 073
COMPANY					
At 1 January 2021					
Cost	76	318	1	30	425
Accumulated impairment/amortisation	–	(134)	(1)	(30)	(165)
Net book amount	76	184	–	–	260
Movement for the year ended 31 December 2021					
Acquisitions	–	71	–	–	71
Amortisation	–	(25)	–	–	(25)
At 31 December 2021					
Cost	76	389	1	30	496
Accumulated impairment/amortisation	–	(159)	(1)	(30)	(190)
Net book amount	76	230	–	–	306
Movement for the year ended 31 December 2022					
Acquisitions	–	39	–	–	39
Amortisation	–	(21)	–	–	(21)
Impairment	–	(39)	–	–	(39)
At 31 December 2022					
Cost	76	428	1	30	535
Accumulated impairment/amortisation	–	(219)	(1)	(30)	(250)
Net book amount	76	209	–	–	285

Notes to the annual financial statements

13 Intangible assets (continued)

Computer software

Additional software acquired by the group during the year consists of external software of R2 million (2021: R18 million) and internally developed software of R56 million (2021: R71 million). The internally developed software acquired forms part of a strategic project to develop a new claims management system. Implementation of phase 1 of the project commenced in 2020 and phase 2 in 2021. It is expected that the useful life of the technology will be 10 years from the date the software is ready for use.

The impairment of computer software recognised during 2022 relates to the development of IFRS 17 software. It was decided to only use certain components of the software going forward. The full capitalised amount of R39 million was impaired and included in the Conventional insurance reportable segment.

Key business relationships

Key business relationships consist of client lists acquired and key intermediary or other relationships acquired as part of business combinations and capitalised.

The valuation of key intermediary or other relationships is based on discounted cash flow models. Discount rates between 22% and 24% (2021: 22% and 24%) are used as significant input.

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 CGUs have been determined by estimating the future cash flows expected to arise from the CGU and a suitable discount rate to calculate the present value. Management is projecting cashflows over a 10-year period to ensure stable and predictable cashflows are projected into perpetuity.

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	
	2022 R million	2021 R million
Crop	19	19
Alternative risk	16	16
Brokerage	145	79
Policy administration	49	49
Engineering	28	28
MiWay group	331	331
Liability	87	87
Accident and health	76	76
	751	685

Notes to the annual financial statements

13 Intangible assets (continued)

Impairment tests of goodwill (continued)

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 for significant balances. The remaining are tested using net asset values and simplified PE ratios. The input into the fair value measurement is classified as level 3 in terms of the fair value hierarchy. The cash flow projections are based on budgets approved by management. The impairment tests are applied using the following internal processes:

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

The nature of goodwill mainly relates to employee skill, industry knowledge and expected synergies. In 2022, goodwill of R66 million was raised in the Brokerage CGU on acquisition of Indwe Broker Holdings Group (Pty) Ltd. Refer to note 14 for details of determination of calculation of this goodwill.

In accordance with the accounting policy stated above, the group tests annually whether goodwill has suffered any impairment. The recoverable amounts of the most significant CGU have been determined by estimating the future cash flows expected to arise from the CGU and a suitable discount rate to calculate the present value. Cash flows projected for 10 years and a terminal growth rate of 5% is applied.

Discount rates between 15.6% and 24% (2021: 14.5% and 24%) 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 13.4% (2021: 13.4%). Should the discount rates decrease by 10% the valuations would increase on average by 17.7% (2021: 17.9%). These sensitivities and other relevant factors were considered in the overall impairment testing and it was concluded that no 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 10 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

For the year ended 31 December 2022

Acquisitions

Indwe Broker Holdings Group (Pty) Ltd

In May 2022, the group acquired the remaining 76% shareholding in Indwe Broker Holdings Group (Pty) Ltd for R125 million in cash. As a result of this transaction, the Santam group now effectively owns 100% shareholding in Indwe Broker Holdings Group (Pty) Ltd, and it is classified as a subsidiary from May 2022. Goodwill relates to synergies expected to be received.

	R million
Details of the assets and liabilities acquired are as follows:	
Intangible assets	66
Property and equipment	30
Deferred income tax assets	8
Loans and receivables including insurance receivables	36
Current income tax	9
Cash and cash equivalents	156
Deferred income tax liabilities	(17)
Lease liabilities	(30)
Trade and other payables including insurance payables	(159)
Net asset value acquired	99
Goodwill	66
Investment in joint venture	(34)
Gain on remeasurement to subsidiary	(6)
Purchase consideration paid	125

JaSure Financial Services (Pty) Ltd

The Santam group purchased the 49% non-controlling interest effective 1 June 2022 for R6 million in cash. The group now effectively owns 100% shareholding in JaSure Financial Services (Pty) Ltd.

Ctrl Investment Holdings (Pty) Ltd

The Santam group purchased additional shares in Ctrl Investment Holdings (Pty) Ltd, effective 1 June 2022 for R2 million in cash, increasing the effective holding from 20.41% to 21.97%. The investment continues to be accounted for as an investment in associate.

Disposals

SAN JV (RF) (Pty) Ltd (SAN JV)

On 4 May 2022, Santam announced that it entered into an agreement with Allianz, in terms of which Santam will dispose of its 10% interest in SAN JV to Allianz. On the same day Santam entered into a 12-month zero-cost collar to the amount of EUR125 million to protect the sale proceeds from the rand strengthening against the euro. The structure provides full downside protection below a EUR/ZAR exchange rate of R16.66 and entitles Santam to share in rand weakness against the euro up to a cap of R19.16. The investment in SAN JV has been reclassified as "Non-current assets held-for-sale" from 30 June 2022 and equity-accounted earnings from SAN JV as discontinued operations. Refer to notes 12.3 and 12.4.

For the year ended 31 December 2021

Acquisitions

Mirabilis Holding Company (Pty) Ltd

During April 2021, the Santam group acquired a shareholding of 100% in Mirabilis Holding Company (Pty) Ltd for R176 million in cash. Mirabilis Holding Company (Pty) Ltd owns 45% shareholding in Mirabilis Engineering Underwriting Managers (Pty) Ltd. As a result of this transaction, the Santam group now effectively owns 100% shareholding in Mirabilis Engineering Underwriting Managers (Pty) Ltd.

Notes to the annual financial statements

15 Property and equipment

Property and equipment consists of owned and leased assets that do not meet the definition of investment property.

	Note	Group 2022 R million	Group 2021 R million	Company 2022 R million	Company 2021 R million
Property and equipment owned		126	108	86	65
Property and equipment leased (right-of-use asset)	15.1	514	594	370	452
Total		640	702	456	517

15.1 Types of property and equipment

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and other assets R million	Total R million
GROUP				
At 1 January 2021				
Cost or valuation	952	347	200	1 499
Accumulated depreciation	(313)	(285)	(141)	(739)
Net book amount	639	62	59	760
Movement for the year ended 31 December 2021				
Additions	118	12	28	158
Owned assets	–	12	7	19
Leased assets	118	–	21	139
Disposals	(1)	–	–	(1)
Leased assets	(1)	–	–	(1)
Depreciation charge	(152)	(37)	(26)	(215)
Owned assets	–	(37)	(13)	(50)
Leased assets	(152)	–	(13)	(165)
At 31 December 2021				
Cost or valuation	1 064	339	228	1 631
Accumulated depreciation	(460)	(302)	(167)	(929)
Net book amount	604	37	61	702
Movement for the year ended 31 December 2022				
Additions	70	70	17	157
Owned assets	–	70	8	78
Leased assets	70	–	9	79
Acquisition of subsidiary	24	1	5	30
Owned assets	–	1	5	6
Leased assets	24	–	–	24
Disposals	(34)	–	(1)	(35)
Owned assets	–	–	(1)	(1)
Leased assets	(34)	–	–	(34)
Depreciation charge	(134)	(52)	(28)	(214)
Owned assets	–	(52)	(13)	(65)
Leased assets	(134)	–	(15)	(149)
At 31 December 2022				
Cost or valuation	1 091	374	245	1 710
Accumulated depreciation	(561)	(318)	(191)	(1 070)
Net book amount	530	56	54	640

