



ANNUAL FINANCIAL
STATEMENTS 2013



THE UMBRELLA

Humble, hard-working and loyal. We trust it to protect us in both cloudbursts and blazing sun and when folded neatly, to support us into old age, up stairs and down. It is something our hands know well, believe in and hold onto. And although simple, it is the apex of design, with all the colours and patterns in the world to allow for individualism and self-expression but never forgetting its reason for being. To support. To protect. To always keep us safe out there.

2	Approval of annual financial statements
2	Preparation and presentation of annual financial statements
2	Secretarial certification
3	Independent auditor's report
4	Report of the audit committee
5	Directors' report
8	Statement of financial position
9	Statement of comprehensive income
10	Statement of changes in equity
11	Statement of cash flows
12	Notes to the financial statements
88	Analysis of shareholders
89	Analysis of debt security holders
90	Administration

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF SANTAM LTD

RESPONSIBILITY FOR AND APPROVAL OF THE GROUP 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.

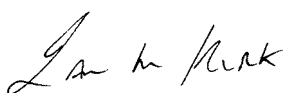
The board has confirmed that adequate internal financial control systems are being maintained. There were no material breakdowns in the functioning of the internal financial control systems during the year. The board is satisfied that the financial statements fairly present the financial position, the results of the operations and cash flows in accordance with relevant accounting policies, based on International Financial Reporting Standards (IFRS).

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

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



GG Gelink
Chairman



IM KIRK
Chief Executive Officer

26 February 2014

PREPARATION AND PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

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

SECRETARIAL CERTIFICATION

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



M ALLIE
Group secretary

26 February 2014

TO THE SHAREHOLDERS OF SANTAM LTD

We have audited the consolidated and separate financial statements of Santam Ltd set out on pages 8 to 89, which comprise the statements of financial position as at 31 December 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these 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 misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Santam Ltd as at 31 December 2013, 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.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 December 2013, we have read the directors' report, the report of the audit committee and the secretarial certification for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

**PRICEWATERHOUSECOOPERS INC***Director: C van den Heever*

Registered auditor

Cape Town

26 February 2014

REPORT OF THE AUDIT COMMITTEE

The Santam audit committee appointed to hold office until the conclusion of the annual general meeting (AGM) on 27 May 2014, comprises four independent non-executive directors of the company. Messrs MD Dunn, B Campbell, MP Fandeso and GG Gelink were elected to the committee by the company's shareholders at the AGM on 29 May 2013. The qualifications of the members of the committee are listed on page 34 of the integrated report. The members possess the necessary expertise to direct the committee in the execution of its duties.

The audit committee of Santam acts as such for all subsidiaries of the group where an audit committee is required in terms of the Companies Act, 71 of 2008, as amended. The committee has a charter, approved by the board, dealing, inter alia, with its membership, frequency of meetings and responsibilities. The charter is reviewed annually and was updated during November 2013. The committee has a formal work plan to structure the execution of its responsibilities. The committee reviews reports from the external and internal auditors and the chairman of the committee reports on the findings at board meetings.

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

The committee nominates the independent external auditor to the Santam group and its subsidiaries for appointment by the shareholders and approves the terms of engagement and remuneration for the external audit engagement.

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

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

The audit committee reviewed the 2013 Santam Group Ltd integrated report and considered factors and risks that may impact on the integrity of the report. The audit committee also reviewed the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information. The audit committee has not recommended the engagement of an external assurance provider on material sustainability issues to the board as it is of the view that the assurance provided is adequate, given the maturity of the processes in place. The committee has recommended the integrated report and annual financial statements to the board for approval.

The effectiveness of controls were reviewed principally through a process of management self-assessment, including formal confirmation per representation letters by executive management. Other relevant input to the review included combined assurance reports, reports from internal and external auditors, compliance and the enterprise risk management process. Where necessary, programmes for corrective action have been initiated. Nothing has come to the attention of the directors, or to the attention of the external or internal auditors, to indicate that any material breakdown in the functioning of the internal controls and systems (which include the internal financial controls) occurred during the year under review.

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.



MD DUNN
Chairman of the audit committee

26 February 2014

ACTIVITIES

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

FINANCIAL REVIEW

The Santam group experienced another very challenging underwriting year, characterised by a number of significant adverse weather events and exacerbated by the sharp decline in the rand-dollar exchange rate. Under these tough operating conditions, the group achieved a 2.8% (2012: 4.0%) net underwriting margin. While gross written premium (GWP) grew by 6%, this was impacted by lower cell insurance business and significant cell captive business not recorded as part of GWP. If cell insurance is excluded, GWP grew by 9% on a comparative basis. The investment portfolio performed in line with the positive market movements experienced during 2013, although the performance was limited by the downside protection over equities.

The income tax charge decreased by 52% compared to 2012. The 2012 tax charge was significantly impacted by a non-recurring secondary tax on companies charge and the effect of the increase in the capital gains tax inclusion rate.

Headline earnings increased by 4% compared to 2012. Cash generated from operations declined to R1.6 billion (2012: R2.4 billion) following increased claims being paid during 2013. The solvency margin of 42% remains within the long-term target range of 35% to 45%. The return on capital of 20% was affected by the adverse underwriting conditions.

The economic environment in South Africa in 2013 provided tough operating conditions with a combination of poor GDP growth and historically low interest rates. The rand-dollar decline of 24% since January 2013, posed a significant strain on the claims cost and motor claims cost in particular.

For the second consecutive year, weather-related catastrophe events significantly impacted insurers. The most notable events were the floods in Limpopo (January 2013) and in the Western Cape (November 2013) and two significant hailstorms in Gauteng during November 2013, the second being one of the most severe catastrophe events experienced in South Africa to date, with total claims for the industry estimated to exceed R1.6 billion. Total gross claims from these catastrophe events for the Santam group exceeded R400 million for a second year in a row. However, the net of reinsurance loss for the group was reduced to R215 million (2012: R361 million) following the prudent purchase of additional reinsurance cover during 2013.

The underwriting results were further negatively affected by a net underwriting loss in crop insurance of R142 million (2012: profit of R38 million), mainly following significant hail damage to summer crops in the eastern region of South Africa, and drought-related input losses in the central and western regions in the first half of the financial year.

Following the weak underwriting performance of the Santam Commercial and Personal lines intermediated business unit during the six-month period to June 2013, due to the weather and rand factors, various underwriting measures, such as segregated premium increases on policy renewal and risk reviews have been put in place. The positive impact of these actions was evident in the results of the motor and property classes during the second half of 2013. There is continued focus on further process efficiencies, risk reviews, and premium actions to achieve target margins in this business unit. The group achieved satisfactory gross written premium growth in this business unit.

The specialist business classes had solid results compared to 2012, with acceptable margins across the various niche segments but on reduced growth. The engineering and accident and health classes reported significantly improved margins. Transportation reported lower underwriting results compared to an exceptional performance during the corresponding period in 2012. The liability class also reported reduced results, following competitive pressures and reduced exposures to certain risks.

MiWay supported the growth in the motor book of business with an increase in gross premiums of 22%, while achieving profitable underwriting results despite the severe Gauteng hail events in November.

In Centriq, growth was negatively impacted by lower cell business premiums as well as increased investment contract premiums, which are not recorded as gross written premium for IFRS purposes. Total Centriq gross premiums, including investment business, grew by 6% compared to 2012 and operating results were on target in this business unit.

Third-party business written by Santam Re increased by 27% to R669 million (2012: R526 million), which includes international reinsurance business of R227 million. The Santam Re underwriting results were negatively impacted by the adverse weather conditions in South Africa and some significant international catastrophe events combined with the first year premium paid on the international retrocession programme. We remain confident about the prospects for this business and the future diversification benefits to the Santam group.

Continued investments in a number of strategic projects have been undertaken to improve efficiency and service delivery. Significant start-up costs were incurred during the first phase of the strategic project to develop a new underwriting and product management system for the Santam Commercial and Personal business. This resulted in a project cost ratio of 1.4% of net earned premium, exceeding the target of 1% and contributing to the increase in the net acquisition cost ratio to 27.9% (2012: 27.7%). The first development phase of the project was successfully completed in December 2013 and direct development costs of R56 million were capitalised during the second half of 2013. We are confident that these projects will add to Santam's future competitive advantage and improved cost efficiency.

Investment returns on insurance funds of R374 million decreased from the R415 million earned in 2012, resulting mainly from low interest rates, the negative performance of the bond market and reduced float margins on the alternative risk transfer business.

The combined effect of insurance activities resulted in a net insurance income of R851 million or a 5.0% net insurance margin, compared to R1 038 million (6.6% net insurance margin) in 2012.

DIRECTORS' REPORT

Santam achieved satisfactory investment results relative to the market. Santam entered into three derivative fence structures with downside protection of 10% and upside participation of between 9.5% and 9.7% on equities to the value of R2 billion between March and May 2013. This arrangement will act as further protection against equity market volatility in 2014. An unrealised fair value loss of R204 million was recorded on the structure. The investment results were supported by a preference dividend of R51 million that was received on the Sanlam Emerging Markets (SEM) preference share linked to the Shriram General Insurance (SGIC) business in India, and foreign exchange gains totalling R91 million (2012: R14 million).

Net earnings from associated companies of R86 million was on par with 2012, with significant contribution from Credit Guarantee Insurance Corporation of Africa Ltd.

Santam entered into a series of transactions with SEM in December 2013, in terms of which Santam acquired participation interests in SEM's emerging markets short-term insurance investments in India, Malaysia, Botswana, Malawi, Zambia, Tanzania and Uganda for R509 million, by subscribing for shares of separate classes in SEM with each separate class linked to a specific participation interest.

As part of the transaction, SEM obtained a 37.4% participatory interest in Santam Namibia for R277 million, and Santam disposed of its 25.1% direct interest in NICO Holdings to SEM for R64 million. The group realised a non-headline loss of R18 million on the sale due to the reclassification from equity to earnings of a debit foreign currency translation reserve of R34 million, relating to the depreciation of the Malawian kwacha against the rand.

Santam will render technical services to the SEM short-term insurance partner companies. The transaction enables Santam to share in the economic interest of the current and future short-term insurance expansion by SEM in these markets. In principle, SEM and Santam will participate on a 65%/35% basis respectively in the Sanlam Group's short-term insurance businesses in emerging markets.

Santam concluded the acquisition of a 100% interest in Travel Insurance Consultants (TIC) in June 2013 for R95 million. The transaction will enable TIC to continue building its leadership position through its relationships within the travel market and leverage off Santam's support.

Santam also acquired a 40% interest in Western Group Holdings Ltd, a short-term insurance business, from PSG Konsult for R88 million in September 2013.

The board would like to extend its gratitude to Santam's management, employees, intermediaries and other business partners for their efforts and contributions during the past year.

ORDINARY SHARES ISSUED

The shares in issue remained at 119 346 417 (2012: 119 346 417) shares of no par value (including 4 969 126 (2012: 5 543 754) treasury shares). In accordance with the share incentive scheme, as approved at the annual general meeting on 23 January 1997, no additional share options were awarded under the scheme during the period under review. All share options and share contracts relating to this scheme either lapsed due to resignation or were exercised in 2011. In terms of the deferred share plan (DSP), implemented in 2007, 374 892 (2012: 392 261) shares were granted to employees on a deferred delivery basis during the year. In 2012, a further 110 565 shares were granted in lieu of the special dividend. In 2013, 99 237 (2012: 86 585) shares lapsed as a result of resignations and 575 745 (2012: 542 394) treasury shares were sold in terms of the DSP. Full details are set out in note 17 to the annual financial statements.

A subsidiary in the group holds 4 969 126 (2012: 5 543 754) Santam shares. The shares are held as 'Treasury shares'. The company has the right to reissue these shares at a later date.

CAPITAL STRUCTURE

Debt securities

For details on debt securities, refer to note 20 to the financial statements.

DIVIDENDS

The following dividends were paid and are proposed.

Interim dividend of 242 cents per share (2012: 230 cents)
A final dividend of 433 cents per share (2012: 410 cents)

	Group	
	2013	2012
	R million	R million
	289	274
	517	489
	806	763

SPECIAL DIVIDEND

As part of its process to optimise its capital, Santam Ltd paid a special dividend of 850 cents per share to shareholders on 16 March 2012. No special dividend was declared and paid during 2013.

SUBSIDIARIES

Details of the holding company's interest in subsidiaries are set out in note 46 to the financial statements. The following changes in shareholding took place during the year:

- On 1 March 2013, Centriq Insurance Holdings Ltd acquired the remaining 51% of the shareholding in Beyonda Group (Pty) Ltd.
- On 1 June 2013, Santam Ltd acquired 100% interest in the Travest Investments (Pty) Ltd and Travel Insurance Consultants (Pty) Ltd.
- On 24 October 2013, Santam Ltd acquired 100% interest in Santam Namibia Holdings (Pty) Ltd.
- On 13 December 2013, Santam Ltd sold its 60% interest in Santam Namibia Ltd to Santam Namibia Holding (Pty) Ltd.

ASSOCIATED COMPANIES

Details of the holding company's interest in associated companies are set out in note 46 to the financial statements. The following changes in shareholding took place during the year:

- Swanvest 120 (Pty) Ltd acquired a 40% shareholding in Western Group Holdings Ltd with effect 17 September 2013.
- Santam Ltd sold its 25.1% shareholding in NICO Holdings Ltd with effect from 1 December 2013.

RELATED PARTIES

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

For related-party transactions and key management personnel, refer to note 42 to the annual financial statements.

Details of directors' remuneration and their interest in the company's shares appear in note 42 to the annual financial statements.

HOLDING COMPANY

Sanlam Ltd, the company's holding company, holds 59.34% of the total issued ordinary share capital.

SEGMENT INFORMATION

Refer to note 4 in the notes to the financial statements for the segmental report.

DIRECTORATE AND COMPANY SECRETARY

Committee memberships	Risk committee	Audit committee	Human resources committee	Nominations committee	Sustainability and ethics committee	Investment committee
Non-executive directors						
B Campbell	•	•				
MD Dunn	•	•				
MP Fandesio	•	•				
BTPKM Gamedze	•				•	
GG Gelink (Chairman)	•	•	•	•		•
MLD Marole			•	•	•	
JP Möller	•					•
MJ Reyneke	•					•
J van Zyl			•	•		
Executive directors						
IM Kirk (Chief Executive Officer)	•					•
HD Nel (Chief financial officer)	•					•
Y Ramiah					•	

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

- VP Khanyile – Resigned as chairman and from the board on 29 May 2013
- GG Gelink – Appointed as chairman of the board on 29 May 2013
- BTPKM Gamedze – Since March 2013, he is no longer independent in terms of King III

Company secretary

M Allie

Registered office for company secretary

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

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

AUDITORS

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

SPECIAL RESOLUTIONS PASSED

The following special resolutions were passed by Santam Ltd at the annual general meeting on 29 May 2013:

- Approval of non-executive directors' remuneration.
- General authority to the directors, in accordance with the JSE Listings Requirements and Companies Act, to repurchase companies shares.
- General authority to provide direct or indirect financial assistance to related companies (or inter-related companies or corporations).

Centriq Insurance Company Ltd and Nova Risk Partners Ltd passed special resolutions on 20 May 2013 to remove "RF" from their names and accept their new memorandums of incorporation.

STATEMENT OF FINANCIAL POSITION

	Notes	Group		Company	
		2013 R million	2012 R million	2013 R million	2012 R million
ASSETS					
Non-current assets					
Property and equipment	5	95	99	45	45
Intangible assets	6	1 072	990	150	7
Deferred income tax	19	188	221	–	–
Investments in subsidiaries	7	–	–	1 568	1 927
Investments in associates	8	318	261	117	133
Financial assets – at fair value through income					
Equity securities	9	4 011	3 551	3 845	3 127
Debt securities	9	7 306	6 957	5 145	4 739
Derivatives	10	1	6	1	6
Reinsurance assets	11,24	117	137	121	144
Current assets					
Cell owners' interest	22	15	24	–	–
Investment in subsidiaries	7	–	–	538	–
Financial assets – at fair value through income					
Short-term money market instruments	9	1 424	917	889	670
Reinsurance assets	11,24	2 227	1 618	1 864	1 332
Deferred acquisition costs	24.2	369	340	328	275
Loans and receivables including insurance receivables	12	2 684	2 088	2 999	2 370
Income tax assets		31	57	10	20
Cash and cash equivalents	13	2 343	2 471	1 505	1 645
Non-current assets held for sale	14	415	–	–	–
Total assets		22 616	19 737	19 125	16 440
EQUITY					
Capital and reserves attributable to the company's equity holders					
Share capital	15	107	107	107	107
Treasury shares	15	(520)	(579)	–	–
Other reserves	18	224	77	–	–
Distributable reserves	18	6 321	5 904	5 700	5 059
		6 132	5 509	5 807	5 166
Non-controlling interest	16	400	108	–	–
Total equity		6 532	5 617	5 807	5 166
LIABILITIES					
Non-current liabilities					
Deferred income tax	19	315	284	242	223
Financial liabilities – at fair value through income					
Debt securities	20	997	1 034	997	1 034
Investment contracts	21	126	83	–	–
Cell owners' interest	22	814	712	–	–
Insurance liabilities	24	1 595	1 340	1 592	1 333
Current liabilities					
Financial liabilities – at fair value through income					
Debt securities	20	24	24	24	24
Investment contracts	21	–	12	–	–
Derivatives	10	204	–	204	–
Financial liabilities – at amortised cost					
Collateral guarantee contracts	23	82	75	82	75
Insurance liabilities	24	9 096	8 318	6 885	6 231
Deferred reinsurance acquisition revenue	24.2	171	147	155	131
Provisions for other liabilities and charges	25	84	161	15	12
Trade and other payables	26	2 561	1 886	3 122	2 211
Current income tax liabilities		15	44	–	–
Total liabilities		16 084	14 120	13 318	11 274
Total shareholders' equity and liabilities		22 616	19 737	19 125	16 440

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Group		Company	
		2013 R million	2012 R million	2013 R million	2012 R million
Gross written premium		20 631	19 386	17 861	16 527
Less: reinsurance written premium		3 731	3 564	2 351	1 921
Net written premium		16 900	15 822	15 510	14 606
Change in unearned premium					
Gross amount		334	323	343	139
Reinsurers' share		(185)	(127)	(136)	(95)
Net insurance premium revenue		16 751	15 626	15 303	14 562
Investment income	27	782	859	913	731
Income from reinsurance contracts ceded		600	516	460	396
Net gain on financial assets and liabilities at fair value through income	28	449	480	398	610
Net income		18 582	17 481	17 074	16 299
Insurance claims and loss adjustment expenses	29	13 807	12 167	12 055	10 648
Insurance claims and loss adjustment expenses recovered from reinsurers	29	(2 200)	(1 488)	(1 454)	(686)
Net insurance benefits and claims		11 607	10 679	10 601	9 962
Expenses for the acquisition of insurance contracts	30	2 721	2 540	2 941	2 715
Expenses for marketing and administration	30	2 562	2 349	2 026	1 881
Expenses for asset management services	30	29	31	22	24
Amortisation and impairment of intangible assets	6,30	114	116	20	2
Expenses		17 033	15 715	15 610	14 584
Results of operating activities		1 549	1 766	1 464	1 715
Finance costs	32	(118)	(106)	(112)	(100)
Net income from associates	8	86	83	53	24
Net (loss)/profit on sale of associate	8	(18)	–	47	–
Net profit on sale of subsidiary		–	–	163	–
Impairment on net investments and loans of associates		(26)	(43)	–	–
Profit before tax		1 473	1 700	1 615	1 639
Income tax expense	33	(300)	(624)	(227)	(543)
Profit for the year		1 173	1 076	1 388	1 096
Other comprehensive income, net of tax					
Items that may subsequently be reclassified to income		143	23	–	–
Currency translation differences		143	23	–	–
Total comprehensive income for the year		1 316	1 099	1 388	1 096
Profit attributable to:					
– equity holders of the company		1 120	1 027	1 388	1 096
– non-controlling interest		53	49	–	–
		1 173	1 076	1 388	1 096
Total comprehensive income attributable to:					
– equity holders of the company		1 263	1 050	1 388	1 096
– non-controlling interest		53	49	–	–
		1 316	1 099	1 388	1 096
Earnings attributable to the equity holders	34				
Basic earnings per share (cents)		982	904		
Diluted earnings per share (cents)		973	895		
Weighted average number of shares (millions)		114.12	113.56		
Weighted average number of ordinary shares for diluted earnings per share (millions)		115.12	114.81		

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company					Total R million
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	Non-controlling interest R million	
GROUP						
Balance as at 1 January 2012	107	(635)	1 492	5 072	105	6 141
Profit for the year	-	-	-	1 027	49	1 076
Other comprehensive income:						
Currency translation differences	-	-	23	-	-	23
Total comprehensive income for the year ended 31 December 2012	-	-	23	1 027	49	1 099
Sale of treasury shares	-	56	-	-	-	56
Loss on sale of treasury shares	-	-	-	(57)	-	(57)
Transfer to reserves	-	-	(1 438)	1 438	-	-
Share-based payment costs	-	-	-	50	-	50
Dividends paid	-	-	-	(1 626)	(48)	(1 674)
Interest acquired from non-controlling interest	-	-	-	-	2	2
Balance as at 31 December 2012	107	(579)	77	5 904	108	5 617
Profit for the year	-	-	-	1 120	53	1 173
Other comprehensive income:						
Currency translation differences	-	-	143	-	-	143
Total comprehensive income for the year ended 31 December 2013	-	-	143	1 120	53	1 316
Issue of target shares	-	-	-	-	277	277
Sale of treasury shares	-	59	-	-	-	59
Loss on sale of treasury shares	-	-	-	(60)	-	(60)
Transfer to reserves	-	-	4	(4)	-	-
Share-based payment costs	-	-	-	106	-	106
Dividends paid	-	-	-	(745)	(37)	(782)
Acquisition of subsidiary	-	-	-	-	(1)	(1)
Balance as at 31 December 2013	107	(520)	224	6 321	400	6 532
COMPANY						
Balance as at 1 January 2012	107	-	1 360	4 419	-	5 886
Profit for the year	-	-	-	1 096	-	1 096
Total comprehensive income for the year ended 31 December 2012	-	-	-	1 096	-	1 096
Transfer to reserves	-	-	(1 360)	1 360	-	-
Share-based payment costs	-	-	-	50	-	50
Loss on delivery of shares in terms of share scheme	-	-	-	(153)	-	(153)
Dividends paid	-	-	-	(1 713)	-	(1 713)
Balance as at 31 December 2012	107	-	-	5 059	-	5 166
Profit for the year	-	-	-	1 388	-	1 388
Total comprehensive income for the year ended 31 December 2013	-	-	-	1 388	-	1 388
Share-based payment costs	-	-	-	138	-	138
Loss on delivery of shares in terms of share scheme	-	-	-	(107)	-	(107)
Dividends paid	-	-	-	(778)	-	(778)
Balance as at 31 December 2013	107	-	-	5 700	-	5 807

STATEMENT OF CASH FLOWS

	Notes	Group		Company	
		2013 R million	2012 R million	2013 R million	2012 R million
Cash generated from operations	36	1 616	2 362	1 588	2 013
Interest paid		(118)	(106)	(112)	(100)
Income tax paid	37	(221)	(521)	(137)	(441)
Net cash from operating activities		1 277	1 735	1 339	1 472
Cash flows from investing activities					
Cash (utilised in)/generated from investment activities		(945)	935	(722)	1 020
Acquisition of subsidiary	38	(105)	–	(95)	–
Cash acquired through acquisition of subsidiary	38	15	–	15	–
Purchases of equipment		(36)	(63)	(23)	(38)
Purchases of software		(71)	(31)	(56)	–
Proceeds from sale of equipment		1	1	1	1
Acquisition of associated companies		(88)	(6)	–	–
Proceeds from sale of associated companies		63	–	63	–
Acquisition of book of business		(9)	(81)	(9)	(9)
Net cash from/(used in) investing activities		(1 175)	755	(826)	974
Cash flows from financing activities					
Proceeds from issue of target shares		277	–	–	–
Increase/(decrease) in investment contract liabilities		29	(17)	–	–
Increase/(decrease) in collateral guarantee contracts		7	(39)	7	(39)
Dividends paid to company's shareholders	39	(745)	(1 626)	(778)	(1 713)
Dividends paid to non-controlling interest	39	(37)	(48)	–	–
Increase in cell owners' interest		111	90	–	–
Net cash used in financing activities		(358)	(1 640)	(771)	(1 752)
Net (decrease)/increase in cash and cash equivalents		(256)	850	(258)	694
Cash and cash equivalents at the beginning of the year		2 471	1 598	1 645	930
Exchange gains on cash and cash equivalents		128	23	118	21
Cash and cash equivalents at the end of the year		2 343	2 471	1 505	1 645

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

1.1 Statement of compliance

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

1.2 Basis of presentation

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

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's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

The group did not early adopt any of the IFRS standards.

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

a) Standards, amendments and interpretations effective in 2013

The following amendments to published standards are mandatory for the group's accounting period beginning on or after 1 January 2013:

Number	Effective date	Executive summary
Amendments to IAS 1 – <i>Presentation of Financial Statements, on presentation of items of OCI</i>	1 July 2012	The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. Detail of these classifications is provided in note 18.
Amendment to IFRS 7 – <i>Financial Instruments: Disclosures – Asset and Liability offsetting</i>	1 January 2013	These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. Additional disclosure on derivative instruments that are disclosed on a net basis is provided in note 3.4.1
IAS 19 – <i>Employee benefits</i>	1 January 2013	This amendment did not have an impact on the group.
IFRS 10 – <i>Consolidated financial statements and the Amendment to the transition requirements in IFRS 10, IFRS 11 and IFRS 12</i>	1 January 2013	IFRS 10 introduces a new control model that focuses on whether the group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. As a result of IFRS 10, the group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. Furthermore, the group reassessed the control conclusion for its investees at 1 January 2013 in accordance with the transitional provisions of IFRS 10. This assessment did not impact the entities that the group consolidates. The group does not consolidate any unstructured entities, such as collective investment schemes, as none of the entities in the group have a holding of more than 5% in any such unstructured entity and have the ability to affect the returns of the entities.

NOTES TO THE FINANCIAL STATEMENTS

IFRS 11 – <i>Joint arrangements</i>	1 January 2013	This standard had no impact on the group.
IFRS 12 – <i>Disclosures of interests in other entities</i>	1 January 2013	This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. As a result of IFRS 12, the group has expanded its disclosure about its interests in equity-accounted investees (see note 8) as well as non-controlling interests (see note 16).
IFRS 13 – <i>Fair value measurement</i>	1 January 2013	IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as 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. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs. In accordance with transitional provisions of IFRS 13, the group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Additional disclosures are provided in note 3.
IAS 27 (revised 2011) – <i>Separate financial statements</i>	1 January 2013	This standard had no impact on the company.
IAS 28 (revised 2011) – <i>Associates and joint ventures</i>	1 January 2013	This standard had no impact on the company.
Amendment to IAS 1 – <i>Presentation of financial statements</i>	1 January 2013	This amendment had no impact on the group.
Amendment to IAS 32 – <i>Financial instruments: Presentation</i>	1 January 2013	This amendment had no impact on the group.
Amendment to IAS 34 – <i>Interim financial reporting</i>	1 January 2013	This amendment had no impact on the group.

NOTES TO THE FINANCIAL STATEMENTS

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

- IFRS 9 – Financial Instruments (2009) (effective 1 January 2015)
- IFRS 9 – Financial Instruments (2010) (effective 1 January 2015)
- Amendments to IFRS 9 – Financial Instruments (2011) (effective 1 January 2015)
- Amendments to IAS 32 – Financial Instruments: Presentation (effective 1 January 2014)
- Amendment to IAS 39 on novation of derivatives (effective 1 January 2014)
- Amendments to IAS 36, 'Impairment of assets' (effective 1 January 2014)
- Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12 and IAS 27 for investment entities (effective 1 January 2014)
- IFRIC 21 – Accounting for levies (effective 1 January 2014)

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

1.3 Consolidation

a) Subsidiaries and business combinations

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

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

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

d) Interest in equity accounted investees

The group's interest in equity accounted investees comprises interest in associates. 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. Investments in associates 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 includes goodwill identified on acquisition (see note 1.8).

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 are reclassified to profit or loss where appropriate.

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

On consolidation exchange differences arising from the translation of the net investment in foreign associates are taken to shareholders' equity. When a foreign associate 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 the associate 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 and its carrying value, and recognises the amount adjacent to share of profit or loss of the associate in the statement of comprehensive income.

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

Dilution gains and losses arising in investments in associates 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 at cost less provision for impairment.

1.4 Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS

1.5 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.

1.6 Property and equipment

a) Property

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

b) Equipment

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

Estimated useful lives are as follows:

Computer equipment	3 years
Furniture and equipment	3 – 5 years
Motor vehicles	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.

1.7 Leases

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

1.8 Intangible assets

a) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates; 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 purposes 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 is included in the carrying amount of investments in associates.

b) 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 three years.

c) 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.

d) 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 FINANCIAL STATEMENTS

1.9 Financial assets

1.9.1 Classification

a) Financial assets at fair value through income

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

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

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

- Those that are held in funds to match investment contract liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at fair value through income eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases.
- Those that are managed and whose performance is evaluated on a fair value basis.
Information about these financial assets is provided internally on a fair value basis to the group's key management personnel. The group's investment strategy is to invest in equity and debt securities, and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at fair value through income.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the group intends to sell in the short term or that it has designated as at fair value through income. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

1.9.2 Recognition and measurement

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

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

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

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

1.9.3 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 group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

1.10 Impairment of assets

a) Financial assets carried at amortised cost

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

b) Impairment of other non-financial assets

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).

1.11 Derivative financial instruments

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.

1.12 Offsetting financial and other instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a currently legally 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.

1.13 Cash and cash equivalents

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

1.14 Share capital

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

Where any group company purchases the company's equity share capital (treasury shares) the consideration paid, including any directly incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders. Where such shares are subsequently sold, reissued or otherwise disposed 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 are transferred from treasury shares to distributable reserves.

1.15 Debt securities

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

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

1.16 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.

1.17 Insurance contracts

Insurance contracts are classified into three main categories, depending on the type of insurance risk exposure; namely, short-term, long-term and cell insurance.

a) Short-term insurance

Short-term insurance provides benefits under short-term 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. Short-term 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 premiums

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 the 365th method, except for insurance classes where allowance is made for uneven exposure consisting of crop and alternative risk business and on certain inwards reinsurance treaties where the 8th method or 50% of the total gross written premiums are applied.

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 short-term insurance liabilities.

iv) Provision for claims

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

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

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the company at that date. This provision is calculated using actuarial modelling (refer note 2).

vi) Deferred acquisition costs (DAC)

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

vii) Reinsurance contracts held

Contracts entered into by the group with reinsurers under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts in note 1.16 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Income received from insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) is included with premium income.

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

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

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

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

viii) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, intermediaries and insurance contract holders and are included under loans and receivables and trade and other payables.

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

ix) 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). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims. The allowance is the amount that can reasonably be recovered from the disposal of the property.

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

b) Long-term insurance

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

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

c) Cell insurance

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

- First-party cell captive arrangements are arrangements where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies. The cell shareholder and the policyholder are considered the same person. Where more than one contract is entered into with a single

counterparty, it shall be considered a single contract, and the shareholder and insurance agreement are considered together for risk transfer purposes. As these contracts are a single contract there is no significant risk transfer and such cell captive facilities are accounted for as investment contracts.

- Third-party cell captive arrangements are arrangements where the cell shareholder provides its own client base with the opportunity to purchase branded insurance products. The insurance company is the principle to the insurance contract, although the business is underwritten on behalf of the cell shareholder. However, the shareholder's agreement 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 held by the insurer and is included under liabilities due to cell shareholders. The carrying value of amounts due to cells is the consideration received for preference shares plus the accumulated funds in respect of business conducted in the cells less repayment to cells.

1.18 Investment contracts

The group recognises the following investment contracts:

a) First-party cells

First-party cell captives are disclosed in accordance with the requirement detailed in the accounting policy under 'First party' (refer to accounting policy note 1.17(c)).

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 that 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.

1.19 Liability to cell shareholders

Liability to cell shareholders is measured in accordance with the requirement set out in IFRS 4 detailed in the accounting policy under 'Cell insurance' (refer to accounting policy note 1.17(c)).

Liabilities to cell shareholders represent the cells' shareholder funds in respect of the insurance business conducted in the cell structures. 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 premium 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 liability.

1.20 Taxation

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 and associates 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) 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.

NOTES TO THE FINANCIAL STATEMENTS

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability 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 income 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 either to settle the balances on a net basis.

c) Secondary tax on companies (STC)

On 1 April 2012 dividends withholding tax became effective and replaced STC (refer note 1.20(d)). Prior to 1 April 2012 STC that arose from the distribution of dividends was recognised at the same time as the liability to pay the related dividend. Where there was an unutilised secondary tax credit it is carried forward and applied to the secondary tax liability when this arose. A deferred tax asset was recognised on any unutilised secondary tax credits at year-end.

d) 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.

1.21 Employee benefits

a) Pension obligations

The group has only 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) Other post-employment obligations

The group has settled its contractual medical contribution commitments in respect of pensioners with the Santam Pension Fund in 1998. The Santam Pension Fund bought an insurance policy to cover this commitment. The group will stand in for any shortfall should the present value of the contractual medical contribution commitments exceed the value of the Pension Fund's insurance policy. The present value of this post-retirement medical aid obligation is actuarially determined annually and any shortfall on the underlying security is immediately recognised in the statement of comprehensive income. Any surplus on the underlying security is not recognised in the statement of comprehensive income as it belongs to the Santam Pension Fund.

c) 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 (Exco) and full-time senior and middle management – are subject to retention periods. Should the beneficiary be in breach of the retention period, a certain amount is subject for repayment. The costs associated with the long-term incentive and retention bonus plan are recognised in the statement of comprehensive income over the retention period.

d) Deferred share plan (DSP)

In terms of the DSP, Santam undertakes to deliver a fixed number of shares to selected employees on predetermined dates in the future, on condition that the employee is still in the employment of Santam and achieved certain performance hurdles on or by those dates. Vesting occurs in three tranches over a period of five years from the grant date.

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.

e) The Emthunzini Black Economic Empowerment (BEE) scheme

In terms of the BBBEE scheme, Central Plaza (a structured entity within the Sanlam Group), undertakes to deliver a specified number of units to selected black Santam employees or strategic business partners on predetermined dates in the future. Employees still need to be in the employment of Santam on or by those dates. Vesting occurs in five tranches over a period of seven years.

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.

f) 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.

g) Performance bonus plans

The group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders 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.

1.22 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.

1.23 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.

1.24 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.

1.25 Other revenue recognition

Interest income

Interest income is recognised using the effective-interest method.

1.26 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.

1.27 Solvency margin

The solvency margin is calculated by expressing the total statutory shareholders' funds as a percentage of the consolidated net written premium for the past 12 months.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Insurance liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

Insurance liabilities include the provisions for unearned premiums, 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 amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the reporting date.

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

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

At each reporting date an assessment is made of whether the provisions for unearned premiums are adequate.

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 risks provision.

The need for an unexpired risks 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 risks provision.

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

iii) *Outstanding claims*

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

Claims provisions are determined based on previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on the interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard for the specific circumstances, information available from the insured and/or loss adjuster and 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 carried out to estimate reinsurance recoveries. The calculation of reinsurance recoveries considers the type of risk underwritten, the year in which the loss claim occurred and under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or formed part of a catastrophe reinsurance claim.

iv) Claims incurred but not reported (IBNR)

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

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

Stochastic chain-ladder methodology

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

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

The claims provisions are subject to close scrutiny both within the group's business units and at a company level. In addition, for major 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.