Notes to the annual financial statements

15 Property and equipment (continued)

15.1 Types of property and equipment (continued)

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and other assets R million	Total R million
COMPANY				
At 1 January 2021				
Cost or valuation	679	200	102	981
Accumulated depreciation	(217)	(158)	(72)	(447)
Net book amount	462	42	30	534
Movement for the year ended 31 December 2021				
Additions	78	36	26	140
Owned assets	–	36	6	42
Leased assets	78	–	20	98
Disposals	(1)	–	–	(1)
Leased assets	(1)	–	–	(1)
Depreciation charge	(106)	(31)	(19)	(156)
Owned assets	–	(31)	(7)	(38)
Leased assets	(106)	–	(12)	(118)
At 31 December 2021				
Cost or valuation	756	236	128	1 120
Accumulated depreciation	(323)	(189)	(91)	(603)
Net book amount	433	47	37	517
Movement for the year ended 31 December 2022				
Additions	37	62	9	108
Owned assets	–	62	2	64
Leased assets	37	–	7	44
Disposals	(28)	–	–	(28)
Owned assets	–	–	–	–
Leased assets	(28)	–	–	(28)
Depreciation charge	(84)	(36)	(21)	(141)
Owned assets	–	(36)	(7)	(43)
Leased assets	(84)	–	(14)	(98)
At 31 December 2022				
Cost or valuation	744	266	137	1 147
Accumulated depreciation	(386)	(193)	(112)	(691)
Net book amount	358	73	25	456

The Santam group concluded an eight-year lease agreement in Parktown, Johannesburg. Lease commencement is planned for October 2023, after construction completion. It will optimise and consolidate two current leases of the Santam group in the approximate vicinity.

Depreciation expense has been included in expenses for marketing and administration in the statement of comprehensive income (refer to note 20.2).

Notes to the annual financial statements

15 Property and equipment (continued)

15.1 Types of property and equipment (continued)

Accounting policy – Property and equipment

a) Property

All owner-occupied buildings are stated at historical cost less accumulated depreciation and impairment losses. 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.

Accounting policy – Leases

Agreements where the counterparty retains control of the underlying asset are classified as leases. The group leases various offices, motor vehicles and office equipment.

Leases other than short-term leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest, the incremental borrowing rate, on the remaining balance of the liability for each period. The right-of-use asset is subsequently depreciated using the straight-line method over the earlier of the useful life of the underlying asset or the period of the lease term. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Short-term leases with a term shorter than 12 months are accounted for as operating leases.

Offices consist mainly of head office buildings and branches. Rental contracts are typically made for fixed periods of three to eight years but may have extension options that exist. Head office buildings are typically leased for longer periods than branches and are the main contributor to the carrying value of the right-of-use asset. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Periods covered by an option to extend the lease are included if the group is reasonably certain to exercise that option taking into account, among others, the remaining term of the original lease, refurbishments, changing technology and cost-saving initiatives. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Vehicles consist of a fleet of vehicles that the group leases for use by various field agents including assessors. The terms of these leases are typically between three and five years. Lease extensions are not considered in the valuation of these leases, as the group does not expect to extend leases on motor vehicles as they are generally replaced with a new lease.

Assets and liabilities arising from a lease are initially measured on a discounted value basis. Right-of-use asset comprise of:

- the amount of the initial measurement of the lease liability, as described in note 6.9;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the lessee.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment.

Notes to the annual financial statements

16 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 2021	115 131	103	4 814	527
Purchase of treasury shares	–	–	469	120
Reissue of treasury shares	–	–	(312)	(77)
At 31 December 2021	115 131	103	4 971	570
Purchase of treasury shares	**–**	**–**	**934**	**237**
Reissue of treasury shares	**–**	**–**	**(371)**	**(94)**
At 31 December 2022	**115 131**	**103**	**5 534**	**713**

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, Guardian National Insurance Company Limited (GNI), acquired 6 972 940 Santam shares through a voluntary share buy-back offer on 20 April 2007 at R102 per share. During 2022, GNI acquired an additional 900 000 (2021: 469 000) shares to utilise as part of the deferred share plan (DSP), while 362 819 (2021: 298 430) shares were re-issued in terms of the DSP. In 2022, 33 765 shares were also acquired by Santam Structured Insurance Ltd. The net amount of these transactions has been deducted from shareholders' equity. The shares are held as Treasury shares.

Since the unwinding of the Central Plaza structure in 2015, the Emthunzini BBBEE staff trust is under the control of Santam Ltd. During 2022, the staff trust distributed 7 171 (2021: 14 164) shares.

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 attributable 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.

Notes to the annual financial statements

16 Share capital (continued)

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

At 31 December 2022, the directors of the company held direct and indirect interests, including family interests, in 61 215 of the company's issued ordinary shares (2021: 80 171). Details of shares held per individual director are listed below. A total of 105 343 (2021: 77 753) deferred shares are allocated to directors in terms of the company's employee share schemes. No material changes occurred between the reporting date and the date of approval of the financial statements.

	Direct		Indirect		
2022	**Beneficial**	**Non-beneficial**	**Beneficial**	**Non-beneficial**	**Total**
Executive directors and prescribed officers					
TC Madzinga	**26 633**	**–**	**–**	**–**	**26 633**
HD Nel[1]	**28 282**	**–**	**–**	**–**	**28 282**
Non-executive directors					
MP Fandeso	**1 196**	**–**	**–**	**–**	**1 196**
JJ Ngulube	**5 104**	**–**	**–**	**–**	**5 104**
	61 215	**–**	**–**	**–**	**61 215**
2021					
Executive directors and prescribed officers					
L Lambrechts	48 558	–	–	–	48 558
HD Nel[1]	24 042	–	–	–	24 042
Non-executive directors					
MP Fandeso	1 196	–	–	–	1 196
JJ Ngulube	5 104	–	–	–	5 104
MJ Reyneke	–	–	271	–	271
PE Speckmann	1 000	–	–	–	1 000
	79 900	–	271	–	80 171

[1] *At 31 December 2022, 10 905 (2021: 10 905) Santam shares with a market value of R2.8 million (2021: R2.9 million) were pledged as security for a loan of R1 million with Sanlam Private Wealth (Pty) Ltd.*

Notes to the annual financial statements

17 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.

All share awards are subject to the following measurement of performance conditions:

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

The award granted under the DSP is not subject to the satisfaction of the group performance conditions but does require meeting individually contracted performance hurdles. Typically, the award granted under the DSP has a face value of up to 70% (2021: 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.

Executive committee DSP performance conditions

The short-term individual financial and strategic performance conditions are aligned to the long-term strategic focus areas of the group. Individual key performance indicators (KPIs) scores, which include both strategic and financial indicators, measured over a rolling five-year period will be used as basis to assess performance achievement by an exco member. From 2022 no further DSP allocations were made to exco members, only PDSP.

Performance deferred share plan (PDSP)

Up to 2021, 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 long-term incentive (LTI) awards, the individual will be granted an award under the PDSP. From 2022 only PDSP allocations were made to exco members and senior managers. Awards granted under the PDSP are conditional rights to acquire Santam shares for no consideration, subject to various vesting conditions being satisfied.

In addition to the individual remaining employed by the group throughout the measurement period and maintaining agreed individual performance hurdles, the vesting of a Santam PDSP awards before 2020 is also subject to the condition that the Santam group's return on capital (ROC) exceeds its cost of capital for the relevant measurement period, as finally determined by the directors.

PDSP awards from 2020 onwards will be subject to a return on capital (ROC) hurdle with a sliding scale applied between 16% (threshold) and 24% (stretched).