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 R43 million (2012: R41 million) while a 5% downward adjustment in the level of sufficiency would result in a release of reserves in the statement of comprehensive income of approximately R38 million (2012: R35 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.

NOTES TO THE FINANCIAL STATEMENTS

b) Impairment of goodwill

In accordance with the accounting policy stated in notes 1.8(a) and 6 the group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined by estimating the future cash flows expected to arise from the cash-generating unit and a suitable discount rate to calculate the present value.

c) Business combinations

With a business combination all identifiable assets are recognised at their respective fair values in the consolidated financial statements. The fair values of intangible assets acquired through business combinations are determined by using a discounted cash flow valuation method. The discount rate is based on the long-term risk-free rate with risk premiums added for market and other company and asset-specific risks. Intangible assets acquired through business combinations were valued using a discount rate of between 17% and 22%. Asset-specific assumptions used in the valuation of these intangible assets are listed below.

i) Brand and trade names

The main assumptions used in the valuation of brand and trade names are the useful lives of these assets and the future revenue growth of the underlying business.

The useful life of a brand and trade name is estimated based on how strong and recognised the brand currently is in the market as well as the annual spend on brand marketing. For the brands and trade names recognised on the statement of financial position a useful life range of three to five years was assumed.

Future revenue growth margins used in determining a brand and trade name value were consistent with the margins applied in determining the fair value of the related investment.

ii) Key business relationships

The main assumptions used in the valuation of key business relationships are the useful lives of these assets and the future profitability and cancellation rate of the underlying revenue streams.

The useful life of a key business relationship is estimated based on the cancellation experience of the existing business and the useful life of client relationships on other players in the market. For the newly acquired key business relationships recognised at 31 December 2013 a useful life range of two to four years and an average cancellation rate of between 18% and 35% were assumed.

If a useful life range of one to three years were applied in 2013 the asset value would have been R3 million (2012: RNil) lower and if a range of four to six years were applied, the asset value would have been R4 million (2012: RNil) higher.

Future profit margins used in determining client contracts and relationships values, were consistent with the margins applied in determining the fair value of the related investment.

d) Fair value of financial assets 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 note 3.3.

3. RISK AND CAPITAL MANAGEMENT

3.1 Risk management framework

The group has an established enterprise risk management framework that is designed to identify, assess, measure and manage exposure to risk. Its primary objective is to protect the group from events that hinder the sustainable achievement of the group's performance objectives, including failing to exploit opportunities.

The following key elements of Santam's risk management framework are discussed in the corporate governance section of the integrated report available on www.santam.co.za:

- The boards' responsibility for risk management and their opinion on the effectiveness of the process.
- The risk strategy, key principles and policy for the overall management and governance of enterprise risk management including roles, responsibilities and reporting structures.
- The approach followed to build an enterprise view of the risks faced by Santam.

For the discussions below, the following financial instruments and insurance balances are disclosed in classes based on their similar characteristics:

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
Financial and insurance assets				
Quoted equity securities	3 482	3 279	3 316	3 106
Unquoted equity securities	529	272	529	21
Total equity securities	4 011	3 551	3 845	3 127
Quoted debt securities	3 709	3 519	2 938	2 780
Unquoted debt securities	3 597	3 438	2 207	1 959
Total debt securities	7 306	6 957	5 145	4 739
Derivatives	1	6	1	6
Short-term money market instruments	1 424	917	889	670
Receivables due from contract holders	1 880	1 503	1 639	1 349
Reinsurance receivables	417	97	377	28
Other loans and receivables	387	488	983	994
Total loans and receivables including insurance receivables	2 684	2 088	2 999	2 370
Cell owners' interest	15	24	-	-
Reinsurance assets	2 344	1 755	1 985	1 476
Deferred acquisition costs	369	340	328	275
Cash and cash equivalents	2 343	2 471	1 505	1 645
Total financial and insurance assets	20 497	18 109	16 697	14 309

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
Financial and insurance liabilities				
Debt securities	1 021	1 058	1 021	1 058
Investment contracts	126	95	-	-
Derivatives	204	-	204	-
Cell owners' interest	814	712	-	-
Collateral guarantee contracts	82	75	82	75
Insurance liabilities	10 691	9 658	8 477	7 565
Deferred reinsurance acquisition revenue	171	147	155	131
Trade and other payables	2 561	1 886	3 122	2 211
Total financial and insurance liabilities	15 670	13 631	13 061	11 041

3.2 Changing regulatory and business landscape

There have been several changes in the group's regulatory and compliance business landscape during 2013. These changes are driven by larger regulatory projects which will continue to impact the group in the medium term. It is expected that these changes will also have an impact on the group's solvency requirements, financial reporting and the way it conducts its business.

The Santam board of directors and management are actively monitoring the changes and incorporating the possible implications in the business plans and governance structures going forward. The group and its subsidiaries seek constructive engagement with their various regulators and policymakers. This is done through appropriate participation in industry forums.

NOTES TO THE FINANCIAL STATEMENTS

3.3 Fair value estimation

IFRS 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

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

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

The following tables present the assets and liabilities that are measured at fair value

31 December 2013

GROUP	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Financial assets				
Equity securities				
Quoted				
Listed	3 350	–	–	3 350
Unitised funds	–	130	–	130
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	529	529
Total equity securities	3 352	130	529	4 011
Debt securities				
Quoted				
Government and other bonds	1 607	178	–	1 785
Redeemable preference shares	–	288	–	288
Money market instruments > 1 year	–	1 636	–	1 636
Unquoted				
Government and other bonds	–	54	–	54
Money market instruments > 1 year	–	3 520	–	3 520
Redeemable preference shares	–	–	23	23
Total debt securities	1 607	5 676	23	7 306
Derivatives				
Interest rate swaps	–	–	1	1
Total derivatives	–	–	1	1
Short-term money market instruments	–	1 424	–	1 424
	4 959	7 230	553	12 742

GROUP	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Financial liabilities				
Debt securities	1 021	–	–	1 021
Investment contracts	–	126	–	126
Derivatives				
Fence	–	–	204	204
	1 021	126	204	1 351

NOTES TO THE FINANCIAL STATEMENTS

COMPANY	Level 1	Level 2	Level 3	Total
Financial assets	R million	R million	R million	R million
Equity securities				
Quoted				
Listed	3 259	–	–	3 259
Unitised funds	–	55	–	55
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	529	529
Total equity securities	3 261	55	529	3 845
Debt securities				
Quoted				
Government and public bonds	1 300	159	–	1 459
Redeemable preference shares	–	288	–	288
Money market instruments > 1 year	–	1 191	–	1 191
Unquoted				
Government and public bonds	–	46	–	46
Unitised funds	–	–	–	–
Money market instruments > 1 year	–	2 161	–	2 161
Total debt securities	1 300	3 845	–	5 145
Derivatives				
Interest rate swaps	–	–	1	1
Total derivatives	–	–	1	1
Short-term money market instruments	–	889	–	889
	4 561	4 789	530	9 880

COMPANY	Level 1	Level 2	Level 3	Total
Financial liabilities	R million	R million	R million	R million
Debt securities	1 021	–	–	1 021
Derivatives				
Fence	–	–	204	204
	–	–	204	204
	1 021	–	204	1 225

31 December 2012

GROUP	Level 1	Level 2	Level 3	Total
Financial assets	R million	R million	R million	R million
Equity securities				
Quoted				
Listed	3 183	–	–	3 183
Unitised funds	–	94	–	94
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	272	272
Total equity securities	3 185	94	272	3 551
Debt securities				
Quoted				
Government and other bonds	1 644	87	–	1 731
Redeemable preference shares	–	275	–	275
Money market instruments > 1 year	–	1 513	–	1 513
Unquoted				
Government and other bonds	–	31	–	31
Money market instruments > 1 year	–	3 378	–	3 378
Redeemable preference shares	–	–	29	29
Total debt securities	1 644	5 284	29	6 957
Derivatives				
Interest rate swaps	–	–	6	6
Total derivatives	–	–	6	6
Short-term money market instruments	–	917	–	917
	4 829	6 295	307	11 431

GROUP	Level 1	Level 2	Level 3	Total
Financial liabilities	R million	R million	R million	R million
Debt securities	1 058	–	–	1 058
Investment contracts	–	95	–	95
	1 058	95	–	1 153

NOTES TO THE FINANCIAL STATEMENTS

COMPANY	Level 1	Level 2	Level 3	Total
Financial assets	R million	R million	R million	R million
Equity securities				
Quoted				
Listed	3 090	–	–	3 090
Unitised funds	–	14	–	14
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	21	21
Total equity securities	3 092	14	21	3 127
Debt securities				
Quoted				
Government and public bonds	1 399	70	–	1 469
Redeemable preference shares	–	275	–	275
Money market instruments > 1 year	–	1 036	–	1 036
Unquoted				
Government and public bonds	–	27	–	27
Money market instruments > 1 year	–	1 932	–	1 932
Total debt securities	1 399	3 340	–	4 739
Derivatives				
Interest rate swaps	–	–	6	6
Total derivatives	–	–	6	6
Short-term money market instruments	–	670	–	670
	4 491	4 024	27	8 542

COMPANY	Level 1	Level 2	Level 3	Total
Financial liabilities	R million	R million	R million	R million
Debt securities	1 058	–	–	1 058
	1 058	–	–	1 058

Level 1

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

Level 2

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

- Collective Investments Schemes
- Debt and short-term money market instruments where the value is determined by using market observable input, e.g. JIBAR, prime rate, listed bond rates of similar instruments, without significant adjustments
- Investment contract liabilities

Level 3

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

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

- Unquoted equity instruments
 - o Fair value (excluding SEM target shares) is determined based on valuation techniques where the input is determined by management, e.g. multiples of net asset value, and is not readily available in the market or where market observable input is significantly adjusted. Valuations are generally based on price/earnings multiples ranging between 1 and 11. A 10% decrease or increase in the discount applied to the net asset values and/or the valuation multiples would decrease or increase the market value by R3 million (2012: R8 million).
 - o The fair value of the SEM target shares is determined using discounted cash flow models. The most significant assumptions used in these models are the discount rate, exchange rate and net insurance margin profile expectations. Should the discount rates increase or decrease by 10%, the cumulative value of the most significant target shares would decrease by R93 million or increase by R147 million respectively. If exchange rate increase or decrease by 10%, the fair values will also increase or decrease by R50 million. Should the net insurance margin profile (projected over a period of 10 years) increase or decrease by 10%, the fair values will increase by R64 million or decrease by R62 million respectively.

– **Derivatives**

- o The interest rate swaps are valued using Sanlam Investment Managers' (SIM) swap curve to separately discount (i.e. calculate the present value) the future flows of the fixed and floating leg. The market value of the swap is the sum of these two present values.
- o During the first half of 2013, Santam entered into three derivative fence structures on 28 March 2013, 3 April 2013 and 8 May 2013 covering equities to the value of R700 million, R700 million and R600 million respectively. The implementation level of the first tranche was 7593 (SWIX40 index) with downside protection of 10% from a market level of 7441 and upside participation of 9.7%. The implementation level of the second tranche was 7515 with downside protection of 10% from a market level of 7365 and upside participation of 9.6%. The implementation level of the third tranche was 7694 with downside protection of 10% from a market level of 7540 and upside participation of 9.5%. The upside participation is calculated from the implementation level and the average duration of the structures is 12 months. At 31 December 2013, the SWIX40 index closed at 9000 and the structures had a fair value of negative R204 million. The fair value is determined by SIM as well as the independent banks that are party to the contract. The most significant input to the valuation is the market level. For more information on sensitivities refer to page 36.

The following table presents the changes in level 3 instruments

31 December 2013	Equity securities Unquoted R million	Debt securities Unquoted Redeemable preference shares R million	Derivatives R million	Total R million
GROUP				
Opening balance	272	29	6	307
Acquisitions	511	–	–	511
Interest and dividends capitalised	1	–	–	1
Disposals	(39)	–	–	(39)
Classified as held for sale	(299)	–	–	(299)
Exchange rate differences	64	–	–	64
Gains/(losses) recognised in profit or loss	19	(6)	(209)	(196)
Closing balance	529	23	(203)	349

The Investment in Cardrow Insurance Ltd was classified as held for sale during 2013 (refer to note 14). The investment had an opening balance of R233 million with exchange gains of R64 million and fair value gains of R2 million during the year. The closing balance at 31 December 2013 amounted to R299 million.

COMPANY

Opening balance	21	–	6	27
Acquisitions	509	–	–	509
Disposals	(27)	–	–	(27)
Gains recognised in profit or loss	26	–	(209)	(183)
Closing balance	529	–	(203)	326

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the changes in level 3 instruments

	Equity securities Unquoted R million	Debt securities Unquoted Redeemable preference shares R million	Derivatives R million	Total R million
31 December 2012				
GROUP				
Opening balance	414	276	1	691
Acquisitions	2	25	–	27
Disposals	(1)	(272)	–	(273)
Exchange rate differences	38	–	–	38
Gains/(losses) recognised in profit or loss	(181)	–	5	(176)
Closing balance	<u>272</u>	<u>29</u>	<u>6</u>	<u>307</u>
COMPANY				
Opening balance	14	272	1	287
Acquisitions	1	–	–	1
Disposals	–	(272)	–	(272)
Gains recognised in profit or loss	6	–	5	11
Closing balance	<u>21</u>	<u>–</u>	<u>6</u>	<u>27</u>

3.4 Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices and foreign currency exchange rates. Financial and insurance assets are disclosed in the following classes based on their similar characteristics:

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

Market risk arises due to fluctuations in both the value of liabilities and the value of investments held.

The group has established a policy on market risk which sets out the principles that businesses are expected to adopt in respect of management of the key market risks to which the group is exposed. The group monitors adherence to this market risk policy and regularly reviews how business units are managing these risks through the group investment committee. For each of the major components of market risk, described in more detail below, the group has put in place additional policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

3.4.1 Price risk

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

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's holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by management and statutory requirements. The group's largest investment in any one company comprises 10.1% (2012: 8.4%) of the total quoted equities and 1.6% (2012: 1.4%) of the total assets. The company's largest investment in any one company comprises 10.3% (2012: 8.4%) of the total quoted equities and 1.8% (2012: 1.6%) of the total assets.

At 31 December 2013, the group's quoted equities were recorded at their fair value of R3 482 million (2012: R3 279 million). These figures include linked policy investments to the value of R47 million (2012: R60 million). The group is not exposed to significant price risk in respect of these investments as a corresponding fair value movement is recognised against the

NOTES TO THE FINANCIAL STATEMENTS

policyholder liability. A 10% decline in each individual unit price would have the net effect of decreasing profit before taxation by R344 million (2012: R322 million). A 10% increase in each individual unit price would have the net effect of increasing profit before taxation by R344 million (2012: R322 million). The company's quoted equities were recorded at their fair value of R3 316 million (2012: R3 106 million). A 10% decline in each individual unit price would have the net effect of decreasing profit before taxation by R332 million (2012: R311 million). A 10% increase in each individual unit price would have the net effect of increasing profit before taxation by R332 million (2012: R311 million).

An increase of 10% in the underlying equity market will result in the fence liability to be valued at R423 million. Similarly a decrease in 10% of the underlying equity market will result in the fence liability to be valued at R37 million. The fair value of the fence is disclosed on a net basis in the statement of financial position as well as the statement of comprehensive income due to the contractual right to settle the instruments on a net basis. The gross exposure asset and liability at year-end amounted to R6 million and R210 million respectively.

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			
	2013		2012		2013		2012	
	Number	Market	Number	Market	Number	Market	Number	Market
	of shares	value	of shares	value	of shares	value	of shares	value
		R million		R million		R million		R million
Listed								
Naspers Ltd	319 825	351	246 056	134	310 270	340	237 600	129
MTN Group Ltd	1 457 240	316	1 514 054	269	1 409 268	306	1 458 558	259
Sasol Ltd	486 937	251	527 177	191	472 035	243	511 145	185
SAB Miller Ltd	297 522	159	382 991	149	288 670	154	368 460	143
BHP Billiton Plc	481 453	156	688 724	202	467 334	151	668 514	196
British American Tobacco Plc	257 675	144	260 570	112	248 730	139	254 750	109
Anglo American Plc	594 158	136	591 778	154	594 158	136	591 778	154
Standard Bank Group Ltd	988 280	128	1 149 910	137	988 280	128	1 149 910	137
Old Mutual Plc	3 654 896	120	4 362 659	107	3 654 896	120	4 252 646	104
Compagnie Financière Richemont SA	1 094 876	115	1 283 237	85	1 069 309	112	1 244 189	83
Steinhoff International Holdings Ltd	2 355 952	106	–	–	2 327 224	105	–	–
The Bidvest Group Ltd	386 728	104	451 183	97	376 637	101	438 237	94
Remgro Ltd	498 035	104	669 201	107	481 439	100	650 719	104
Investec Plc	984 469	74	1 145 439	67	966 538	73	1 124 608	66
Woolworths Holdings Ltd	917 629	69	1 294 025	92	897 685	67	1 269 145	90
Vodacom Group Ltd	491 556	65	860 045	107	484 201	64	848 831	105
RMB Holdings Ltd	1 299 033	63	1 519 001	62	1 291 172	62	1 502 342	61
Barclays Group Africa Ltd	443 151	59	615 391	101	431 762	57	602 182	99
Nedbank Group Ltd	258 852	54	257 202	48	258 852	54	257 202	48
Tiger Brands Ltd	–	–	195 745	64	–	–	192 308	63
Imperial Holdings Ltd	–	–	272 642	54	–	–	268 682	53
Impala Platinum Holdings Ltd	–	–	322 058	54	–	–	309 923	52
Other		778		790		746		756
		<u>3 350</u>		<u>3 183</u>		<u>3 259</u>		<u>3 090</u>
Listed								
Unitised funds		130		94		55		14
Irredeemable preference shares		2		2		2		2
		<u>3 482</u>		<u>3 279</u>		<u>3 316</u>		<u>3 106</u>

Short-term insurance liabilities are not directly sensitive to equity price risk. Long-term investment contract liabilities are sensitive to price risk of linked assets.