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

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

Prior to 2019, Santam granted exco members awards under the Sanlam DSP and Sanlam PDSP. As a result exco members have unvested awards under the Sanlam DSP and PDSP. For Sanlam PDSP awards (awarded up to 2018), in addition to continued employment by the group throughout the measurement period and maintaining agreed individual performance hurdles, the vesting of the PDSP is also subject to the condition that the Sanlam Group's return on group embedded value (RoGEV) exceeds the cost of capital for the measurement period by an agreed margin.

Notes to the annual financial statements

17 Share incentive schemes (continued)

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

Allocations were made as follows during the year:

	Number of participants		Number of shares	
	2022	2021	**2022**	2021
Allocations in respect of:				
Santam DSP	**320**	329	**292 536**	394 017
Santam PDSP	**51**	6	**275 423**	9 649
			567 959	403 666

The fair value of the grants on grant date, calculated in terms of IFRS 2, amounted to R165 million (2021: R98 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.

2021	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 2017	31 May 2022	R223.30	75 642
	1 June 2018	31 May 2023	R309.84	154 530
	1 June 2019	31 May 2024	R286.92	320 750
	1 June 2020	31 May 2025	R241.07	380 618
	1 June 2021	31 May 2026	R242.98	399 208
				1 330 748

Movements during the period	Average price	Number of shares
As at 1 January 2021	R263.75	1 254 928
Shares awarded in 2021	R242.98	403 666
Awarded shares lapsed due to resignations	R244.04	(45 493)
Shares issued	R237.10	(282 353)
As at 31 December 2021	R256.89	1 330 748

2022	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.	23 March 2022	31 May 2023	R259.45	**1 508**
	1 June 2018	31 May 2023	R309.84	**66 534**
	23 March 2022	31 May 2023	R259.45	**3 291**
	1 June 2019	31 May 2024	R286.92	**169 245**
	23 March 2022	31 May 2024	R259.45	**7 156**
	1 June 2020	31 May 2025	R241.07	**343 960**
	23 March 2022	31 May 2025	R259.45	**8 249**
	1 June 2021	31 May 2026	R242.98	**365 458**
	23 March 2022	31 May 2026	R259.45	**9 270**
	1 June 2022	31 May 2027	R292.32	**514 704**
				1 489 375

Movements during the period	Average price	Number of shares
As at 1 January 2022	R256.89	**1 330 748**
Shares awarded in 2022	R292.32	**538 415**
Shares awarded in lieu of special dividend	R259.45	**29 544**
Awarded options lapsed due to resignations	R248.28	**(116 040)**
Shares issued	R259.99	**(293 292)**
As at 31 December 2022	R267.90	**1 489 375**

Notes to the annual financial statements

17 Share incentive schemes (continued)

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

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 pre-determined 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.

(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 16 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. During 2018, units were converted into shares using an equivalent fair value rate. Any new awards are made in shares. The total share allocation costs for the staff trust amounting to R2 million (2021: R2 million) has been included in the statement of comprehensive income.

2021	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 July 2015	30 June 2022	R217.00	236
	1 September 2015	31 August 2022	R214.50	197
	1 September 2016	31 August 2023	R220.00	3 764
	1 September 2017	31 August 2024	R259.00	2 955
	1 September 2018	31 August 2025	R303.17	4 256
	1 September 2019	31 August 2026	R285.00	7 019
	1 September 2020	31 August 2027	R248.00	1 634
				20 061

Movements during the period	Average price	Number of shares
As at 1 January 2021	R256.13	33 682
Awarded options lapsed due to resignations	R218.90	(262)
Shares issued	R239.41	(13 359)
As at 31 December 2021	R267.76	20 061

Notes to the annual financial statements

17 Share incentive schemes (continued)

(ii) The Emthunzini Black Economic Empowerment staff trust (the staff trust) (continued)

2022	Date awarded	Latest irreversible date	Grant price	Number of shares
The following shares were awarded and the delivery thereof deferred to a pre-determined future date.	1 September 2016	31 August 2023	R 220.00	518
	1 September 2017	31 August 2024	R 259.00	1 970
	1 September 2018	31 August 2025	R 303.17	3 192
	1 September 2019	31 August 2026	R 285.00	4 212
	1 September 2020	31 August 2027	R 248.00	1 634
				11 526

Movements during the period	Average price	Number of shares
As at 1 January 2022	R 267.76	20 061
Awarded options lapsed due to resignations	R 220.00	(1 364)
Shares issued	R 199.26	(7 171)
As at 31 December 2022	R 276.44	11 526

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

In terms of the BEE 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 pre-determined 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 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.

Notes to the annual financial statements

17 Share incentive schemes (continued)

17.1 Santam shares granted under the deferred share plan and performance deferred share plan to executive directors and prescribed officers

The 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 PDSP is also in place. Refer to note 17 for details on these plans.

DSP and PDSP – directors' and prescribed officers' participation

2022	As at 31 December 2021	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2022
Santam shares						
L Lambrechts[1]	2 322	–	(2 322)	R260.74	01/06/17	–
	–	54	–	–	23/03/22	54
	6 412	–	(4 425)	R260.74	01/06/18	1 987
	–	149	–	–	23/03/22	149
	15 547	–	(9 937)	R260.74	01/06/19	5 610
	–	360	–	–	23/03/22	360
	17 724	–	(7 328)	R260.74	01/06/20	10 396
	–	411	–	–	23/03/22	411
	42 005	974	(24 012)			18 967
TC Madzinga	–	44 255	–	–	01/06/22	44 255
	–	44 255	–			44 255
HD Nel	1 307	–	(1 307)	R292.32	01/06/17	–
	–	30	–	–	23/03/22	30
	1 710	–	(855)	R292.32	01/06/18	855
	–	40	–	–	23/03/22	40
	5 194	–	(2 078)	R292.32	01/06/19	3 116
	–	120	–	–	23/03/22	120
	22 004	–	–	–	01/06/20	22 004
	–	510	–	–	23/03/22	510
	5 533	–	–	–	01/06/21	5 533
	–	128	–	–	23/03/22	128
	–	9 785	–	–	01/06/22	9 785
	35 748	10 613	(4 240)			42 121
Total	77 753	55 842	(28 252)			105 343

[1] *Shares were received in position of chief executive officer prior to 1 July 2022 and will vest in due course. No new shares will be awarded.*

Notes to the annual financial statements

17 Share incentive schemes (continued)

17.1 Santam shares granted under the deferred share plan and performance deferred share plan to executive directors and prescribed officers (continued)

2021	As at 31 December 2020	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2021
Santam shares						
L Lambrechts	4 023	–	(4 023)	R274.47	01/06/16	–
	175	–	(175)	R274.47	21/09/16	–
	4 644	–	(2 322)	R274.47	01/06/17	2 322
	10 686	–	(4 274)	R274.47	01/06/18	6 412
	15 547	–	–	–	01/06/19	15 547
	17 724	–	–	–	01/06/20	17 724
	52 799	–	(10 794)			42 005
HD Nel	1 408	–	(1 408)	R274.47	01/06/16	–
	62	–	(62)	R274.47	21/09/16	–
	2 614	–	(1 307)	R274.47	01/06/17	1 307
	2 850	–	(1 140)	R274.47	01/06/18	1 710
	5 194	–	–	–	01/06/19	5 194
	22 004	–	–	–	01/06/20	22 004
	–	5 533	–	–	01/06/21	5 533
	34 132	5 533	(3 917)			35 748
Total	86 931	5 533	(14 711)			77 753

17.2 Sanlam shares granted under the deferred share plans to executive directors and prescribed officers

2022	As at 31 December 2021	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2022
Sanlam shares						
L Lambrechts[1]	5 066	–	(3 693)	R53.21	01/06/17	1 373
	16 095	–	(9 036)	R53.21	01/06/18	7 059
	21 161	–	(12 729)			8 432
HD Nel	644	–	(644)	R53.25	01/06/16	–
	2 587	–	(2 079)	R53.25	01/06/17	508
	3 665	–	(1 676)	R53.25	01/06/18	1 989
	6 896	–	(4 399)			2 497
Total	28 057	–	(17 128)			10 929