The board actively monitors equity assets owned directly by the group, which include some material shareholdings in the group's strategic business partners. Concentrations of specific equity holdings are also monitored.

3.4.2 Interest rate risk

Interest rate risk arises primarily from the group's investments in long-term debt and fixed income securities, which are exposed to fluctuations in interest rates. Exposure to interest rate risk is monitored through several methods that include scenario testing and stress testing using measures such as duration.

NOTES TO THE FINANCIAL STATEMENTS

Interest rate risk is also managed using derivative instruments, such as swaps, to provide a degree of hedging against unfavourable market movements in interest rates. At 31 December 2013, the group had an interest rate swap agreement to partially mitigate the effects of potential adverse interest rate movements on financial assets underlying the unsecured subordinated callable notes.

Short-term 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.

An increase or decrease of 1% in the respective interest rates would result in the following changes in the fair values of fixed rate interest-bearing financial assets.

GROUP	2013		2012	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
Financial assets				
Quoted debt securities	(70)	76	(62)	62
Unquoted debt securities	(5)	6	(14)	14
Short-term money market instruments	–	–	(1)	1
Derivative instruments	(3)	3	(4)	4
Total interest-bearing securities	(78)	85	(81)	81

An increase or decrease of 1% in the interest rates of floating rate instruments would result in an increase in income before taxation of R64 million (2012: R91 million) or a decrease in income before taxation of R64 million (2012: R89 million).

In total, an increase or decrease of 1% in the interest rates relating to all interest-bearing financial assets and derivative assets would result in a decrease in income before taxation of R14 million (2012: increase of R10 million) or an increase in income before taxation of R21 million (2012: decrease of R8 million) respectively.

An increase or decrease of 1% in the respective interest rates would result in the following changes in income before taxation due to changes to the fair values of fixed rate interest-bearing financial liabilities.

GROUP	2013		2012	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
Financial liabilities				
Debt securities – quoted	31	(32)	40	(40)
Total interest-bearing securities	31	(32)	40	(40)

In total, an increase or decrease of 1% in the interest rates relating to interest-bearing financial liabilities and derivative liabilities would result in an increase in income before taxation of R31 million (2012: R40 million) or a decrease in income before taxation of R32 million (2012: R40 million) respectively.

An increase or decrease of 1% in the respective interest rates would result in the following changes to the fair values of fixed rate interest-bearing financial assets.

COMPANY	2013		2012	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
Financial assets				
Quoted debt securities	(54)	59	(50)	50
Unquoted debt securities	(4)	4	–	–
Derivative instruments	(3)	3	(4)	4
Total interest-bearing securities	(61)	66	(54)	54

An increase or decrease of 1% in the interest rates of floating rate instruments would result in an increase in income before taxation of R45 million (2012: R60 million) or a decrease in income before taxation of R45 million (2012: R58 million) respectively.

In total, an increase or decrease of 1% in the interest rates relating to all interest-bearing financial assets and derivative assets would result in a decrease in income before taxation of R16 million (2012: R6 million) or an increase in income before taxation of R21 million (2012: R4 million) respectively.

An increase or decrease of 1% in the respective interest rates would result in the following changes in income before taxation due to changes to the fair values of fixed rate interest-bearing financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

COMPANY	2013		2012	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
Financial liabilities				
Debt securities – quoted	31	(32)	40	(40)
Total interest-bearing securities	31	(32)	40	(40)

In total, an increase or decrease of 1% in the interest rates relating to interest-bearing financial liabilities and derivative liabilities would result in an increase in income before taxation of R31 million (2012: R40 million) or a decrease in income before taxation of R32 million (2012: R40 million) respectively.

A 1% increase in the discount rate would result in a R3 million (2012: R4 million) decrease in the fair value of the interest rate swaps, but a 1% decrease in the discount rate would result in a R3 million (2012: R4 million) increase in the fair value, resulting in similar decreases and increases in investment income. The fair value of the swap is disclosed on a net basis in the statement of financial position as well as the statement of comprehensive income due to the contractual right to settle the instruments on a net basis. The gross exposure asset and liability at year-end amounted to R23 million and R22 million respectively.

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

3.4.3 Foreign currency risk

The group's exposure to currency risk is mainly in respect of foreign investments made in line with the long-term strategy approved by the board for seeking desirable international diversification of investments to expand its income stream. The company has investments in foreign subsidiaries whose net assets are exposed to currency translation risk, primarily to the British pound (see note 14 for those assets that were classified as held for sale).

In addition, the southern African operations have foreign exchange exposure in respect of net monetary assets denominated in foreign currency, predominantly US dollar and the British pound. The SEM target shares (see note 9) are also exposed to South East Asian, Indian and African currencies.

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

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

31 December 2013	Euro € million	United States dollar \$ million	British pound £ million	Total exposure R million
GROUP				
Equities and similar securities	–	–	–	–
Debentures, insurance policies, public sector stocks and other loans	–	–	–	–
Cash, deposits and similar securities	–	72.12	7.70	888.03
Reinsurance assets	–	0.34	–	3.46
Deferred acquisition costs	–	0.03	–	0.29
Trade and other receivables	–	4.49	0.88	123.53
Insurance liabilities	–	(0.86)	–	(8.88)
Deferred reinsurance acquisition revenue	–	(0.01)	–	(0.08)
Trade and other payables*	–	(1.03)	(25.88)	(449.41)
Foreign currency exposure	–	75.08	(17.30)	556.94
COMPANY				
Equities and similar securities	–	–	–	–
Debentures, insurance policies, public sector stocks and other loans	–	–	–	–
Cash, deposits and similar securities	–	60.35	7.70	768.35
Reinsurance assets	–	0.34	–	3.46
Deferred acquisition costs	–	0.03	–	0.29
Trade and other receivables	–	4.49	0.88	123.53
Insurance liabilities	–	(0.86)	–	(8.88)
Deferred reinsurance acquisition revenue	–	(0.01)	–	(0.08)
Trade and other payables*	–	(1.03)	(25.88)	(449.41)
Foreign currency exposure	–	63.31	(17.30)	437.26

Exchange rates:

Closing rate	14.51	10.53	17.42
Average rate	12.78	9.61	15.00

* The £25.88 million relates to a loan with Santam International and is considered to be part of the net foreign investment.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012	Euro € million	United States dollar \$ million	British pound £ million	Total exposure R million
GROUP				
Cash, deposits and similar securities	0.72	49.02	7.66	527
Reinsurance assets	-	0.62	-	5
Deferred acquisition costs	-	0.10	-	1
Trade and other receivables	0.27	8.31	0.23	80
Insurance liabilities	-	(1.91)	-	(16)
Deferred reinsurance acquisition revenue	-	(0.02)	-	-
Trade and other payables	-	(0.42)	(25.81)	(355)
Foreign currency exposure	0.99	55.70	(17.92)	242
COMPANY				
Cash, deposits and similar securities	0.72	37.20	7.66	427
Reinsurance assets	-	0.62	-	5
Deferred acquisition costs	-	0.10	-	1
Trade and other receivables	0.27	8.31	0.23	80
Insurance liabilities	-	(1.91)	-	(16)
Deferred reinsurance acquisition revenue	-	(0.02)	-	-
Trade and other payables	-	(0.42)	(25.81)	(355)
Foreign currency exposure	0.99	43.88	(17.92)	142
Exchange rates:				
Closing rate	11.20	8.47	13.68	
Average rate	10.53	8.19	12.98	

A 10% change in the rand exchange rate against GBP and USD would have the following impact on net assets and income before taxation:

	10% increase in rand/GBP R million	10% decrease in rand/GBP R million	10% increase in rand/USD R million	10% decrease in rand/USD R million
GROUP				
Impact on profit and loss at 31 December 2013	(14.94)	14.94	79.04	(79.04)
Impact on profit and loss at 31 December 2012	(24.53)	24.53	47.20	(47.20)
COMPANY				
Impact on net assets at 31 December 2013	(30.16)	30.16	66.65	(66.65)
Impact on net assets at 31 December 2012	(24.53)	24.53	37.19	(37.19)

The impact of a 10% change in the rand exchange rate against the euro is not disclosed as it is not material for the group or the company.

The foreign exchange profits or losses arising from the translation of international business unit statements of financial position from their functional currencies into rand are recognised in the currency translation reserve. On disposal of the foreign companies, the reserve is realised and released to the statement of comprehensive income.

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

3.4.4 Derivatives risk

Derivatives are primarily used for efficient investment management, risk hedging purposes or to structure specific products. The group does not use derivative financial instruments for speculative purposes, but instead to manage financial risks and to preserve its capital base. Mandates, as set by the investment committee, govern the use of derivative financial instruments.

Over-the-counter derivative contracts 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.

3.5 Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations. Key areas where the group is exposed to credit risk are:

- financial assets and cash and cash equivalents;
- amounts due from insurance policyholders;
- amounts due from insurance contract intermediaries;
- amounts due from reinsurers; and
- reinsurers' share of insurance liabilities.

NOTES TO THE FINANCIAL STATEMENTS

Santam determines counterparty credit quality by reference to international ratings from independent ratings agencies such as Standard & Poor's or, where such ratings are not available, by either national ratings or internal analysis. In 2012, only national or internal ratings were used in the analysis.

Sanlam Investment Managers (SIM) provides management with reports generated by their credit system on a quarterly basis, detailing Santam's counterparty, duration and credit risk. This information is provided to and discussed at the investment committee meetings and opportunity is given to discuss any potential concerns with SIM at their quarterly feedback sessions.

Financial assets are graded according to current issuer credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB. Financial assets which fall outside this range are classified as not rated. Credit limits are set for each counterparty based on default probabilities that are in turn based on the ratings of the counterparty concerned.

The following table provides information regarding the aggregated credit risk exposure for financial assets.

31 December 2013	Credit rating									Not Carrying rated value
	AAA	AA+	AA	AA-	A+	A	A-	BBB		
GROUP	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Debt securities – quoted	307	122	146	180	79	288	399	1 818	370	3 709
Debt securities – unquoted	–	528	627	139	32	60	401	1 520	290	3 597
Total	307	650	773	319	111	348	800	3 338	660	7 306
Short-term money market instruments	101	88	138	95	42	15	165	650	130	1 424
Receivables due from contract holders/intermediaries	–	–	–	–	3	28	33	8	1 808	1 880
Reinsurance receivables	–	11	–	224	3	2	97	–	80	417
Other loans and receivables	20	29	2	4	23	2	10	45	252	387
Total	20	40	2	228	29	32	140	53	2 140	2 684
Derivatives	–	–	1	–	–	–	–	–	–	1
Cash and cash equivalents	12	278	171	462	300	–	889	220	11	2 343
Total national ratings	330	973	1 073	397	455	354	166	114	–	3 862
Total internal ratings	68	–	–	86	25	24	24	99	–	326
COMPANY										
Debt securities – quoted	165	1	42	102	62	149	361	1 698	358	2 938
Debt securities – unquoted	–	–	–	16	–	21	397	1 478	295	2 207
Total	165	1	42	118	62	170	758	3 176	653	5 145
Short-term money market instruments	11	–	6	–	37	5	145	626	59	889
Receivables due from contract holders/intermediaries	–	–	–	–	–	28	33	8	1 570	1 639
Reinsurance receivables	–	–	–	216	–	2	88	–	71	377
Other loans and receivables	2	–	2	3	2	2	8	43	921	983
Total	2	–	2	219	2	32	129	51	2 562	2 999
Derivatives	–	–	1	–	–	–	–	–	–	1
Cash and cash equivalents	–	–	–	337	96	–	853	219	–	1 505
Total national ratings	73	–	50	104	178	166	79	33	–	683
Total internal ratings	67	–	–	16	–	24	20	99	–	226
31 December 2012										
GROUP										
Debt securities – quoted	432	896	375	1 001	56	370	95	7	287	3 519
Debt securities – unquoted	–	1 132	931	991	9	60	–	51	264	3 438
Total	432	2 028	1 306	1 992	65	430	95	58	551	6 957
Short-term money market instruments	101	204	144	265	67	49	33	2	52	917
Receivables due from contract holders/intermediaries	–	29	14	–	–	21	–	2	1 437	1 503
Reinsurance receivables	–	1	–	4	6	5	26	–	55	97
Other loans and receivables	6	53	11	27	3	5	21	1	361	488
Total	6	83	25	31	9	31	47	3	1 853	2 088
Derivatives	–	–	6	–	–	–	–	–	–	6
Cash and cash equivalents	25	1 276	85	711	201	145	–	15	13	2 471

NOTES TO THE FINANCIAL STATEMENTS

	Credit rating								Not rated	Carrying value
	AAA	AA+	AA	AA-	A+	A	A-	BBB		
	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
COMPANY										
Debt securities – quoted	279	703	289	809	41	290	75	6	288	2 780
Debt securities – unquoted	–	519	550	545	–	31	–	51	263	1 959
Total	279	1 222	839	1 354	41	321	75	57	551	4 739
Short-term money market instruments	70	204	82	217	47	34	16	–	–	670
Receivables due from contract holders/intermediaries	–	29	14	–	–	21	–	2	1 283	1 349
Reinsurance receivables	–	–	–	–	3	1	11	–	13	28
Other loans and receivables	4	16	8	20	1	4	–	1	940	994
Total	4	45	22	20	4	26	11	3	2 236	2 371
Derivatives	–	–	6	–	–	–	–	–	–	6
Cash and cash equivalents	25	739	35	585	118	143	–	–	–	1 645

The carrying amount of assets included on the statement of financial position represents the maximum credit exposure.

Receivables that are due from contract holders and intermediaries emanating from the southern African business amounted to R1 880 million (2012: R1 503 million). The group is protected by guarantees provided by the Intermediary Guarantee Facility for the non-payment of premiums collected by intermediaries. The protected portion of receivables due from contract holders and intermediaries amounts to 74.1% (2012: 56.5%). For the company, this amounts to 64.8% (2012: 59.9%). Debtors falling into the 'Not rated' category are managed by the internal credit control departments on a daily basis to ensure recoverability of amounts.

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 amounts owed by reinsurers and 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 invested in any one of the four major South African banks. Accounts receivable is spread over a number of major companies and intermediary parties, clients and geographic areas. The group assesses concentration risk for debt securities, money market instruments and cash collectively. The group does not have concentrations in these instruments to any one company exceeding 15% of total debt securities, money market instruments or cash, except for 19.2% of debt securities, money market instruments and cash with Absa Bank Ltd.

Reinsurance credit exposures

Reinsurance is used to manage insurance risk. However, this does not discharge the group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the group remains liable for the payment to the policyholder. The group has some exposure to concentration risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The creditworthiness of reinsurers is considered annually by reviewing their financial strength prior to finalisation of any contract. The group's largest reinsurance counterparty is Lloyds (2012: Lloyds).

This exposure is monitored on a regular basis with the forecast to completion monitored for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for the group will arise. There were no BBB-rated reinsurance receivables for the group or the company.

Cell owners' interest

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.

Impairment history

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

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

NOTES TO THE FINANCIAL STATEMENTS

There were no material financial assets that would have been past due or impaired had the terms not been renegotiated.

There is no concentration of credit risk with respect to loans and receivables other than reinsurance debtors, as the group has a large number of locally and internationally dispersed debtors.

The impairment of financial assets was based on a high degree of uncertainty to recover the amounts that are due.

3.6 Insurance risk

The group issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the group manages them.

Terms and conditions of insurance contracts

Engineering – Provides cover for risks relating to:

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

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

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

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

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

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

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

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

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

Insurance risk in the group arises from:

- fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- unexpected claims arising from a single source;
- inaccurate pricing of risks when underwritten;
- inadequate reinsurance protection or other risk transfer techniques; and
- inadequate reserving.

The risks under any one insurance contract are the frequency with which the insured event occurs and the uncertainty of the amount of the resulting claims. For a portfolio of insurance contracts where the theory of probability is applied to pricing and reserving, the principal risks the group face are that the actual claims and benefit payments exceed the premiums charged for the risks assumed and that the reserves set aside for policyholders' liabilities, whether they are known or still to be reported, prove to be insufficient.

By the very nature of an insurance contract, this risk is random and therefore unpredictable. Changing risk parameters and unforeseen factors, such as patterns of crime, economic and geographical circumstances, may result in unexpectedly large claims. Insurance events are random and the actual number of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Pricing

The group bases its pricing policy on the theory of probability. Underwriting limits are set for underwriting managers and intermediaries to ensure that this policy is consistently applied. The group also has the right to reprice and change the conditions for accepting risks on renewal. It also has the ability to impose deductibles and reject fraudulent claims.

Through the use of Santam's extensive expertise, well-maintained data resources, selective underwriting practices and pricing techniques it is able to produce appropriate and competitive premium rates.

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

Loss history	2013	2012	2011	2010	2009	2008	2007
Net claims paid and provided %*	69.3	68.3	64.2	64.1	70.6	68.4	68.2

* Expressed as a percentage of net earned premiums

Factors that aggravate insurance risk include a lack of risk diversification in terms of type and amount of risk, geographical location and the industries covered. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. Therefore a diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

The group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted, to achieve, within each of these categories, a sufficiently large population of risks to reduce the variability of the expected outcome. A specialised catastrophe reinsurance programme mitigates the risk arising from this.

The group underwrites insurance contracts in southern Africa and other emerging market territories, including Africa, India and southeast Asia. These exposures are currently not material.

Reserving

Claims are analysed separately for long-tail and short-tail claims. Short-tail claims can be estimated with greater reliability, and the group estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allow the group to achieve a higher degree of certainty about the estimated cost of claims, and relatively lower levels of IBNR are held at year-end.

The more time needed to assess the emergence of a long-tail claim makes the estimation process more uncertain for such claims. The uncertain nature of the costs of this type of claim causes greater uncertainty in the estimates, hence the higher level of IBNR. Where possible, the group adopts multiple techniques to estimate the required level of reserving. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year. At year-end, the group believes that its liabilities for long-tail and short-tail claims are adequate.

In calculating the estimated cost of unpaid claims, the group's estimation methodology is based on standard statistical techniques. For claims that have been reported to Santam by the valuation date, expert assessors estimate the expected cost of final settlement. In addition to this, testing of the entire portfolio is done to determine whether or not these estimates will be sufficient in aggregate or if an additional reserve amount is required.

For claims that have not been reported to Santam by the valuation date the chain-ladder methodology is used to determine the expected cost of these unreported claims (refer note 2).

A stochastic reserving process is performed and Santam holds its reserves for unpaid claims at the 75th percentile level of sufficiency at least.

Claim provisions for all classes of business are regularly reviewed and audited internally to make sure they are sufficient. These analyses draw on the expertise and experience of a wide range of specialists, such as actuaries, underwriting and accounting experts.

Accumulation risk

The group is exposed to accumulation risk in the form of geographical (large metropolitan areas) as well as class of business concentrations of risk. The risk appetite policy dictates how much capital the company is willing to put at risk in the pursuit of value. It is within this risk appetite framework that the reinsurance programme has been selected to mitigate accumulation risk within its portfolio.

NOTES TO THE FINANCIAL STATEMENTS

Reinsurance

The group obtains third-party reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or the company's capital.

This cover is placed on the local and international reinsurance markets. The group uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses to measure the effectiveness of the reinsurance programme and the net exposure of the group. The core components of the reinsurance programme comprise:

- Individual excess-of-loss cover for property, liability and engineering risks, which provides protection to limit losses to the range of R25 million to R50 million per risk, excluding reinstatement premiums due as a result of the claim against the cover.
- Catastrophe cover to the extent of 1.3% of the total exposure of the significant geographical areas, amounting to protection of up to R7.5 billion per event in excess of an attachment point or R100 million.

At the same time catastrophe protection for an aggregate of losses from events above R50 million where such losses exceed R100 million was put in place in 2013. The cover is for an amount of R100 million in excess of a R100 million aggregate deductible.

The board approves the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is placed with external reinsurers that have an international credit rating of no less than A- from Standard & Poor's or AM Best.

3.7 Liquidity risk

Liquidity risk is the risk that the business will encounter difficulty in raising funds to meet commitments associated with financial instruments and insurance liabilities.

The group actively manages its liquid assets to ensure that financial instruments and insurance liabilities are settled on a timely basis. The group has significant liquid and open ended resources to cover its obligations. Open ended resources can be liquidated on demand.

Insurance liabilities are presented on an undiscounted contractual cash flow basis and derivatives are presented at fair value.

The following maturity analysis provides details of the contractual settlement of the financial and insurance assets and liabilities recognised at reporting date:

31 December 2013

GROUP	< 1 year R million	1 to 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
Financial assets					
Equity securities – quoted				3 482	3 482
Equity securities – unquoted				529	529
Total	–	–	–	4 011	4 011
Debt securities – quoted	160	2 400	851	298	3 709
Debt securities – unquoted	1	3 291	–	305	3 597
Total	161	5 691	851	603	7 306
Short-term money market instruments	1 424	–	–	–	1 424
Cell owners' interest	15	–	–	–	15
Receivables due from contract holders/intermediaries	1 878	2	–	–	1 880
Reinsurance receivables	417	–	–	–	417
Other loans and receivables	373	14	–	–	387
Reinsurance assets (incl DAC)	2 263	430	20	–	2 713
Total	4 946	446	20	–	5 412
Derivatives	–	1	–	–	1
Cash and cash equivalents	2 343	–	–	–	2 343
Total financial assets	8 874	6 138	871	4 614	20 497

GROUP	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
Financial liabilities				
Debt securities	83	1 223	–	1 306
Investment contracts	12	114	–	126
Derivatives	204	–	–	204
Cell owners' interest	–	814	–	814
Collateral guarantee contracts	82	–	–	82
Insurance liabilities (incl Reinsurance DAC)	8 735	2 035	92	10 862
Trade and other payables	2 561	–	–	2 561
Total	11 677	4 186	92	15 955

NOTES TO THE FINANCIAL STATEMENTS

COMPANY	< 1 year R million	1 to 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
Financial assets					
Equity securities – quoted				3 316	3 316
Equity securities – unquoted				529	529
Total	–	–	–	3 845	3 845
Debt securities – quoted	117	1 891	642	288	2 938
Debt securities – unquoted	–	1 920	–	287	2 207
Total	117	3 811	642	575	5 145
Short-term money market instruments	889	–	–	–	889
Receivables due from contract holders/intermediaries	1 639	–	–	–	1 639
Reinsurance receivables	377	–	–	–	377
Other loans and receivables	983	–	–	–	983
Reinsurance assets (incl DAC)	1 888	406	19	–	2 313
Total	4 887	406	19	–	5 312
Derivatives	–	1	–	–	1
Cash and cash equivalents	1 505	–	–	–	1 505
Total financial assets	7 398	4 218	661	4 420	16 697

COMPANY	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
Financial liabilities				
Debt securities	83	1 223	–	1 306
Derivatives	204	–	–	204
Collateral guarantee contracts	82	–	–	82
Insurance liabilities (incl Reinsurance DAC)	6 611	1 932	89	8 632
Trade and other payables	3 122	–	–	3 122
Total	10 102	3 155	89	13 346

31 December 2012

GROUP	< 1 year R million	1 to 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
Financial assets					
Equity securities – quoted	–	–	–	3 279	3 279
Equity securities – unquoted	–	–	–	272	272
Total	–	–	–	3 551	3 552
Debt securities – quoted	515	2 385	619	–	3 519
Debt securities – unquoted	6	2 979	453	–	3 438
Total	521	5 364	1 072	–	6 957
Short-term money market instruments	917	–	–	–	917
Receivables due from contract holders/intermediaries	1 503	–	–	–	1 503
Reinsurance receivables	97	–	–	–	97
Other loans and receivables	488	–	–	–	488
Reinsurance assets (incl DAC)	2 095	–	–	–	2 095
Total	4 183	–	–	–	4 183
Derivatives	–	6	–	–	6
Cash and cash equivalents	2 471	–	–	–	2 471
Total financial assets	8 093	5 370	1 072	3 551	18 086

GROUP	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
Financial liabilities				
Debt securities	83	1 306	–	1 389
Investment contracts	12	58	25	95
Net cell owners' interest	74	614	–	688
Collateral guarantee contracts	75	–	–	75
Insurance liabilities (incl Reinsurance DAC)	9 735	69	1	9 805
Trade and other payables	1 886	–	–	1 886
Total	11 865	2 047	26	13 938

NOTES TO THE FINANCIAL STATEMENTS

COMPANY	< 1 year R million	1 to 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
Financial assets					
Equity securities – quoted	–	–	–	3 106	3 106
Equity securities – unquoted	–	–	–	21	21
Total	–	–	–	3 127	3 127
Debt securities – quoted	480	1 822	478	–	2 780
Debt securities – unquoted	6	1 552	401	–	1 959
Total	486	3 374	879	–	4 739
Short-term money market instruments	670	–	–	–	670
Receivables due from contract holders/intermediaries	1 349	–	–	–	1 349
Reinsurance receivables	28	–	–	–	28
Other loans and receivables	994	–	–	–	994
Reinsurance assets (incl DAC)	1 751	–	–	–	1 751
Total	4 122	–	–	–	4 122
Derivatives	–	6	–	–	6
Cash and cash equivalents	1 645	–	–	–	1 645
Total financial assets	6 923	3 380	879	3 127	14 309

COMPANY	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
Financial liabilities				
Debt securities	83	1 306	–	1 389
Collateral guarantee contracts	75	–	–	75
Insurance liabilities (incl Reinsurance DAC)	7 696	–	–	7 696
Trade and other payables	2 211	–	–	2 211
Total	10 065	1 306	–	11 371

3.8 Operational risk

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events. These risks are mitigated through a comprehensive system of internal controls, comprising policies and standards, procedures, systems and information to assist in achieving established objectives and goals.

This definition is intended to include all risks to which the group is exposed, other than the strategic, legal and financial risks considered elsewhere. Hence, operational risks include for example, information technology, information security, human resources, project management, outsourcing, tax, legal, fraud and compliance risks. Our operational risk landscape includes the minimising of possible reputational damage, wide-ranging communication, as well as enhancing our brand to be the brand of choice. We are also increasingly using outsourced business partners.

Business unit management is primarily responsible for the effective identification, management, monitoring and reporting of operational risks to the business unit management team and to the group as part of the quarterly risk reporting process described in the governance section of the annual report.

The initiation of transactions and their administration is conducted based on the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions. Control is further strengthened through the settlement of transactions through custodians. The custodians are also responsible for the safe custody of the entity's securities. To ensure validity, all transactions are confirmed with counterparties independently from the initial executors.

3.9 Legal risk

Legal risk is the risk that the group will be exposed to contractual obligations which have not been provided for. The risk arises from the uncertainty of the enforceability, through legal or juridical processes, of the obligations of Santam's clients and counterparties, including contractual provisions intended to reduce credit and product exposure by providing for the netting of mutual obligations.

3.10 Capital risk management

Santam's capital management philosophy is to maximise the return on shareholders' capital within an appropriate risk framework. The aim is to increase shareholder wealth by assisting management to make informed, strategic business decisions around:

- the amount and sources of capital in the company;
- the allocation of capital between business units; and
- the level and type of risk within the company.

3.10.1 Quantification of risk

Santam has developed an internal dynamic financial analysis model of its business to assess its capital requirements. This stochastic model was initially developed in 2003 and has undergone extensive development and testing since then. The model is used, within Santam, for the following purposes:

- Calculating internal capital requirements at a global and line of business level
- Allocating capital to individual lines of business
- Determining the underwriting margins needed to achieve Santam's required return on risk adjusted capital (RoRAC) at a global and line of business level
- Evaluating Santam's reinsurance structure by looking at the type and level of reinsurance required as well as the expected cost of this reinsurance

The model incorporates the following areas of risk:

- Market risk
- Underwriting risk
- Reserve risk
- Credit risk
- Operational and other risk

Internal capital requirements are determined at the 99.5th level of sufficiency over a one-year time period. This level is based on regulatory requirements published by the Financial Services Board (FSB) with recommendations in line with global developments.

Market risk

Market risk refers to the risk that a fall in the value of Santam's invested assets can negatively affect its solvency levels.

A stochastic simulation of the assets held by Santam is performed at an asset class level. Assumptions for each asset class are determined based on historic experience and are adjusted for the current market climate.

In addition to the stochastic simulation of assets, various market shock scenarios are run on the value of assets to determine their effect on solvency levels and help set the capital required for this type of risk.

Underwriting risk

Underwriting risk refers to the risk that premiums charged may be insufficient or that losses incurred are substantially above expectations.

The model incorporates assumptions for attritional, large and catastrophe losses at a line of business level. After allowing for correlations between the various lines of business, internal capital is allocated for underwriting risk based on the difference between the losses occurring at the 99.5th percentile and their expected value.

Reserve risk

Reserve risk refers to the risk that the net technical reserves held on the statement of financial position to pay for reported and future claims as well as their associated expenses may prove insufficient.

Santam holds its claims reserves at a minimum of the 75th percentile level of sufficiency in accordance with regulatory guidelines and global best practice. An additional capital amount is held to bring the reserve sufficiency up to the 99.5th percentile based on the cost-of-capital approach to reserving.

Credit risk

Credit risk refers to the risk that the default of a third party may affect Santam's solvency. Santam's main credit risk exposure is to its reinsurers and financial counterparties. The risk being that the reinsurers will not be able to meet their financial obligations to Santam as and when they fall due or that financial counterparties default and are unable to repay their obligations.

The solvency capital required for credit risk is calculated by using a model based on the Basel II regulation which incorporates the international credit rating of Santam's counterparties.

Operational and other risks

Operational risk refers to the risk arising from the failure of operational processes, internal procedures and controls leading to financial loss.

Internal capital requirements

The results of the internal model indicate that Santam requires solvency capital approximately equal to 25% of net written premium which is just below the current regulatory solvency level of 28% of net written premium in terms of the FSB interim requirements under the solvency assessment management (SAM) initiative.

3.10.2 Target capital

Santam's board of directors have targeted a solvency level in the range of 35% to 45% of net written premium. The margin over the internal solvency requirement is needed for the following reasons:

- As a buffer over regulatory capital requirements
- To fund new business growth
- To maintain Santam's insurer financial strength credit rating
- To allow for any corporate action that may arise

Santam's solvency margin has historically been well above the statutory limit of 28%. The statutory solvency margin is based on the individual company's capital, excluding intangible assets, prepaid expenses and non-approved reinsurance assets and liabilities (refer note 43).

3.10.3 Source of capital

During 2007, Santam reorganised the source of its capital. This involved the substitution of a portion of its ordinary equity capital for hybrid capital in the form of subordinated debt.

FSB approval was obtained for the debt issue, and Santam obtained regulatory 'equity credit' for the fair value of the full R1 billion debt in issue (refer note 20).

3.10.4 Capital allocation

One of the uses of the internal model is to allocate capital to the individual lines of business. Each business unit within Santam is aware of the capital allocated to the lines of business within its ambit and the return on capital performance of each line is closely monitored.

By combining the capital required at a line of business level with the required return on this capital it is possible to determine the net underwriting margin that the various lines of business need to achieve to meet their required RORAC target. This knowledge allows Santam to price its products appropriately and competitively in the market.

3.10.5 Risk appetite

Santam has formulated a risk appetite policy which aims to quantify the amount of capital the company is willing to put at risk in the pursuit of value creation. By analysing the various risk/reward outcomes under different reinsurance, capital and asset allocation scenarios, Santam is able to identify its most appropriate structure given the defined-assessment criteria.

Based on the output of the internal model, various probabilities relating to return on capital and solvency measures are determined and compared to predetermined benchmarks.

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.

Santam has further developed its risk appetite policy to allow for the monitoring of non-financial risks. A list of risk appetite criteria are assessed on a continuous basis and the level of compliance is reported quarterly to the board. The risk appetite criteria are categorised as follows:

- Earnings risks
- Solvency risks
- Liquidity risks
- Strategic risks
- Insurance risks
- Market and asset concentration risks
- Credit risks
- Reserve risks
- Brand and reputation risks
- Operational risks

4. SEGMENT INFORMATION

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

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

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

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

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

The MiWay deferred bonus plan (DBP), relating to the compensation of the 10% share previously held by management in MiWay and the Santam BEE transaction costs are unrelated to the core underwriting, investment or strategic diversification performance of the group. Therefore, these costs are disclosed as unallocated activities.

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

NOTES TO THE FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (continued)

4.1 For the year ended 31 December 2013

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

* Finance cost is not included in 2013 revenue.

Insurance activities

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

	Gross written premium R million	Underwriting result R million
Accident and health	316	50
Alternative risk	1 931	2
Crop	831	(142)
Engineering	1 010	210
Guarantee	43	11
Liability	1 194	119
Miscellaneous	47	2
Motor	8 887	199
Property	5 832	(2)
Transportation	540	28
Total	20 631	477
Comprising:		
Commercial insurance	10 697	520
Personal insurance	8 003	(45)
Alternative risk	1 931	2
Total	20 631	477

Investment activities

For detailed analysis of investment activities refer to notes 3 and 9.

NOTES TO THE FINANCIAL STATEMENTS

4.2 For the year ended 31 December 2012

Business activity	Insurance R million	Investment R million	Unallocated R million	Total R million
Revenue	19 386	858	–	20 244
Gross written premium	19 386	–	–	19 386
Net written premium	15 822	–	–	15 822
Net earned premium	15 626	–	–	15 626
Claims incurred	10 679	–	–	10 679
Net commission	2 024	–	–	2 024
Management expenses	2 300	–	–	2 300
Underwriting result	623	–	–	623
Investment return on insurance funds	415	–	–	415
Net insurance result	1 038	–	–	1 038
Investment income net of management fee and finance costs	–	787	–	787
Income from associates net of impairment	–	40	–	40
MiWay DBP and Santam BEE transaction costs	–	–	(57)	(57)
Amortisation of intangible assets	(108)	–	–	(108)
Income before taxation	930	827	(57)	1 700

Insurance activities

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

	Gross written premium R million	Underwriting result R million
Accident and health	286	10
Alternative risk	2 103	(7)
Crop	687	38
Engineering	860	158
Guarantee	40	8
Liability	1 227	206
Miscellaneous	23	6
Motor	8 361	89
Property	5 291	32
Transportation	508	83
Total	19 386	623
Comprising:		
Commercial insurance	9 660	767
Personal insurance	7 623	(137)
Alternative risk	2 103	(7)
Total	19 386	623

Investment activities

For detailed analysis of investment activities refer to notes 3 and 9.

4.3 Geographical analysis

	Gross written premium		Non-current assets	
	2013 R million	2012 R million	2013 R million	2012 R million
South Africa ¹	19 585	18 665	1 393	1 310
Rest of Africa ²	845	695	117	40
South East Asia and India	123	18	484	–
China	78	8	–	–
Group total	20 631	19 386	1 994	1 350

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

² Included gross written premium relating to Santam Namibia of R812 million (2012: R682 million).