[1] *Shares were received in position of chief executive officer prior to 1 July 2022 and will vest in due course. No new shares will be awarded.*

2021	As at 31 December 2020	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2021
Sanlam shares						
L Lambrechts	7 386	–	(2 320)	R61.20	01/06/17	5 066
	18 982	–	(2 887)	R61.20	01/06/18	16 095
	26 368	–	(5 207)			21 161
HD Nel	3 694	–	(3 050)	R61.20	01/06/16	644
	4 158	–	(1 571)	R61.20	01/06/17	2 587
	5 062	–	(1 397)	R61.20	01/06/18	3 665
	12 914	–	(6 018)			6 896
Total	39 282	–	(11 225)			28 057

Notes to the annual financial statements

18 Reserves

18.1 Other reserves

	Translation reserve[1] R million	Capital contribution reserve R million	Other non-distributable reserves[1] R million	Hedging reserve R million	Total R million
GROUP					
Balance as at 1 January 2021	10	9	–	–	19
Exchange differences on translation of discontinued operations	18	–	–	–	18
Balance as at 31 December 2021	28	9	–	–	37
Hedging reserve movement	–	–	–	(35)	(35)
Exchange differences on translation of discontinued operations	(57)	–	–	–	(57)
Share of other non-distributable reserves of non-current assets held for sale	–	–	(8)	–	(8)
Balance as at 31 December 2022	(29)	9	(8)	(35)	(63)
COMPANY					
Balance as at 1 January 2021 and 31 December 2021				–	–
Hedging reserve movement				(35)	(35)
Balance as at 31 December 2022				(35)	(35)

[1] *Relates to non-current assets held for sale.*

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

The hedging reserve represents the impact of the foreign currency losses on the zero-cost collar the company entered into to protect the proceeds of the sale of SAN JV to Allianz from the rand strengthening against the euro. Refer to note 7 for more detail.

18.2 Distributable reserves

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Share-based payment reserve				
At the beginning of the year	967	881	49	41
Transfer from retained earnings	112	86	111	82
Loss on delivery of shares in terms of share scheme	–	–	(95)	(74)
At the end of the year	1 079	967	65	49
Retained earnings	10 523	10 895	8 986	9 518
Total distributable reserves	11 602	11 862	9 051	9 567

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.

18 Reserves (continued)

18.2 Distributable reserves (continued)

Accounting policy – Hedging

The group has elected to apply IFRS 9 for hedge accounting.

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.

19 Provisions for other liabilities and charges

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
At the beginning of the year	188	153	136	104
Charged to statement of comprehensive income:				
– additional provisions	66	63	48	46
– reversal of provisions	(21)	(11)	(21)	(11)
Used during the year	(94)	(17)	(76)	(3)
Year ended 31 December	139	188	87	136

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

Accounting policy – Provisions

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

Notes to the annual financial statements

20 Other income and expenses by nature

20.1 Other income

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Fee income from policy administration	421	257	–	–
Commission	126	95	115	89
	547	352	115	89

Accounting policy – Other income

Fee income is earned by intermediaries within the group for administration services performed on behalf of insurance companies, in terms of binder agreements. The group also earns administration fees for administration of cell captives on behalf of cell owners. These arrangements contain no significant financing components, revenue is earned at a point in time. The group does not recognise any assets in relation to costs required to fulfill its performance obligations in respect of these arrangements.

Commission is earned by the group in its capacity as an intermediary, and is accounted for in the same manner as fee income.

20.2 Expenses by nature

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Auditor's remuneration	40	34	14	16
– Current year	36	28	13	13
– Prior year	3	3	–	–
– Non-audit services	1	3	1	3
Depreciation	214	215	141	156
Amortisation of intangible assets	66	68	21	25
Impairment of intangible assets	39	–	39	–
Employee benefit expense (refer to note 20.3)	3 912	3 693	2 756	2 706
Operating lease rentals[2]	18	13	9	7
– Low value leases	18	13	9	7
Service level agreement related to computer equipment	221	236	221	236
Research and development costs	239	231	239	231
Expenses for the acquisition of insurance contracts	5 997	5 539	6 167	5 758
Investment-related activities	124	93	83	66
Other expenses[1]	604	372	124	65
Total expenses	11 474	10 494	9 814	9 266

[1] *Includes allocation of claims handling costs to claims costs.*
[2] *Refer notes 6.9 and 15 for the accounting policy.*

Accounting policy – Low value leases

Leases relating to low value assets, which consist of office furniture and equipment, are expensed on a straight-line basis.

20 Other income and expenses by nature (continued)

20.3 Employee benefit expense

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Wages, salaries and bonus	3 133	3 030	2 031	2 098
Social security costs	190	190	183	184
Long-term incentive scheme costs	132	138	111	109
Pension costs – defined contribution plans	455	333	429	313
BBBEE cost	2	2	2	2
	3 912	3 693	2 756	2 706

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 to 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.

20.3.1 Transactions with key management

Remuneration is paid to key management (exco 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	
	2022 R million	2021 R million
Key management compensation paid		
Salaries and other short-term employee benefits paid	95	51
Sign-on and retention bonusses paid	9	–
Share-based payments and long-term deferred bonus schemes	21	16

Notes to the annual financial statements

20 Other income and expenses by nature (continued)

20.3 Employee benefit expense (continued)

20.3.2 Transactions with directors and prescribed officers

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

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

Directors' and prescribed officers' emoluments

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

		Performance bonus[1]		Other benefits	
	Salary[5] R000	Cash R000	Deferred[6] R000	and costs[2, 3, 4] R000	Total R000
Executive directors and prescribed officers					
2022					
Paid by the company					
L Lambrechts	2 908	2 000	–	175	5 083
TC Madzinga	5 362	5 250	2 250	4 063	16 925
HD Nel	3 521	1 232	528	387	5 668
	11 791	8 482	2 778	4 625	27 676
2021					
Paid by the company					
L Lambrechts	5 956	8 100	–	210	14 266
HD Nel	3 520	3 675	–	211	7 406
	9 476	11 775	–	421	21 672

[1] *Bonus in respect of 2022 payable in 2023 (2021: bonus in respect of 2021 paid in 2022).*
[2] *Includes retirement funding benefits. During 2022, R262 500 (2021: Rnil) was paid in respect of TC Madzinga and R350 000 (2021: R175 000) was paid in respect of HD Nel. During 2022, R175 000 (2021: R175 000) was paid in respect of L Lambrechts.*
[3] *Adjusted to exclude company costs.*
[4] *Includes a sign-on bonus of R3.8 million on TC Madzinga's appointment.*
[5] *Employee contributions to the provident fund was included in salary amount in 2021. For 2022, following a change in the retirement fund rules, a single contribution is made and included in other benefits and costs.*
[6] *Deferred into restricted Santam shares (deferred bonus shares).*

	Directors' fees	
	2022 R000	2021 R000
Non-executive directors		
Paid by the company		
B Campbell[4]	–	492
M Chauke[2]	962	535
CD Da Silva	696	397
MP Fandeso[2]	1 535	1 337
PB Hanratty[1]	706	859
VP Khanyile[4]	–	467
DEH Loxton	927	502
MM Mahlangeni[3]	–	–
MLD Marole	831	941
NT Moholi	1 305	700
AM Mukhuba[1]	763	839
JJ Ngulube	506	675
MJ Reyneke[5]	427	1 205
PE Speckmann[2]	1 544	1 704
	10 202	10 653
Total directors' remuneration	37 878	32 396

[1] *Fees were paid to the holding company, Sanlam Ltd.*
[2] *Fees include amounts paid by subsidiaries of the group.*
[3] *Appointed in December 2022.*
[4] *Retired in June 2021.*
[5] *Retired in June 2022.*

Notes to the annual financial statements

21 Income tax expense

	Group 2022 R million	Group 2021 R million	Company 2022 R million	Company 2021 R million
South African normal taxation				
Current year	1 353	1 478	436	790
– charge for the year	1 351	1 472	436	786
– other taxes	2	6	–	4
Prior year overprovision	(11)	(72)	(4)	(14)
Foreign taxation – current year	57	60	–	–
Income taxation for the year	1 399	1 466	432	776
Deferred taxation				
Current year	(5)	5	36	(37)
Deferred taxation for the year	(5)	5	36	(37)
Total taxation as per the statement of comprehensive income	1 394	1 471	468	739
Income tax recovered from cell owners and structured insurance products	(749)	(592)	–	–
Total tax expense attributable to shareholders	645	879	468	739
Profit before taxation per statement of comprehensive income from continuing and discontinued operations	3 483	4 315	2 298	3 016
Adjustment for income tax recovered from cell owners and structured insurance products	(749)	(592)	–	–
Total profit before tax attributable to shareholders from continuing and discontinued operations	2 734	3 723	2 298	3 016

	Group 2022	Group 2021	Company 2022	Company 2021
Reconciliation of taxation rate (%)				
Normal South African taxation rate	28.0	28.0	28.0	28.0
Adjusted for				
– Disallowable expenses	0.1	0.1	0.1	–
– Foreign tax differential	0.1	0.1	–	–
– Exempt income[1]	(4.2)	(1.5)	(9.2)	(2.8)
– Investment results	1.3	(0.5)	1.6	(0.7)
– (Income)/loss from associates and joint ventures and discontinued operations	(0.5)	(0.6)	0.1	–
– Previous year's overprovision	(0.4)	(1.9)	(0.2)	(0.5)
– Other permanent differences	(0.1)	(0.3)	–	0.3
– Other taxes	(0.7)	0.2	–	0.2
Net reduction	(4.4)	(4.4)	(7.6)	(3.5)
Effective rate (%)	23.6	23.6	20.4	24.5

[1] *Exempt income consists mainly of dividends received.*

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

22 Deferred tax

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
The amounts are as follows:				
Deferred tax assets	84	78	–	19
Deferred tax liabilities	(94)	(85)	(17)	–
Total net deferred income tax (liability)/asset	(10)	(7)	(17)	19
Deferred tax is made up as follows:				
Lease liabilities	181	208	136	173
Unrealised appreciation of investments	(276)	(315)	(262)	(293)
Provisions and accruals	219	284	124	203
Right-of-use assets	(139)	(158)	(98)	(136)
Tax losses carried forward	5	8	–	–
Other differences	–	(34)	83	72
	(10)	(7)	(17)	19
Movement of deferred tax				
Balance as at 1 January	(7)	(2)	19	(19)
Charge to the statement of comprehensive income	5	(5)	(36)	37
Lease liabilities	(27)	(12)	(37)	9
Unrealised appreciation of investments	39	(77)	31	(67)
Provisions and accruals	(65)	61	(79)	89
Right-of-use assets	19	17	38	(4)
Tax losses carried forward	(3)	2	–	–
Other differences	42	4	11	10
Business combinations	(9)	–	–	–
Tax credited directly to equity	1	–	–	1
Balance as at 31 December	(10)	(7)	(17)	19

On 23 February 2022, the Minister of Finance announced in his budget speech that the corporate income tax rate will be reduced from 28% to 27%, for companies with years of assessment ending on or after 31 March 2023. The year-end deferred tax balances was therefore calculated at 27%.

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 R6.6 million (2021: R17.9 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

23 Earnings per share

23.1 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	
	2022 R million	2021 R million
Basic earnings per share		
Profit attributable to the company's equity holders (R million)	1 990	2 745
Weighted average number of ordinary shares in issue (millions)	109.61	110.20
Earnings per share (cents)	1 816	2 491
Continuing operations	1 829	2 484
Discontinued operations	(13)	7

23.2 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.

	Group	
	2022 R million	2021 R million
Diluted earnings per share		
Profit attributable to the company's equity holders (R million)	1 990	2 745
Weighted average number of ordinary shares in issue (millions)	109.61	110.20
Adjusted for share options	0.74	0.58
Weighted average number of ordinary shares for diluted earnings per share	110.35	110.78
Diluted basic earnings per share (cents)	1 803	2 478
Continuing operations	1 816	2 471
Discontinued operations	(13)	7

Notes to the annual financial statements

23 Earnings per share (continued)

23.3 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.

	Group	
	2022 R million	2021 R million
Headline earnings per share		
Profit attributable to the company's equity holders	1 990	2 745
Adjusted for:		
Profit on disposal of intangible assets	(15)	–
Tax on profit on disposal of intangible assets	4	–
Impairment of intangible assets	39	–
Tax on impairment of intangible assets	(10)	–
Gain on remeasurement to subsidiary	(6)	–
Loss on sale of associates	–	4
Headline earnings	2 002	2 749
Weighted average number of ordinary shares in issue (millions)	109.61	110.20
Headline earnings per share (cents)	1 826	2 495
Continuing operations	1 839	2 488
Discontinued operations	(13)	7

23.4 Diluted headline earnings per share

	Group 2022 R million	Group 2021 R million
Headline earnings (R million)	2 002	2 749
Weighted average number of ordinary shares for diluted earnings per share (millions)	110.35	110.78
Diluted headline earnings per share (cents)	1 814	2 481
Continuing operations	1 827	2 474
Discontinued operations	(13)	7

24 Dividends per share

	Group 2022 R million	Group 2021 R million
Ordinary dividend per share		
Interim of 462 cents per share (2021: 432 cps)	532	497
Proposed final of 845 cents per share (2021: 790 cps)	973	910
	1 505	1 407

A special dividend of 800 cents per share was also declared and paid in March 2022. No special dividend was declared or paid during 2021.

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

25 Cash generated from operations

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Profit before tax from continuing and discontinued operations	3 483	4 315	2 298	3 016
Adjustments for:				
Non-cash items	1 793	604	275	301
– share-based payment costs	112	86	111	82
– amortisation of intangible assets	66	68	21	25
– depreciation	214	215	141	156
– impairment of goodwill and other intangible assets	39	–	39	–
– impairment of subsidiaries	–	–	–	19
– income from associates and joint ventures and discontinued operations	(54)	(78)	–	–
– asset management fees relating to unit trust investments	23	–	–	–
– movement in expected credit losses	(8)	(13)	(8)	(5)
– cell owners' and policyholders' interest, investment contracts and collateral guarantees	1 401	326	(29)	24
Repo liability cash movement	(208)	44	–	–
Proceeds from issuance of preference shares in cell owners' interest	1 079	–	–	–
Investment income, realised and fair value gains	(2 225)	(2 836)	(1 471)	(1 570)
Finance costs	323	313	246	230
Income tax recovered from cell owners and structured insurance products	(749)	(592)	–	–
Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)	4 113	(392)	(88)	(1 609)
Reinsurance assets	1 320	(5 848)	1 847	(5 761)
Deferred acquisition costs	(110)	(111)	(42)	(60)
Loans and receivables including insurance receivables	(3 254)	(1 167)	(1 854)	(829)
Insurance liabilities	4 002	6 830	(982)	5 291
Deferred reinsurance acquisition revenue	46	(28)	55	29
Provisions for other liabilities and charges	(59)	35	(49)	32
Trade and other payables including insurance payables	2 168	(103)	937	(311)
Investment income received in cash	2 015	1 823	1 313	965
Dividends received	453	249	563	285
Dividends received from associates	4	6	–	–
Interest received	1 541	1 555	774	705
Foreign exchange differences	48	(20)	7	(36)
Movement in accrual for investment income	(31)	33	(31)	11
Cash generated from operations	9 624	3 279	2 573	1 333

Accounting policy – Cash flow relating to investment portfolios

Cash flows relating to investment portfolios are classified as operating activities on the statement of cash flows, other than the acquisition of and proceeds from sales relating to strategic investments, equity portfolios and portfolios backing subordinated debt which are classified as investing activities.