NOTES TO THE FINANCIAL STATEMENTS

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and other assets R million	Total R million
5. PROPERTY AND EQUIPMENT GROUP				
At 1 January 2012				
Cost or valuation	2	137	105	244
Accumulated depreciation	–	(90)	(74)	(164)
Net book amount	2	47	31	80
Year ended 31 December 2012				
Opening net book amount	2	47	31	80
Additions	1	38	24	63
Depreciation charge	(1)	(32)	(11)	(44)
Closing net book amount	2	53	44	99
At 31 December 2012				
Cost or valuation	3	130	129	262
Accumulated depreciation	(1)	(77)	(85)	(163)
Net book amount	2	53	44	99
Year ended 31 December 2013				
Opening net book amount	2	53	44	99
Additions	–	27	8	35
Depreciation charge	–	(27)	(12)	(39)
Closing net book amount	2	53	40	95
At 31 December 2013				
Cost or valuation	3	157	137	297
Accumulated depreciation	(1)	(104)	(97)	(202)
Net book amount	2	53	40	95
COMPANY				
At 1 January 2012				
Cost or valuation	1	68	29	98
Accumulated depreciation	–	(45)	(24)	(69)
Net book amount	1	23	5	29
Year ended 31 December 2012				
Opening net book amount	1	23	5	29
Additions	–	20	18	38
Depreciation charge	–	(17)	(5)	(22)
Closing net book amount	1	26	18	45
At 31 December 2012				
Cost or valuation	1	43	47	91
Accumulated depreciation	–	(17)	(29)	(46)
Net book amount	1	26	18	45
Year ended 31 December 2013				
Opening net book amount	1	26	18	45
Additions	–	20	3	23
Depreciation charge	–	(17)	(6)	(23)
Closing net book amount	1	29	15	45
At 31 December 2013				
Cost or valuation	1	63	50	114
Accumulated depreciation	–	(34)	(35)	(69)
Net book amount	1	29	15	45

Depreciation expense has been included in 'Expenses for marketing and administration' in the statement of comprehensive income (refer note 30).

NOTES TO THE FINANCIAL STATEMENTS

	Goodwill R million	Computer software R million	Brand, trademark and tradenames R million	Key business relationships R million	Total R million
6. INTANGIBLE ASSETS GROUP					
At 1 January 2012					
Cost	829	110	39	145	1 123
Impairment/Accumulated amortisation	(10)	(71)	(13)	(35)	(129)
Net book amount	819	39	26	110	994
Year ended 31 December 2012					
Opening net book amount	819	39	26	110	994
Acquisitions	–	31	–	81	112
Impairment	(35)	(25)	–	–	(60)
Amortisation	–	(13)	(12)	(31)	(56)
Closing net book amount	784	32	14	160	990
At 31 December 2012					
Cost	829	141	39	226	1 235
Impairment/Accumulated amortisation	(45)	(109)	(25)	(66)	(245)
Net book amount	784	32	14	160	990
Year ended 31 December 2013					
Opening net book amount	784	32	14	160	990
Acquisitions	92	77	1	26	196
Impairment	(5)	–	–	–	(5)
Amortisation	–	(28)	(12)	(69)	(109)
Closing net book amount	871	81	3	117	1 072
At 31 December 2013					
Cost	921	218	40	252	1 431
Impairment/Accumulated amortisation	(50)	(137)	(37)	(135)	(359)
Net book amount	871	81	3	117	1 072
COMPANY					
At 1 January 2012					
Cost	–	39	–	–	39
Accumulated amortisation	–	(39)	–	–	(39)
Net book amount	–	–	–	–	–
Year ended 31 December 2012					
Opening net book amount	–	–	–	–	–
Acquisitions	–	–	–	9	9
Amortisation	–	–	–	(2)	(2)
Closing net book amount	–	–	–	7	7
At 31 December 2012					
Cost	–	39	–	9	48
Accumulated amortisation	–	(39)	–	(2)	(41)
Net book amount	–	–	–	7	7
Year ended 31 December 2013					
Opening net book amount	–	–	–	7	7
Acquisitions	76	62	1	24	163
Amortisation	–	(4)	–	(16)	(20)
Closing net book amount	76	58	1	15	150
At 31 December 2013					
Cost	76	101	1	33	211
Accumulated amortisation	–	(43)	–	(18)	(61)
Net book amount	76	58	1	15	150

Key business relationships

Key business relationships consist of client lists acquired (R40 million) and key intermediary or other relationships (R77 million) acquired as part of a business combination.

The valuation of key intermediary or other relationships is based on discounted cash flow models. Discount rates between 17% and 19% as well as cancellation rates of between 15% and 35% are used as significant input.

NOTES TO THE FINANCIAL STATEMENTS

6. INTANGIBLE ASSETS (continued)

Impairment tests of goodwill

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

	Group	
	2013 R million	2012 R million
Crop	19	19
Alternative Risk	17	1
Indwe Broker Group	321	321
Isure Services	–	5
Engineering	28	28
MiWay Group	319	319
Liability	91	91
Accident and Health*	76	–
	871	784

* Recognised directly by company

All CGUs were tested for impairment. When testing for impairment, the recoverable amount of a CGU is determined based on discounted cash flow projections. The cash flow projections are based on budgets approved by management. The impairment tests are applied as follows:

- 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 discounts rates applied in the cash flow projections are reassessed.

The nature of goodwill mainly relates to employee skill and industry knowledge. In 2012, the goodwill on Indwe Broker Group was impaired by R35 million. The goodwill relating to Isure Services of R5 million was impaired in 2013 as the company is dormant. As discount rates are considered a significant input in the valuation, a sensitivity analysis was performed on the valuation outcome of the two most significant CGUs. If discount rates increase by 10% the valuations would decrease by 13%. Should discount rates decrease by 10% the valuations would increase by 17%. These sensitivities and other relevant factors were considered in the impairment testing and it was concluded that no impairment would be required.

Computer software

Additional software acquired during the year consist of external software of R21 million and internally developed software of R56 million. The internally developed software forms part of a strategic project to develop a new underwriting and product management system. Implementation of phase 1 of the project is only expected in 2015. No amortisation is therefore raised on these costs for 2013. Once the development is completed and ready for use, it is expected that the useful life of the technology will be 10 years.

7. INVESTMENT IN SUBSIDIARIES

At the beginning of the year

Investment in Santam Namibia Holdings*

Purchase price

Post-acquisition dividend

Investment in Travel Insurance Consultants**

Purchase price

Intangibles recognised directly in company

Disposal of investment*

Unlisted shares at cost price less amounts written off

Non-current assets

Current assets

	Company	
	2013 R million	2012 R million
At the beginning of the year	1 927	1 927
Investment in Santam Namibia Holdings*	168	–
Purchase price	445	–
Post-acquisition dividend	(277)	–
Investment in Travel Insurance Consultants**	16	–
Purchase price	95	–
Intangibles recognised directly in company	(79)	–
Disposal of investment*	(5)	–
Unlisted shares at cost price less amounts written off	2 106	1 927
Non-current assets	1 568	1 927
Current assets	538	–

To the extent that capital is remitted from offshore subsidiaries, the carrying value is adjusted to keep in line with net asset value. Approval is required from the Regulator for the declaration of dividends by Guardian National Insurance Company Ltd.

* Santam Ltd disposed of its investment in Santam Namibia Ltd to Santam Namibia Holdings (Pty) Ltd at fair value in a share-for-share transaction. A post-acquisition dividend of R277 million was paid by Santam Namibia Holdings (Pty) Ltd resulting in a decrease in the net investment amount. (Also refer notes 27 and 28)

** Santam Ltd acquired 100% interest in Travest Investments (Pty) Ltd and its subsidiary, Travel Insurance Consultants (Pty) Ltd, for R95 million. All the assets and liabilities of Travel Insurance Consultants were then transferred to Santam Ltd. The intangible assets identified on acquisition were therefore also recognised by Santam Ltd. (Also refer note 6)

Details of investments are set out in note 46.

NOTES TO THE FINANCIAL STATEMENTS

	Group	
	2013 R million	2012 R million
8. INVESTMENT IN ASSOCIATES GROUP		
At the beginning of the year	261	274
Acquisitions	88	6
Share of results after tax*	86	85
Share of results before tax	114	118
Share of tax	(28)	(33)
Dividends received from associated companies	(58)	(27)
Disposals	(48)	–
Transfer to investment in subsidiaries	(8)	–
Exchange difference due to translation	(1)	(34)
Impairment	(2)	(43)
At the end of the year	318	261

Details of investments are set out in note 46.

* The share of results after tax include equity losses of RNil (2012: R2 million) recognised against loans to associates.

In 2012, the equity accounted value of NICO Holdings Ltd in Malawi was reduced by an impairment of R43 million and translation losses of R34 million following the devaluation of the Malawian currency which had an adverse effect on the banking and other financial services business units of NICO Holdings Ltd.

On 28 November 2013, Santam Ltd sold its 25.1% shareholding in NICO Holdings Ltd for R64 million. The accumulated translation losses of R34 million was released in profit and loss resulting in the Santam group realising a net loss of R18 million. CGT of R9 million was raised by Santam Ltd.

On 17 September 2013, Swanvest 120 (Pty) Ltd, a wholly owned subsidiary of Santam Ltd, acquired 40% of the shareholding in Western Group Holdings Ltd for a purchase price of R88 million.

	Company	
	2013 R million	2012 R million
COMPANY		
At the beginning/end of the year	133	133
Disposal	(16)	–
At the end of the year	117	133
Dividend income received from associates	53	24
Total income from associates	53	24

NOTES TO THE FINANCIAL STATEMENTS

8. INVESTMENT IN ASSOCIATES (continued)

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

	*Credit Guarantee Insurance Corporation of Africa Ltd R million	**Western Group Holdings Ltd R million	***Censeo (Pty) Ltd R million	****Other R million	Total R million
2013					
Current assets	1 049	151	16	6	1 222
Non-current assets	565	418	3	17	1 003
Current liabilities	877	118	6	7	1 008
Non-current liabilities	96	330	–	2	428
Revenue	776	488	100	21	1 385
Depreciation and amortisation	6	1	2	1	10
Interest income	27	18	–	–	45
Interest expense	4	1	–	–	5
Income tax expense	78	10	3	–	91
Profit or loss from continuing operations	220	37	8	1	266
Total comprehensive income	220	37	8	1	266
2012					
Current assets	1 019	–	13	1 869	2 901
Non-current assets	353	–	5	1 507	1 865
Current liabilities	580	–	9	990	1 579
Non-current liabilities	148	–	–	1 124	1 272
Revenue	842	–	38	1 045	1 925
Depreciation and amortisation	5	–	1	1	7
Interest income	27	–	–	–	27
Interest expense	3	–	–	–	3
Income tax expense	78	–	–	23	101
Profit or loss from continuing operations	222	–	(1)	37	258
Total comprehensive income	222	–	(1)	37	258

* The associate applies the Short-term Insurance Act, 53 of 1998, in terms of regulatory requirements. The 2013 information included is based on the last financial report that is publicly available (i.e. 31 December 2012).

** Western Group Holdings have a financial reporting period of 28 February. The information included in the summary consist of the unaudited management accounts for the 10 months ended 31 December 2013.

*** Censeo have a financial reporting period of 30 June. The information included in the summary consists of the last reported information (i.e. 30 June 2013).

**** 2012 included NICO Holdings Ltd.

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
9. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME (EXCLUDING DERIVATIVES)				
The group's financial assets are summarised below by measurement category.				
Equity securities				
– quoted	3 482	3 279	3 316	3 106
– unquoted	529	272	529	21
	4 011	3 551	3 845	3 127
Debt securities				
– quoted				
government and other bonds	1 785	1 731	1 459	1 469
money market instruments (long-term instruments)	1 636	1 513	1 191	1 036
redeemable preference shares	288	275	288	275
– unquoted				
government and other bonds	54	31	46	27
money market instruments (long-term instruments)	3 520	3 378	2 161	1 932
redeemable preference shares	23	29	–	–
	7 306	6 957	5 145	4 739
Short-term money market instruments	1 424	917	889	670
Financial assets at fair value through income	12 741	11 425	9 879	8 536

In December 2013, Santam subscribed in separate classes of target shares issued by SEM for R509 million, with each separate class linked to a participatory interest in the target companies listed below. The fair value of these instruments was R528 million at year-end. The instruments were classified as unquoted equity securities.

- a) A 15.4% interest in the fair value of Pacific & Orient Insurance Co. Berhad (P&O), incorporated in Malaysia. P&O is a niche short-term insurer based in Kuala Lumpur, Malaysia.
- b) A 7.0% interest in the fair value of Shriram General Insurance Company Ltd (SGIC), incorporated in India. SGIC is the short-term insurance business of the Shriram Group, a financial conglomerate based in India.
- c) An 18.6% interest in the fair value of BIHL Insurance Company Ltd (BIHL Sure), incorporated in Botswana. BIHL Sure is a subsidiary of Botswana Insurance Holdings Ltd, a company listed on the Botswana Stock Exchange. BIHL Sure is a start-up short-term insurer providing a variety of insurance products.
- d) An 8.7% interest in the fair value of the short-term insurance subsidiaries of NICO Holdings in Malawi, Zambia and Uganda and 5.7% in Tanzania (collectively the NICO subsidiaries), following the disposal of Santam's direct interest in NICO Holdings in terms of the NICO Holdings transaction. The NICO subsidiaries offer predominantly personal and commercial insurance products.

Santam previously held an entitlement to participate in the appreciation of SGIC above agreed minimum hurdle rates through a unlisted preference share issued by SEM and which has been redeemed at SEM's election and paid a dividend of R51 million during the 2013 financial year. Santam will now in terms of the participation transaction participate in 7.0% of the economic benefits of SGIC.

In 2012 the unquoted equities consisted mainly of the Santam International Investments which has been classified as held for sale (refer note 14).

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
10. DERIVATIVES				
Financial assets – at fair value through income				
Over the counter				
Interest rate swaps	1	6	1	6
	<u>1</u>	<u>6</u>	<u>1</u>	<u>6</u>
Financial liability – at fair value through income				
Over the counter				
Zero cost fence	(204)	–	(204)	–
	<u>(204)</u>	<u>–</u>	<u>(204)</u>	<u>–</u>

The interest rate derivatives represent the fair value of interest rate swaps effected on a portion R108 million (2012: R110 million) of fixed interest securities held in the investment portfolio underlining the subordinated callable note (refer note 20). The interest rate swaps have the effect of swapping a variable interest rate for a fixed interest rate on these assets to eliminate interest rate cash flow risk on assets supporting the bond liability. The derivatives mature on 30 September 2016 and 10 June 2017.

Santam entered into three derivative fence structures on 28 March 2013, 3 April 2013 and 8 May 2013 covering equities to the value of R700 million, R700 million and R600 million respectively. The implementation level of the first tranche was 7593 (SWIX40 index) with downside protection of 10% from a market level of 7441 and upside participation of 9.7%. The implementation level of the second tranche was 7515 with downside protection of 10% from a market level of 7365 and upside participation of 9.6%. The implementation level of the third tranche was 7694 with downside protection of 10% from a market level of 7540 and upside participation of 9.5%. The upside participation is calculated from the implementation level and the average duration of the structures is 12 months.

At 31 December 2013, the SWIX40 index closed at 9000 and the structures had a negative fair value of R204 million.

11. REINSURANCE ASSETS				
Non-current	117	137	121	144
Current	2 227	1 618	1 864	1 332
Total assets arising from reinsurance contracts	<u>2 344</u>	<u>1 755</u>	<u>1 985</u>	<u>1 476</u>

Amounts due from reinsurers in respect of claims already paid by the group on the contracts that are reinsured, are included in loans and other receivables (refer note 12).

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
12. LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES				
Receivables arising from insurance and reinsurance contracts:				
– due from contract holders/intermediaries	1 880	1 503	1 639	1 349
– due from reinsurers	457	128	408	50
– less provision for impairment of receivables from reinsurers	(40)	(31)	(31)	(22)
Other loans and receivables:				
– other receivables	496	577	334	332
– less provision for impairment	(109)	(114)	(108)	(113)
– loans to associated companies	–	25	–	–
– loans to subsidiaries	–	–	795	812
– less provision for impairment of loans to subsidiaries	–	–	(38)	(38)
Total	2 684	2 088	2 999	2 370

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

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

13. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	2 343	2 471	1 505	1 645
	2 343	2 471	1 505	1 645

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

14. NON-CURRENT ASSET HELD FOR SALE

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

Santam Ltd will realise the deferred conditional rights relating to Cardrow and Beech Hill as and when they become unconditional and therefore these assets have been recognised as held for sale in the group as at 31 December 2013. This process is expected to be concluded during 2014.

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

Group assets that are classified as held for sale

Financial assets – at fair value through income				
Equity securities	299	–		
Loans and receivables including insurance receivables	116	–		
	415	–		

In accordance with IFRS 5, the assets held for sale were recognised at their fair value less costs to sell. This is a non-recurring fair value based on the net asset value of the business and related costs that will be incurred in order to conclude the unwinding process. It was therefore also considered to fall within level 3 of the fair value hierarchy (see note 3.3).

NOTES TO THE FINANCIAL STATEMENTS

	Group and Company Ordinary shares		Group Treasury shares	
	Number of shares (thousands)	Stated capital R million	Number of shares (thousands)	Stated capital R million
15. SHARE CAPITAL				
At 1 January 2012	119 346	107	6 086	635
Reissue of treasury shares	–	–	(542)	(56)
At 31 December 2012	119 346	107	5 544	579
Reissue of treasury shares	–	–	(575)	(59)
At 31 December 2013	119 346	107	4 969	520

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, 71 of 2008, the authorised and unissued shares are under the control of the directors until the forthcoming annual general meeting.

In 2007, a subsidiary in the group acquired 6 972 940 Santam shares through a voluntary share buy-back offer on 20 April 2007 at R102 per share. In total, 575 745 (2012: 542 394) shares were reissued in terms of the deferred share plan (DSP). The net amount of these transactions has been deducted from shareholders' equity. The shares are held as 'Treasury shares'. The company has the right to reissue these shares at a later date subject to approval by the JSE and the Regulator.

16. NON-CONTROLLING INTEREST IN SUBSIDIARIES

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

	Group	
	2013 R million	2012 R million
Santam Namibia	384	95
Mirabilis	15	12
Other	1	1
Total	400	108

	Mirabilis Engineering Underwriting Managers (Pty) Ltd		Santam Namibia Ltd	
	2013 R million	2012 R million	2013 R million	2012 R million
Ownership and voting right	45.0%	45.0%	40.0%	40.0%
Target share interest			37.4%	–
Current assets	38	39	359	286
Non-current assets	7	6	263	246
Current liabilities	9	18	335	269
Non-current liabilities	–	–	19	26
Net assets	36	28	268	236
Carrying amount of NCI	15	12	384	95
Revenue	84	87	817	682
Profit after tax	37	44	91	76
Total comprehensive income	37	44	91	76
Profit allocated to NCI	17	20	37	30
Cash flows from operating activities	33	25	78	84
Cash flows from investing activities	–	–	(18)	(22)
Cash flows from financing activities, before dividends to NCI	(16)	(15)	(36)	(54)
Cash flows from financing activities – cash dividends to NCI	(13)	(12)	(24)	(36)
Net increase/(decrease) in cash and cash equivalents	4	(2)	–	(28)

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 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 has therefore reduced to 22.6%. However, Santam Ltd retains control over Santam Namibia by way of a service level agreement, the duration of which is under the control of Santam Ltd.

17. SHARE INCENTIVE SCHEMES

(i) Deferred share plan (DSP)

Santam had, with the introduction of a deferred share plan (DSP), replaced the two independent share incentive schemes, namely an option scheme and a deferred payout/delivery scheme, in 2007. Options issued were exercised by option holders at the respective vesting periods. As at December 2011, both share incentive schemes have run out.

Awards granted under the DSP are conditional rights to acquire shares for no consideration subject to vesting conditions being satisfied. The vesting conditions are that the individual remains employed by the group throughout the vesting period and maintains agreed individual performance hurdles. The vesting period is five years and staggered vesting occurs in year three to five as follows:

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

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

For the year ended 31 December 2013, allocations in respect of 374 892 shares (2012: 392 261) were made to 256 participants (2012: 238) under the DSP. The fair value of the grants on grant date, calculated in terms of IFRS 2, amounted to R62 million (2012: R60 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.

2012	Date awarded	Latest irreversible date	Grant price	Number of shares
The following shares were awarded and the delivery thereof deferred to a predetermined future date.	16 March 2012	31 May 2012	R158.35	60
	1 June 2008	31 May 2013	R74.91	128 760
	17 September 2010	31 May 2013	R107.44	28 641
	16 March 2012	31 May 2013	R156.70	19 604
	1 June 2009	31 May 2014	R66.81	260 267
	17 September 2010	31 May 2014	R102.87	28 892
	16 March 2012	31 May 2014	R153.45	31 314
	1 June 2010	31 May 2015	R92.99	494 002
	17 September 2010	31 May 2015	R98.46	28 594
	16 March 2012	31 May 2015	R148.10	31 455
	1 June 2011	31 May 2016	R113.94	382 057
	16 March 2012	31 May 2016	R142.91	23 858
	1 June 2012	31 May 2017	R151.80	368 287
17 September 2012	31 May 2017	R164.69	15 174	
			1 840 965	

NOTES TO THE FINANCIAL STATEMENTS

17. SHARE INCENTIVE SCHEMES (continued)

Movements during the period	Average price	
As at 1 January 2012	R87.60	1 970 602
Shares awarded	R152.30	392 261
Shares awarded in lieu of special dividend	R150.42	110 565
Awarded shares lapsed due to resignations	R88.87	(86 585)
Shares issued	R76.17	(545 878)
As at 31 December 2012	R108.49	1 840 965

2013	Date awarded	Latest irreversible date	Grant price	Number of shares
The following shares were awarded and the delivery thereof deferred to a predetermined future date.	16 March 2012	31 May 2013	R156.70	184
	1 June 2009	31 May 2014	R66.81	79 440
	17 September 2010	31 May 2014	R102.87	28 892
	16 March 2012	31 May 2014	R153.45	31 314
	1 June 2010	31 May 2015	R92.99	250 277
	17 September 2010	31 May 2015	R98.46	28 594
	16 March 2012	31 May 2015	R148.10	31 455
	1 June 2011	31 May 2016	R113.94	343 489
	16 March 2012	31 May 2016	R142.91	23 858
	1 June 2012	31 May 2017	R151.80	341 957
	17 September 2012	31 May 2017	R164.69	15 174
	1 June 2013	31 May 2018	R166.57	366 241
				1 540 875

Movements during the period	Average price	
As at 1 January 2013	R108.49	1 840 965
Shares awarded	R166.57	374 892
Shares awarded in lieu of special dividend		–
Awarded shares lapsed due to resignations	R120.11	(99 237)
Accelerated vesting	R104.86	(21 946)
Shares issued	R104.86	(553 799)
As at 31 December 2013	R130.98	1 540 875

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

The Staff Trust is one of three components of a structured entity that hosts the Santam BBBEE scheme. Refer to note 44 for further information of the structured entity. Units are allocated to new black employees that joined the Santam group and to black employees that were promoted since the previous allocation. These units are allocated on a deferred delivery basis over a seven-year period. The fair value used in determining the allocation is based on the unit price on grant date, adjusted for expected employee attrition over the vesting period. The unit price reflects the net asset value of the units in the Staff Trust. The total unit allocation costs relating to the current year for the Staff Trust amounting to R15.4 million (2012: R2.2 million) has been included in the statement of comprehensive income.

2012	Date awarded	Latest irreversible date	Grant price	Number of shares
The following units were awarded and the delivery thereof deferred to a predetermined future date.	1 December 2007	30 November 2014	R47.00	708 555
	1 September 2008	31 August 2015	R0.00	224 769
	1 September 2009	31 August 2016	R8.00	224 831
	1 September 2010	31 August 2017	R31.05	219 057
	1 September 2011	31 August 2018	R53.65	260 444
	1 September 2012	31 August 2019	R97.90	252 613
				1 890 269

Movements during the period	Average price	
As at 1 January 2012	R35.00	2 035 584
Units awarded	R97.90	252 613
Awarded units lapsed due to resignations	R38.63	(397 928)
Accelerated vesting		–
As at 31 December 2012	R42.64	1 890 269

NOTES TO THE FINANCIAL STATEMENTS

2013	Date awarded	Latest irreversible date	Grant price	Number of shares
The following units were awarded and the delivery thereof deferred to a predetermined future date.	1 December 2007	30 November 2014	R47.00	686 573
	1 September 2008	31 August 2015	R0.00	169 530
	1 September 2009	31 August 2016	R8.00	220 699
	1 September 2010	31 August 2017	R31.05	184 959
	1 September 2011	31 August 2018	R53.65	215 500
	1 September 2012	31 August 2019	R97.90	230 933
	1 January 2013	31 December 2019	R87.48	306 923
	1 September 2013	31 August 2020	R80.44	225 714
	1 December 2013	30 November 2020	R84.47	12 161
				<u>2 252 992</u>
	Movements during the period		Average price	
	As at 1 January 2013		R42.64	1 890 269
	Units awarded		R84.65	576 261
	Awarded units lapsed due to resignations		R36.66	(208 273)
	Accelerated vesting		R33.69	(5 265)
	As at 31 December 2013		R53.72	<u>2 252 992</u>

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

The Business Partners Trust is one of three components of a structured entity that hosts the Santam BBBEE scheme. Refer to note 44 for further information of the structured entity. Units are allocated to strategic business partners. Participants include black intermediaries, Santam black non-executive directors, black strategic business partners and:

- key black employees of select Santam subsidiaries and associates on a discretionary basis; and
- Sanlam black senior employees, who are responsible for driving synergy between the two groups.

Units will vest immediately on allocation unless specific vesting conditions are linked to the allocation. The fair value used in determining the allocation is based on the unit price on grant date. The unit price reflects the net asset value of the units in the Business Partners Trust. The total unit allocation costs for the Business Partners Trust amounting to R13.8 million for the current year (2012: RNil) has been included in the statement of comprehensive income.

2012	Date awarded	Latest irreversible date	Grant price	Number of units
The following units were awarded and the delivery thereof deferred to a predetermined future date.	1 September 2008	1 February 2015	-R2.00	1 170 857
	27 August 2010	1 February 2015	R29.10	442 067
	15 September 2010	1 February 2015	R37.51	1 700 000
	1 September 2011	1 February 2015	R53.65	13 404

Movements during the period		Average price	
As at 1 January 2012		R22.55	3 326 328
Units awarded			-
Awarded units lapsed due to resignations			-
Accelerated vesting			-
Units issued			-
As at 31 December 2012		R22.55	<u>3 326 328</u>

2013	Date awarded	Latest irreversible date	Grant price	Number of units
The following units were awarded and the delivery thereof deferred to a predetermined future date.	1 September 2008	1 February 2015	-R2.00	1 170 857
	27 August 2010	1 February 2015	R29.10	442 067
	15 September 2010	1 February 2015	R37.51	1 700 000
	1 September 2011	1 February 2015	R53.65	13 404
	13 March 2013	1 February 2015	R81.21	380 098
	31 October 2013	1 February 2015	R86.75	56 356

NOTES TO THE FINANCIAL STATEMENTS

17. SHARE INCENTIVE SCHEMES (continued)

Movements during the period	Average price	
As at 1 January 2013	R22.55	3 326 328
Units awarded	R81.89	458 091
Awarded units lapsed due to resignations	R81.21	(21 637)
As at 31 December 2013	R43.64	3 762 782

18. RESERVES

A) Other reserves

	Group		Company	
	2013	2012	2013	2012
	R million	R million	R million	R million
Translation reserve	187	44	-	-
Contingency reserve	37	33	-	-
	224	77	-	-

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 FSB requirement to maintain a contingency reserve at 10% of net written premium has been waived for South African insurers. However, the contingency reserve is still maintained for Santam Namibia in terms of NAMFISA regulations. A reversal of this provision will not be recognised in profit or loss.

a) Movements in the translation reserve were as follows

At the beginning of the year	44	21
Currency translation difference	-	23
Release of currency translation difference on disposal of associate	34	-
Currency translation differences	109	-
At the end of the year	187	44

b) Movements in the contingency reserve were as follows

At the beginning of the year	33	1 471	-	1 360
Transfer from/(to) retained earnings	4	(1 438)	-	(1 360)
At the end of the year	37	33	-	-

B) Distributable reserves

Retained earnings	6 068	5 757	5 675	5 065
Share-based payment reserve	253	147	25	(6)
	6 321	5 904	5 700	5 059

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 are accounted for as part of other comprehensive income as a share-based payment reserve. A release of this reserve will not be recognised in profit or loss.

a) Movements in the share-based payment reserve were as follows

	Group		Company	
	2013	2012	2013	2012
	R million	R million	R million	R million
At the beginning of the year	147	139	(6)	139
Transfer from retained earnings	106	50	138	50
Transfer to retained earnings	-	(42)	-	(42)
Loss on delivery of shares in terms of share scheme	-	-	(107)	(153)
At the end of the year	253	147	25	(6)

19. DEFERRED INCOME TAX

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 28% (2012: 28%) in South Africa and the official tax rates in the foreign subsidiaries where applicable.

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
The amounts are as follows:				
Deferred tax assets	(188)	(221)	–	–
Deferred tax liabilities	315	284	242	223
Total net deferred income tax account	127	63	242	223
<i>Deferred tax is made up as follows:</i>				
Unrealised appreciation of investments	368	360	352	346
Provisions and accruals	(103)	(152)	(47)	(41)
Tax losses carried forward	(131)	(111)	–	–
Other differences	(7)	(34)	(63)	(82)
	127	63	242	223
<i>Movement of deferred tax</i>				
Balance as at 1 January	63	(92)	223	51
Charge to the income statement	74	143	62	172
Unrealised appreciation of investments	8	147	7	142
Provisions and accruals	47	74	(6)	25
Tax losses carried forward	(20)	(1)	–	–
STC credits	–	4	–	5
Other differences	39	(81)	61	–
Business combinations	7	2	–	–
Tax credited directly to equity	(17)	–	(43)	–
Acquisition of book of business	–	10	–	–
Balance as at 31 December	127	63	242	223

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 no unrecognised tax losses (2012: RNil).

No deferred tax has been provided on temporary differences relating from investments in subsidiaries amounting to R247 million (2012: R84 million).

20. DEBT SECURITIES

At the beginning of the year	1 034	964	1 034	964
Net fair value losses/(gains) on debt securities	(37)	70	(37)	70
	997	1 034	997	1 034
Accrued interest	24	24	24	24
	1 021	1 058	1 021	1 058
Estimated redemption value on maturity date	1 000	1 000	1 000	1 000

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

Per the conditions set by the Regulator, Santam is required to maintain liquid assets equal to the value of the callable notes until their maturity. The callable notes are therefore measured at fair value to minimise undue volatility in the statement of comprehensive income.

As there was no change in Santam's credit rating during the year, the movement in the fair value of the unsecured subordinated callable notes represent the market movement.

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
21. INVESTMENT CONTRACTS				
At the beginning of the year	95	104		
Investment contracts issued	58	7		
Investment contracts sold/matured	(30)	(23)		
Net fair value losses on investment contracts	3	7		
Investment contracts (unit-linked)	126	95		
Non-current assets	126	83		
Current assets	–	12		
22. CELL OWNERS' INTEREST				
At the beginning of the year	688	603		
Net increase in cell owners' interest	176	169		
Preference shares issued by subsidiary	61	19		
Redemption of preference shares	–	(36)		
Dividends paid to preference shareholders	(126)	(67)		
	799	688		
Amounts owed by cell owners	15	24		
	814	712		
23. COLLATERAL GUARANTEE CONTRACTS				
At the beginning of the year	75	114	75	114
New contracts issued	–	1	–	1
Contracts sold/matured	–	(45)	–	(45)
Interest	7	5	7	5
	82	75	82	75

Santam issued a guarantee on behalf of one of its corporate clients regarding mining rehabilitation. The guarantee was issued on the back of a full collateral guarantee in the form of moneys deposited with Santam. These assets are included in financial assets, debt securities, at fair value through income and amounted to R82 million (2012: R75 million). As a result, the transaction is not recorded as an insurance transaction in terms of IFRS 4, but as a financial instrument in terms of IAS 39.

The carrying value of collateral guarantee contracts approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
24. INSURANCE LIABILITIES AND REINSURANCE ASSETS				
Gross				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	3	–	–	–
– claims incurred but not reported	22	14	–	–
Short-term insurance contracts				
– claims reported and loss adjustment expenses	5 520	4 948	5 038	4 523
– claims incurred but not reported	1 427	1 311	1 167	1 112
– unearned premiums	3 719	3 385	2 272	1 929
Total insurance liabilities – gross	10 691	9 658	8 477	7 564
Non-current	1 595	1 340	1 592	1 333
Current	9 096	8 318	6 885	6 231
Recoverable from reinsurers				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	1	–	–	–
– claims incurred but not reported	4	2	–	–
Short-term insurance contracts				
– claims reported and loss adjustment expenses	1 315	977	1 182	826
– claims incurred but not reported	207	192	133	114
– unearned premiums	817	584	670	536
Total reinsurers' share of insurance liabilities	2 344	1 755	1 985	1 476
Non-current	117	137	121	144
Current	2 227	1 618	1 864	1 332
Net				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	2	–	–	–
– claims incurred but not reported	18	12	–	–
Short-term insurance contracts				
– claims reported and loss adjustment expenses	4 205	3 971	3 856	3 697
– claims incurred but not reported	1 220	1 119	1 034	998
– unearned premiums	2 902	2 801	1 602	1 393
Total insurance liabilities – net	8 347	7 903	6 492	6 088

24.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

Year ended 31 December	2013			2012		
	Gross R million	Reinsurance R million	Net R million	Gross R million	Reinsurance R million	Net R million
GROUP						
Notified claims	4 948	(977)	3 971	4 191	(920)	3 271
Incurred but not reported	1 325	(194)	1 131	1 255	(151)	1 104
Total at the beginning of the year	6 273	(1 171)	5 102	5 446	(1 071)	4 375
Cash paid for claims settled in the year	(13 148)	1 813	(11 335)	(11 340)	1 436	(9 904)
Increase in liabilities						
– arising from current year claims	13 807	(2 200)	11 607	12 167	(1 488)	10 679
– arising from foreign currency adjusted	40	–	40	–	–	–
Transfer to cell owners' interest	–	31	31	–	(48)	(48)
Total at the end of the year	6 972	(1 527)	5 445	6 273	(1 171)	5 102
Notified claims	5 523	(1 316)	4 207	4 948	(977)	3 971
Incurred but not reported	1 449	(211)	1 238	1 325	(194)	1 131
Total at the end of the year	6 972	(1 527)	5 445	6 273	(1 171)	5 102

NOTES TO THE FINANCIAL STATEMENTS

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

Year ended 31 December	2013			2012		
	Gross R million	Reinsurance R million	Net R million	Gross R million	Reinsurance R million	Net R million
COMPANY						
Notified claims	4 523	(826)	3 697	3 711	(758)	2 953
Incurring but not reported	1 112	(114)	999	1 031	(93)	938
Total at the beginning of the year	5 635	(940)	4 696	4 742	(851)	3 891
Cash paid for claims settled in the year	(11 525)	1 079	(10 446)	(9 755)	598	(9 157)
Increase in liabilities						
– arising from current year claims	12 055	(1 454)	10 601	10 648	(686)	9 962
– arising from portfolio transfer				–	(1)	(1)
– arising from foreign currency adjustments	40	–	40	–	–	–
Total at the end of the year	6 205	(1 315)	4 890	5 635	(940)	4 695
Notified claims	5 038	(1 182)	3 856	4 523	(826)	3 697
Incurring but not reported	1 167	(133)	1 034	1 112	(114)	998
Total at the end of the year	6 205	(1 315)	4 890	5 635	(940)	4 695

b) Provision for unearned premiums

Year ended 31 December

GROUP

At the beginning of the year	3 385	(583)	2 802	3 029	(429)	2 600
Charged to the statement of comprehensive income	334	(185)	149	323	(127)	196
Portfolio transfer	–	–	–	33	–	33
Transfer to cell owners' interest		(49)	(49)	–	(27)	(27)
Total at the end of the year	3 719	(817)	2 902	3 385	(583)	2 802