26 Income tax paid

	Group		Company	
	2022 R million	2021 R million	2022 R million	2021 R million
Amounts charged to profit or loss	(645)	(879)	(468)	(739)
Income tax credited directly to equity	2	(2)	1	2
Movement in deferred taxation	3	11	36	(38)
Movement in taxation liability	(162)	244	(69)	248
	(802)	(626)	(500)	(527)

Notes to the annual financial statements

27 Related-party transactions – Sanlam Group

Major shareholders

Sanlam Ltd (incorporated in South Africa) is the ultimate holding company with a 62.3% (2021: 62.1%) shareholding in Santam Ltd. The balance of the shareholders (37.7% (2021: 37.9%)) 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.

Transactions with the Sanlam Group

The group transacts with the Sanlam Group on various levels, predominantly insurance-related cover, provided to Sanlam Group companies. SIM 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.

On 14 December 2022, SEM redeemed the target shares through which the Santam group held economic participation rights in the general insurance businesses of SEM in Africa excluding SAN JV (the African target shares). Santam will retain its economic participation rights in the general insurance investments of SEM in India and Malaysia and these two investments now make up the SEM general insurance business segment.

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

	2022 R million	2021 R million
a) Insurance contracts and other services		
– Sanlam Ltd and related parties (for insurance premiums)	21	20
– Sanlam Ltd and related parties (for investment management services)	(53)	(49)
– Sanlam Ltd and related parties (for IT infrastructure costs)	(308)	(323)
– Sanlam Ltd and related parties (for administration services)	(22)	(22)
– Sanlam Ltd (for insurance services)	(8)	(5)
– SAN JV (RF) (Pty) Ltd group (for inward reinsurance contracts)[1]	358	–
– SAN JV (RF) (Pty) Ltd group (for inward reinsurance claims)[1]	(64)	–
– SAN JV (RF) (Pty) Ltd group (for inward reinsurance commissions)[1]	(34)	–
– SAN JV (RF) (Pty) Ltd group (for outward reinsurance contracts)[1]	(40)	–
– SAN JV (RF) (Pty) Ltd group (for outward reinsurance claims)[1]	8	–
– SAN JV (RF) (Pty) Ltd group (for outward reinsurance commissions)[1]	7	–
b) Investment income and net realised/unrealised gains received from:		
– Sanlam Ltd and related parties	379	257
c) Dividends paid		
– to Sanlam Group	(1 392)	(293)
d) Year-end balances with related parties		
Sanlam Emerging Markets		
– target shares acquired (refer to note 5.1)	1 596	1 691
– target shares issued (refer to note 11)	(314)	(305)
Sanlam Alternative Income Fund		
– investment	–	27
Sanlam Global Convertible Securities Fund		
– investment	67	40
Sanlam Investment Management SA Active Income Fund		
– investment	11	89
Sanlam Property Fund		
– investment	65	148
Sanlam Capital Markets		
– cash and money market instruments	270	71
Sanlam Real Assets Fund		
– investment	83	133
Sanlam Ltd		
– shares	16	16
Sanlam Life Insurance Ltd		
– trade payable	(34)	(10)
SAN JV (RF) (Pty) Ltd group		
– trade payable[1]	252	–

[1] *SAN JV (RF) (Pty) Ltd was classified as an associate up until 30 June 2022 when it was reclassified to non-current assets held for sale. Transactions up until 30 June 2022 are included in note 12.*

Notes to the annual financial statements

27 Related-party transactions – Sanlam Group (continued)

Emoluments for the year ended 31 December

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).

	Salary R000	Performance bonus[1] R000	Other benefits R000	Fees R000	Total[2] R000
2022					
PB Hanratty	6 130	–	–	–	6 130
MM Mahlangeni[4]	5 310	6 190	407	–	11 907
AM Mukhuba	5 386	6 520	343	–	12 249
PE Speckmann	–	–	–	1 730	1 730
	16 826	12 710	750	1 730	32 016
2021					
PB Hanratty	6 130	–	–	–	6 130
AM Mukhuba[3]	5 125	1 000	390	–	6 515
PE Speckmann	–	–	–	1 986	1 986
	11 255	1 000	390	1 986	14 631

[1] *Performance bonus in respect of 2021 paid in 2022 (2020 paid in 2021).*
[2] *Total TGP includes amounts recharged by Sanlam Ltd to Santam Ltd for services provided.*
[3] *Employee contributions to the provident fund was included in salary amount in 2021. For 2022, following a change in the retirement fund rules, a single contribution is made and included in other benefits and costs.*
[4] *Appointed in December 2022.*

Deferred share plan

Sanlam shares

	Balance 31 December 2021	Awarded in 2022	Shares vested	Balance 31 December 2022
MM Mahlangeni[1]	106 491	–	–	106 491
AM Mukhuba	106 789	–	–	106 789
Total	213 280	–	–	213 280

	Balance 31 December 2020	Awarded in 2021	Shares vested	Balance 31 December 2021
AM Mukhuba	106 789	–	–	106 789
Total	106 789	–	–	106 789

Performance deferred share plan

Sanlam shares

	Balance 31 December 2021	Awarded in 2022	Balance 31 December 2022
MM Mahlangeni[1]	66 128	26 396	92 524
AM Mukhuba	118 245	37 453	155 698
Total	184 373	63 849	248 222

	Balance 31 December 2020	Awarded in 2021	Balance 31 December 2021
AM Mukhuba	32 037	86 208	118 245
Total	32 037	86 208	118 245

[1] *Appointed in December 2022.*

Notes to the annual financial statements

27 Related-party transactions – Sanlam Group (continued)

Emoluments for the year ended 31 December (continued)

Restricted share plan

Sanlam shares

	Balance 31 December 2021	Awarded in 2022	Shares vested	Shares forfeited	Balance 31 December 2022
PB Hanratty	5 000 000	–	–	(98 956)	4 901 044
MM Mahlangeni[1]	158 602	31 979	(68 997)	–	121 584
AM Mukhuba	135 670	33 683	–	–	169 353
Total	5 294 272	65 662	(68 997)	(98 956)	5 191 981

	Balance 31 December 2020	Awarded in 2021	Shares vested	Balance 31 December 2021
PB Hanratty	3 000 000	2 000 000	–	5 000 000
AM Mukhuba	121 075	14 595	–	135 670
Total	3 121 075	2 014 595	–	5 135 670

[1] *Appointed in December 2022.*

28 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. Refer to note 4.1 for detail relating to CBI claims.

29 Commitments

The group does not have any other obligations not disclosed in other parts of these financial statements.

30 Events after the reporting period

There have been no material changes in the affairs or financial position of the group since the statement of financial position date.

Notes to the annual financial statements

31 New standards, amendments and interpretations

(a) Standards, amendments and interpretations effective in 2022

The following amendments to published standards are mandatory for the group's accounting periods beginning on or after 1 January 2022:

Standard	Effective date	Executive summary
Amendment to IFRS 16, 'Leases' COVID-19-related rent concessions	Annual periods beginning on or after 1 April 2021 (early adoption is permitted) (Published March 2021)	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The March 2021 amendment will only be available if an entity chose to apply the May 2020 optional practical expedient.
Annual improvements cycle 2018 – 2020	Annual periods beginning on or after 1 January 2022 (Published May 2020)	• IFRS 9, 'Financial instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. • IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.
Amendments to IAS 37 'Provisions, contingent liabilities and contingent assets' on onerous contracts – cost of fulfilling a contract	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfill the contract. The amendment clarifies the meaning of 'costs to fulfill a contract'. Under the amendment, costs to fulfill a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.
Amendments to IAS 16 'Property, plant and equipment' on proceeds before intended use	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.
Amendment to IFRS 3, 'Business combinations'	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The IASB has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the IASB added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, contingent liabilities and contingent assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The IASB has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

There was no material impact on the annual financial statements identified.

Notes to the annual financial statements

31 New standards, amendments and interpretations (continued)

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

Number	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023 Early application is permitted for entities that apply IFRS 9, 'Financial instruments', and IFRS 15, 'Revenue from contracts with customers', at or before the date of initial application of IFRS 17. (Published May 2017)	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfillment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfillment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.
IFRS 17, Insurance contracts amendments	Annual periods beginning on or after 1 January 2023 (Published June 2020)	In response to some of the concerns and challenges raised, the IASB developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.
Amendment to IAS 1, 'Presentation of financial statements' on classification of liabilities as current or non-current	Annual periods beginning on or after 1 January 2023 (Published Jan 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. A number of requirements are required to be met in conjunction with this amendment.
Amendments to IAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction	Annual periods beginning on or after 1 January 2023. Earlier application is permitted. (Published May 2021)	The amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.
Narrow scope amendments to IAS 1 'Presentation of financial statements', Practice statement 2 and IAS 8 'Accounting policies, changes in accounting estimates and errors'	Annual periods beginning on or after 1 January 2023. Earlier application is permitted. (Published February 2021)	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.

Please refer to note 1.2 for detailed information regarding IFRS 17.

Notes to the annual financial statements

32 Analysis of policyholder/shareholder financial position and results

This note provides information on cellholder/policyholder versus shareholder statement of financial position and statement of comprehensive income. Cellholder/policyholder activities relate mainly to alternative risk transfer insurance business written on the insurance licences of Centriq and SSI.

32.1 Analysis of policyholder/shareholder statement of financial position

2022	Group R million	Shareholder R million	Policyholder/ cellholder R million
ASSETS			
Intangible assets	1 073	1 073	–
Property and equipment	640	640	–
Investment in associates and joint ventures	467	467	–
Strategic investment – unquoted SEM target shares	1 596	1 596	–
Deferred income tax	84	99	(15)
Deposit with cell owner	56	–	56
Cell owners' and policyholders' interest	3	–	3
Financial assets at fair value through income	35 850	15 858	19 992
Reinsurance assets	13 652	12 210	1 442
Deferred acquisition costs	1 056	850	206
Non-current assets held for sale	1 768	1 768	–
Loans and receivables including insurance receivables	11 319	6 756	4 563
Current income tax	96	96	–
Cash and cash equivalents	5 387	3 927	1 460
Total assets	73 047	45 340	27 707
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital	103	103	–
Treasury shares	(713)	(713)	–
Other reserves	(63)	(63)	–
Distributable reserves	11 602	11 602	–
	10 929	10 929	–
Non-controlling interest	669	462	207
Total equity	11 598	11 391	207
LIABILITIES			
Deferred income tax	94	94	–
Cell owners' and policyholders' interest	7 124	–	7 124
Reinsurance liability relating to cell owners	56	–	56
Financial liabilities at fair value through income			
Debt securities	2 539	2 539	–
Investment contracts	2 061	5	2 056
Derivatives	35	35	–
Lease liabilities	669	669	–
Financial liabilities at amortised cost			
Repo liability	739	–	739
Collateral guarantee contracts	129	–	129
Insurance liabilities	39 977	24 414	15 563
Deferred reinsurance acquisition revenue	642	548	94
Provisions for other liabilities and charges	139	139	–
Trade and other payables including insurance payables	6 911	5 151	1 760
Current income tax	334	355	(21)
Total liabilities	61 449	33 949	27 500
Total shareholders' equity and liabilities	73 047	45 340	27 707

Notes to the annual financial statements

32 Analysis of policyholder/shareholder financial position and results (continued)

32.1 Analysis of policyholder/shareholder statement of financial position (continued)

2021	Group R million	Shareholder R million	Policyholder/ cellholder R million
ASSETS			
Intangible assets	989	989	–
Property and equipment	702	702	–
Investment in associates and joint ventures	2 284	2 284	–
Strategic investment - unquoted SEM target shares	1 691	1 691	–
Deferred income tax	78	78	–
Deposit with cell owner	90	–	90
Cell owners' and policyholders' interest	11	–	11
Financial assets at fair value through income	31 047	16 590	14 457
Reinsurance assets	14 892	13 793	1 099
Deferred acquisition costs	961	805	156
Loans and receivables including insurance receivables	8 312	5 117	3 195
Current income tax	5	5	–
Cash and cash equivalents	4 496	3 144	1 352
Total assets	65 558	45 198	20 360
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital	103	103	–
Treasury shares	(570)	(570)	–
Other reserves	37	37	–
Distributable reserves	11 862	11 862	–
	11 432	11 432	–
Non-controlling interest	630	447	183
Total equity	12 062	11 879	183
LIABILITIES			
Deferred income tax	85	61	24
Cell owners' and policyholders' interest	4 908	–	4 908
Reinsurance liability relating to cell owners	90	–	90
Financial liabilities at fair value through income			
Debt securities	2 552	2 552	–
Investment contracts	1 970	–	1 970
Derivatives	1	1	–
Lease liabilities	764	764	–
Financial liabilities at amortised cost			
Repo liability	926	–	926
Collateral guarantee contracts	155	–	155
Insurance liabilities	36 040	25 116	10 924
Deferred reinsurance acquisition revenue	561	478	83
Provisions for other liabilities and charges	188	188	–
Trade and other payables including insurance payables	4 851	3 732	1 119
Current income tax	405	427	(22)
Total liabilities	53 496	33 319	20 177
Total shareholders' equity and liabilities	65 558	45 198	20 360

Notes to the annual financial statements

32 Analysis of policyholder/shareholder financial position and results (continued)

32.2 Analysis of policyholder/shareholder statement of comprehensive income

2022	Group R million	Shareholder R million	Policyholder/ cellholder R million
Gross written premium	49 627	36 005	13 622
Less: reinsurance written premium	17 972	7 923	10 049
Net written premium	31 655	28 082	3 573
Less: change in unearned premium			
Gross amount	4 499	494	4 005
Reinsurers' share	(920)	(25)	(895)
Net insurance premium revenue	28 076	27 613	463
Interest income on amortised cost instruments	276	276	–
Interest income on fair value through income instruments	1 688	846	842
Other investment income	811	756	55
Income from reinsurance contracts ceded	2 318	1 778	540
Net losses on financial assets and liabilities at fair value through income	(550)	(351)	(199)
Other income	547	547	–
Net income	33 166	31 465	1 701
Insurance claims and loss adjustment expenses:			
Gross amount	29 168	23 984	5 184
Recovered from reinsurers	(11 134)	(6 290)	(4 844)
Net insurance benefits and claims	18 034	17 694	340
Expenses for the acquisition of insurance contracts	5 997	5 374	623
Expenses for marketing and administration	5 248	5 228	20
Expenses for investment-related activities	124	124	–
Amortisation and impairment of intangible assets	105	105	–
Investment return allocated to cell owners and structured insurance products	655	–	655
Total expenses	30 163	28 525	1 638
Results of operating activities	3 003	2 940	63
Finance costs	(323)	(280)	(43)
Net income from associates and joint ventures	68	68	–
Income tax recovered from cell owners and structured insurance products	749	–	749
Profit before tax	3 497	2 728	769
Income tax expense	(1 394)	(645)	(749)
Profit from continuing operations	2 103	2 083	20
Loss from discontinued operations	(14)	(14)	–
Profit for the year	2 089	2 069	20
Profit attributable to:			
– equity holders of the company	1 990	1 990	–
– non-controlling interest	99	79	20
	2 089	2 069	20

Notes to the annual financial statements

32 Analysis of policyholder/shareholder financial position and results (continued)

32.2 Analysis of policyholder/shareholder statement of comprehensive income (continued)

2021	Restated Group R million	Restated[1] Shareholder R million	Policyholder/ cellholder R million
Gross written premium	42 129	33 163	8 966
Less: reinsurance written premium	14 766	6 959	7 807
Net written premium	27 363	26 204	1 159
Less: change in unearned premium			
Gross amount	1 573	169	1 404
Reinsurers' share	(794)	(128)	(666)
Net insurance premium revenue	26 584	26 163	421
Interest income on amortised cost instruments	206	206	–
Interest income on fair value through income instruments	1 346	818	528
Other investment income	552	448	104
Income from reinsurance contracts ceded	2 067	1 625	442
Net gains on financial assets and liabilities at fair value through income	732	324	408
Other income	352	352	–
Net income	31 839	29 936	1 903
Insurance claims and loss adjustment expenses:			
Gross amount	29 734	25 509	4 225
Recovered from reinsurers	(13 329)	(9 407)	(3 922)
Net insurance benefits and claims	16 405	16 102	303
Expenses for the acquisition of insurance contracts	5 539	5 014	525
Expenses for marketing and administration	4 794	4 773	21
Expenses for investment-related activities	93	93	–
Amortisation and impairment of intangible assets	68	68	–
Investment return allocated to cell owners and structured insurance products	982	–	982
Total expenses	27 881	26 050	1 831
Results of operating activities	3 958	3 886	72
Finance costs	(313)	(270)	(43)
Net income from associates and joint ventures	70	70	–
Income tax recovered from cell owners and structured insurance products	592	–	592
Profit before tax	4 307	3 686	621
Income tax expense	(1 471)	(875)	(596)
Profit from continuing operations	2 836	2 811	25
Profit from discontinued operations	8	8	–
Profit for the year	2 844	2 819	25
Profit attributable to:			
– equity holders of the company	2 745	2 745	–
– non-controlling interest	99	74	25
	2 844	2 819	25

[1] *Refer to notes 2.1 and 12.4 for detail of restatement.*

33 Restatement of the statement of cash flows

During the current year the group changed its presentation accounting policy for sales and acquisitions of financial assets presented under operating activities from gross disclosure to net disclosure. This is more relevant as the investment portfolios are managed within board approved mandates and thus the turnaround for these financial assets are quick, the amounts large and the maturities short. Furthermore the growth in ART business has led to an increase in the cash flows related to the acquisition and sale of financial assets held for cellholder and policyholder activities. These activities are managed on a net basis, with Santam shareholders not entitled to benefit from any gross cash flows.

It is therefore more appropriate to disclose the net acquisition or disposal of financial assets as cash flows. This is aligned with the industry (currently the majority of insurers disclose sales and acquisitions of financial assets on a net basis) and the group's parent company, Sanlam Ltd.

The comparative information has been restated accordingly.

The table below shows the impact of the change:

	Previously reported 2021 R million	Restatement 2021 R million	Restated 2021 R million
Group			
Net cash from operating activities			
– Acquisition of financial assets	(30 712)	30 712	–
– Proceeds from sale of financial assets	30 238	(30 238)	–
– Net movement from the acquisition and sale of financial assets	–	(474)	(474)
Net impact	(474)	–	(474)
Company			
Net cash from operating activities			
– Acquisition of financial assets	(19 381)	19 381	–
– Proceeds from sale of financial assets	19 854	(19 854)	–
– Net movement from the acquisition and sale of financial assets	–	473	473
Net impact	473	–	473

Analysis of shareholders

Analysis of shareholders	Number of shareholders	% of total shareholders	Number of shares	% Interest
1 – 100 shares	1 857	26.10	87 483	0.08
101 – 1 000 shares	3 380	47.50	1 366 621	1.19
1 001 – 50 000 shares	1 770	24.87	11 591 154	10.07
50 001 – 100 000 shares	52	0.73	3 585 813	3.11
100 001 – 10 000 000 shares	56	0.79	30 626 696	26.60
More than 10 000 000 shares	1	0.01	67 873 650	58.95
Total	**7 116**	**100.00**	**115 131 417**	**100.00**
Type of shareholder				
Individuals	4 703	66.10	3 458 279	3.00
Companies	605	8.50	82 719 900	71.85
Growth funds/unit trusts	366	5.14	15 478 196	13.44
Nominee companies or trusts	1 081	15.19	2 253 204	1.96
Pension and retirement funds	361	5.07	11 221 838	9.75
Total	**7 116**	**100.00**	**115 131 417**	**100.00**

	Shareholders in South Africa		Shareholders other than in South Africa		Total shareholders	
Shareholder spread	Nominal number	% Interest	Nominal number	% Interest	Nominal number	% Interest
Public shareholders	6 873	25.72	226	100	7 099	30.02
Directors	4	0.06	–	–	4	0.05
Guardian National Insurance Ltd[1]	1	4.86	–	–	1	4.58
Santam Structured Insurance Ltd	1	0.03	–	–	1	0.03
Trustees of employees' share scheme[1]	3	1.25	–	–	3	1.18
Holdings of 5% or more	8	68.08	–	–	8	64.14
Sanlam Ltd	7	62.59	–	–	7	58.97
Government Employees Pension Fund	1	5.49	–	–	1	5.17
Total	**6 890**	100.00	226	100.00	**7 116**	100.00

[1] *Owners of treasury shares.*

The analysis includes the shares held as treasury shares.

Analysis of bondholders

Analysis of debt security holders	Number of debt security holders	% of total debt security holders	Number of units	% Interest
1 – 50 000 units	2	0.85	46 854	–
50 001 – 100 000 units	11	4.70	1 024 750	0.04
100 001 – 1 000 000 units	67	28.63	39 739 094	1.59
1 000 001 – 10 000 000 units	114	48.73	463 284 662	18.53
More than 10 000 000 units	40	17.09	1 995 904 640	79.84
Total	**234**	**100.00**	**2 500 000 000**	**100.00**
Type of debt security holder				
Endowment funds	5	2.14	39 200 000	1.57
Insurance companies	44	18.81	217 808 810	8.71
Investment companies	22	9.40	259 250 000	10.37
Medical aid schemes	21	8.97	117 556 335	4.70
Mutual funds	97	41.46	1 575 240 025	63.01
Pension funds	41	17.52	266 039 165	10.64
Private companies	2	0.85	15 705 665	0.63
Public companies	2	0.85	9 200 000	0.37
Total	**234**	**100.00**	**2 500 000 000**	**100.00**

	Debt security holders in South Africa	
Debt security holder spread	Nominal number	% Interest
Stanlib Income Fund	406 901 830	16.28
Ninety One Cautious Managed Fund	272 600 000	10.90
Government Employees Pension Fund	150 000 000	6.00
Ashburton Stable Income Fund	140 000 000	5.60
Others	1 530 498 170	61.22
Total	**2 500 000 000**	**100.00**

Administration

Non-executive directors

M Chauke, CD da Silva, MP Fandeso, PB Hanratty, DEH Loxton, MM Mahlangeni, MLD Marole, NT Moholi (Chairperson), AM Mukhuba, JJ Ngulube, PE Speckmann

Executive directors

TC Madzinga (chief executive officer), HD Nel (chief financial officer)

Sponsors

Equity sponsor: Investec Bank Ltd
Debt sponsor: Rand Merchant Bank (A division of FirstRand Bank Limited)

Transfer secretaries

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Private Bag X9000, Saxonwold 2132
Tel: 011 370 5000
Fax: 011 688 5216
www.computershare.com

Company secretary

R Eksteen

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Registration number 1918/001680/06
ISIN ZAE000093779
JSE share code: SNT
NSX share code: SNM
A2X share code: SNT
Debt company code: BISAN

A copy of the set of annual consolidated financial statements with the signatures of the directors is available at the company's registered office.

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

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