COMPANY

At the beginning of the year	1 929	(536)	1 393	1 753	(441)	1 312
Movement for the period	343	(136)	207	139	(95)	44
Portfolio transfer	–	2	2	37	–	37
Total at the end of the year	2 272	(670)	1 602	1 929	(536)	1 393

24.2 Movements in deferred acquisition costs and deferred reinsurance acquisition revenue

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
a) Deferred acquisition costs				
At the beginning of the year	340	332	275	276
Movement for the period	29	8	53	(1)
Total at the end of the year	369	340	328	275
b) Deferred reinsurance acquisition revenue				
At the beginning of the year	147	102	131	110
Movement for the period (included in Income from reinsurance contracts ceded)	24	45	24	21
Total at the end of the year	171	147	155	131

24.3 Claims development tables

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

PAYMENT DEVELOPMENT

GROUP	Claims paid in respect of									
	Total	2013	2012	2011	2010	2009	2008	2007	2006	2005 and prior
– Short-term insurance claims – gross	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Reporting year										
Actual claims costs:										
– 2013	13 148	9 152	3 411	250	154	106	47	18	10	–
– 2012	11 340	–	8 176	2 366	370	171	158	58	40	1
– 2011	10 327	–	–	7 767	2 141	247	52	54	60	6
– 2010	9 999	–	–	–	7 144	2 236	411	116	41	51
– 2009	10 016	–	–	–	–	7 702	1 959	197	92	66
– 2008	8 996	–	–	–	–	–	7 181	1 547	156	112
– 2007	7 971	–	–	–	–	–	–	6 219	1 385	367
– 2006	6 988	–	–	–	–	–	–	–	5 521	1 467
Cumulative payments to date		9 152	11 587	10 383	9 809	10 462	9 808	8 209	7 305	2 070
– Short-term insurance claims – net										
Reporting year										
Actual claims costs:										
– 2013	11 335	8 423	2 493	168	127	79	35	7	3	–
– 2012	9 904	–	7 616	1 743	250	116	137	36	5	1
– 2011	8 989	–	–	7 082	1 673	148	39	23	19	5
– 2010	8 710	–	–	–	6 401	1 816	323	103	35	32
– 2009	8 805	–	–	–	–	6 928	1 651	131	41	54
– 2008	7 727	–	–	–	–	–	6 172	1 381	93	81
– 2007	6 672	–	–	–	–	–	–	5 292	1 197	183
– 2006	6 020	–	–	–	–	–	–	–	4 924	1 096
Cumulative payments to date		8 423	10 109	8 993	8 451	9 087	8 357	6 973	6 317	1 452

NOTES TO THE FINANCIAL STATEMENTS

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

COMPANY	Claims paid in respect of									
	Total	2013	2012	2011	2010	2009	2008	2007	2006	2005 and prior
– Short-term insurance claims – gross	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Reporting year										
Actual claims costs:										
– 2013	11 525	8 539	2 576	184	107	84	29	6	–	–
– 2012	9 755	–	7 505	1 744	226	114	129	37	–	–
– 2011	8 917	–	–	7 106	1 575	160	33	22	18	3
– 2010	8 996	–	–	–	6 333	2 065	395	113	40	50
– 2009	8 833	–	–	–	–	6 777	1 779	154	72	51
– 2008	7 673	–	–	–	–	–	5 905	1 507	152	109
– 2007	6 740	–	–	–	–	–	–	5 039	1 348	353
– 2006	6 110	–	–	–	–	–	–	–	4 806	1 304
Cumulative payments to date		8 539	10 081	9 034	8 241	9 200	8 270	6 878	6 436	1 870
– Short-term insurance claims – net										
Reporting year										
Actual claims costs:										
– 2013	10 446	7 740	2 335	167	97	77	26	4	–	–
– 2012	9 157	–	7 173	1 563	157	103	124	37	–	–
– 2011	8 308	–	–	6 681	1 424	138	27	20	17	1
– 2010	8 199	–	–	–	6 010	1 719	308	99	33	30
– 2009	8 188	–	–	–	–	6 434	1 552	115	34	53
– 2008	7 124	–	–	–	–	–	5 609	1 345	91	79
– 2007	6 142	–	–	–	–	–	–	4 789	1 172	181
– 2006	5 614	–	–	–	–	–	–	–	4 611	1 003
Cumulative payments to date		7 740	9 508	8 411	7 688	8 471	7 646	6 410	5 958	1 347

24.4 Reporting development

GROUP	Financial year in which claim occurred									
	Total	2013	2012	2011	2010	2009	2008	2007	2006	2005 and prior
– Short-term insurance claims provision – gross	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Reporting year										
Provision raised:										
– 2013	5 523	3 267	788	376	462	195	175	151	109	–
– 2012	4 948	–	3 133	599	434	304	213	170	76	19
– 2011	4 192	–	–	2 448	652	333	303	191	113	152
– 2010	3 777	–	–	–	2 325	556	312	171	146	267
– 2009	4 288	–	–	–	–	2 617	712	401	281	277
– 2008	4 075	–	–	–	–	–	2 579	630	356	510
– 2007	3 774	–	–	–	–	–	–	2 804	405	565
– 2006	3 922	–	–	–	–	–	–	–	2 929	993

NOTES TO THE FINANCIAL STATEMENTS

GROUP	Financial year in which claim occurred									
		2013	2012	2011	2010	2009	2008	2007	2006	2005 and prior
– Short-term insurance claims provision – net	Total	R million	R million	R million	R million	R million	R million	R million	R million	R million
Reporting year										
Provision raised:										
– 2013	4 207	2 459	568	331	298	172	146	132	101	–
– 2012	3 971	–	2 550	466	326	241	162	145	64	17
– 2011	3 273	–	–	1 919	509	260	220	149	93	123
– 2010	2 896	–	–	–	1 813	402	228	132	117	204
– 2009	2 952	–	–	–	–	1 861	435	280	200	176
– 2008	2 699	–	–	–	–	–	1 805	403	195	296
– 2007	2 444	–	–	–	–	–	–	1 807	268	369
– 2006	2 484	–	–	–	–	–	–	–	1 916	568

COMPANY	Financial year in which claim occurred									
		2013	2012	2011	2010	2009	2008	2007	2006	2005 and prior
– Short-term insurance claims provision – gross	Total	R million	R million	R million	R million	R million	R million	R million	R million	R million
Reporting year										
Provision raised:										
– 2013	5 038	3 101	676	389	326	185	172	93	96	–
– 2012	4 523	–	2 915	586	370	265	202	109	58	18
– 2011	3 711	–	–	2 256	508	296	277	128	98	148
– 2010	3 360	–	–	–	2 023	487	291	161	140	258
– 2009	3 842	–	–	–	–	2 312	663	362	254	251
– 2008	3 492	–	–	–	–	–	2 030	616	348	498
– 2007	3 371	–	–	–	–	–	–	2 430	395	546
– 2006	2 961	–	–	–	–	–	–	–	2 015	946

COMPANY	Financial year in which claim occurred									
		2013	2012	2011	2010	2009	2008	2007	2006	2005 and prior
– Short-term insurance claims provision – net	Total	R million	R million	R million	R million	R million	R million	R million	R million	R million
Reporting year										
Provision raised:										
– 2013	3 865	2 279	502	354	245	159	155	82	89	–
– 2012	3 697	–	2 391	468	278	226	171	95	50	17
– 2011	2 953	–	–	1 795	404	236	220	102	78	118
– 2010	2 611	–	–	–	1 607	356	214	125	113	196
– 2009	2 681	–	–	–	–	1 666	404	255	191	165
– 2008	2 446	–	–	–	–	–	1 569	396	191	290
– 2007	2 261	–	–	–	–	–	–	1 631	265	365
– 2006	1 766	–	–	–	–	–	–	–	1 202	564

24.5 Liability adequacy test

An unexpired risk reserve (URR) is required if a company believes that its URR 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 FINANCIAL STATEMENTS

	Pension fund holiday exposure* R million	Litigation exposures R million	Onerous contracts R million	Deferred bonus and share-based payment plans** R million	Total R million
25. PROVISION FOR OTHER LIABILITIES AND CHARGES GROUP					
At 1 January 2012	18	9	1	77	105
Charged to statement of comprehensive income:					
– additional provisions/releases	(1)	(9)	–	85	75
Used during the year	(17)	–	(1)	(1)	(19)
Year ended 31 December 2012	–	–	–	161	161
Charged to statement of comprehensive income:					
– additional provisions/releases	–	–	–	25	25
– transfer from share-based payment reserve	–	–	–	–	–
Used during the year	–	–	–	(102)	(102)
Year ended 31 December 2013	–	–	–	84	84
COMPANY					
At 1 January 2012	17	9	1	7	34
Charged to statement of comprehensive income:					
– additional provisions/releases	–	(9)	–	5	(4)
Used during the year	(17)	–	(1)	–	(18)
Year ended 31 December 2012	–	–	–	12	12
Charged to statement of comprehensive income:					
– additional provisions/releases	–	–	–	3	3
Used during the year	–	–	–	–	–
Year ended 31 December 2013	–	–	–	15	15

* This potential exposure emanated in the past when deferred benefit plans were converted to defined-contribution plans.

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

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
26. TRADE AND OTHER PAYABLES				
Amounts due to subsidiaries	–	–	1 199	945
Trade payables and accrued expenses	986	812	530	395
Amounts due to intermediaries	314	258	295	234
Amounts due to reinsurers	1 123	711	1 021	589
Amounts due to policyholders	39	28	14	–
Employee benefits	99	77	63	48
Total	2 561	1 886	3 122	2 211

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

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
27. INVESTMENT INCOME				
Dividend income	177	342	487	320
Quoted	116	136	110	130
Unquoted*	61	206	377	190
Interest income	514	503	422	399
Quoted	265	232	201	189
Unquoted	249	271	221	210
Foreign exchange differences	91	14	4	12
	782	859	913	731

* 2012 dividend income for the group and company includes a dividend of R181 million from Santam's run-off international business. The 2013 company dividend income also includes a dividend of R277 million received from Santam Namibia Holdings (Pty) Ltd (refer note 7).

28. NET GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME

Net realised gains on financial assets	368	358	350	347
Net fair value gains on financial assets at fair value through income	240	360	223	328
Net fair value gains/(losses) on financial assets held for trading	13	(166)	-	-
Net fair value (losses)/gains on derivatives	(209)	5	(209)	5
Net fair value losses on short-term money market instruments	(3)	-	(3)	-
Net fair value gains/(losses) on financial liabilities designated as at fair value through income	40	(77)	37	(70)
Net fair value gains/(losses) on debt securities	37	(70)	37	(70)
Net fair value gains/(losses) on investment contracts	3	(7)	-	-
	449	480	398	610

29. INSURANCE BENEFITS AND CLAIMS

2013

GROUP

	Gross R million	Reinsurance R million	Net R million
Claims paid	13 148	(1 813)	11 335
Movement in the expected cost of outstanding claims	659	(387)	272
Total claims and loss adjustment expense	13 807	(2 200)	11 607

COMPANY

Claims paid	11 525	(1 079)	10 446
Movement in the expected cost of outstanding claims	530	(375)	155
Total claims and loss adjustment expense	12 055	(1 454)	10 601

2012

GROUP

Claims paid	11 340	(1 436)	9 904
Movement in the expected cost of outstanding claims	827	(52)	775
Total claims and loss adjustment expense	12 167	(1 488)	10 679

COMPANY

Claims paid	9 755	(598)	9 157
Movement in the expected cost of outstanding claims	893	(88)	805
Total claims and loss adjustment expense	10 648	(686)	9 962

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
30. EXPENSES BY NATURE				
Auditor's remuneration	23	18	12	8
Audit fees				
– Current year	15	13	8	7
– Prior year	3	2	–	–
– Other services	5	3	4	1
Depreciation	39	44	23	22
Amortisation of intangible assets	109	56	20	2
Impairment of intangible assets	5	60	–	–
Employee-related expense	1 984	1 866	1 256	1 143
Operating lease rentals	323	287	261	239
– Offices	148	123	90	79
– Computer equipment	155	145	155	145
– Furniture and mechanical equipment	4	4	–	–
– Motor vehicles	16	15	16	15
Research and development costs	143	–	143	–
Commission expenses	2 721	2 540	2 941	2 715
Asset management services	29	31	22	24
Other expenses	50	134	331	470
Total expenses	5 426	5 036	5 009	4 623
31. EMPLOYEE BENEFIT EXPENSE				
Wages, salaries and bonus	1 680	1 520	1 005	915
Social security costs	94	113	91	108
Long-term incentive scheme costs	90	166	54	65
Pension costs – defined-contribution plans	91	74	77	62
BBBEE cost (refer note 17)	29	(7)	29	(7)
	1 984	1 866	1 256	1 143
For directors' emoluments included above refer to note 42.				
32. FINANCE COSTS				
Interest expense				
– interest on collateral guarantee	5	5	5	5
– other	29	6	23	–
– subordinated callable note	83	83	83	83
– revenue authorities	1	12	1	12
	118	106	112	100
33. INCOME TAX EXPENSE				
South African normal taxation				
Current year	259	499	165	361
– Charge for the year	258	360	164	223
– STC	1	139	1	138
Prior year	(4)	10	–	10
Recovered from cell owners	(66)	(66)	–	–
Foreign taxation – current year	40	38	–	–
Income taxation for the year	229	481	165	371
Deferred taxation	74	143	62	172
Current year	75	139	62	168
STC	–	4	–	4
Prior year	(1)	–	–	–
Recovered from cell owners	(3)	–	–	–
Deferred taxation for the year	71	143	62	172
Total taxation as per the statement of comprehensive income	300	624	227	543

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2013	2012	2013	2012
Reconciliation of taxation rate (%)				
Normal South African taxation rate	28.0	28.0	28.0	28.0
Adjusted for				
– Disallowable expenses	0.9	1.0	0.8	1.0
– Foreign tax differential	0.2	0.1	–	–
– Exempt income	(3.4)	(2.6)	(8.5)	(5.5)
– Investment results	(2.0)	(3.2)	(5.9)	(4.4)
– Change in CGT inclusion rate	–	4.7	–	4.9
– Income from associates	(1.6)	(0.7)	(0.9)	(0.4)
– Previous years' under/(over)provision	(0.3)	0.6	–	0.6
– Other permanent differences	(1.5)	0.3	0.4	0.2
– STC	0.1	8.5	0.1	8.7
Net increase/(reduction)	(7.6)	8.7	(14.0)	5.1
Effective rate (%)	20.4	36.7	14.0	33.1

34. EARNINGS PER SHARE

34.1 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	
	2013	2012
Basic earnings per share		
Profit attributable to the company's equity holders (R million)	1 120	1 027
Weighted average number of ordinary shares in issue (millions)	114.12	113.56
Earnings per share (cents)	982	904

34.2 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 made to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding shares. This calculation serves to determine the "unpurchased" shares to be added to the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to net profit.

Diluted earnings per share		
Profit attributable to the company's equity holders (R million)	1 120	1 027
Weighted average number of ordinary shares in issue (millions)	114.12	113.56
Adjusted for share options	1.00	1.25
Weighted average number of ordinary shares for diluted earnings per share	115.12	114.81
Diluted basic earnings per share (cents)	973	895

34.3 Headline earnings per share

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

Headline earnings per share		
Profit attributable to the company's equity holders (R million)	1 120	1 027
Impairment of goodwill	5	35
Impairment of software	–	25
Impairment of net investment and loans in associates	26	43
Net loss on sale of investment in associate	18	–
Tax charge	9	–
Headline earnings (R million)	1 178	1 130
Weighted average number of ordinary shares in issue (millions)	114.12	113.56
Headline earnings per share (cents)	1 033	995

NOTES TO THE FINANCIAL STATEMENTS

	Group	
	2013	2012
34. EARNINGS PER SHARE (continued)		
34.4 Diluted headline earnings per share		
Headline earnings (R million)	1 178	1 130
Weighted average number of ordinary shares for diluted earnings per share (millions)	115.12	114.81
Diluted headline earnings per share (cents)	1 023	984

35. DIVIDENDS PER SHARE		
Ordinary dividend per share		
Interim of 242 cents per share (2012: 230 cps)	289	274
Proposed final of 433 cents per share (2012: 410 cps)	517	489
	806	763

	Group		Company	
	2013	2012	2013	2012
	R million	R million	R million	R million
36. CASH GENERATED FROM OPERATIONS				
Profit before tax	1 473	1 700	1 615	1 639
Adjustments for:				
Non-cash items	194	177	(84)	81
– Profit on sale of associated companies	(16)	–	(47)	–
– Release of foreign currency translation reserve	34	–	–	–
– Share-based payment costs	83	57	83	57
– Amortisation of intangible asset	109	81	20	2
– Profit on sale of subsidiary	–	–	(163)	–
– Impairment of goodwill	5	35	–	–
– Depreciation	39	44	23	22
– Impairment of net investments and loans in associated companies	26	43	–	–
– Income from associated companies	(86)	(83)	–	–
Investment income, realised and fair value gains	(1 231)	(1 338)	(1 311)	(1 341)
Finance costs	118	106	112	100
Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)	307	859	355	803
Reinsurance assets	(589)	(256)	(509)	(183)
Deferred acquisition costs	(29)	(8)	(53)	1
Loans and receivables including insurance receivables	(694)	(212)	(623)	(444)
Insurance liabilities	1 033	1 182	913	1 070
Deferred reinsurance acquisition revenue	24	45	24	22
Provisions for other liabilities and charges	(77)	56	2	(22)
Trade and other payables	639	52	601	359
Investment income received in cash	755	858	901	731
Dividends received	235	364	487	319
Interest received	514	503	422	399
Foreign exchange differences	1	8	1	8
Movement in provision for investment income	5	(17)	(9)	5
Cash generated from operations	1 616	2 362	1 588	2 013

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
37. INCOME TAX PAID				
Amounts charged to the statement of comprehensive income	(300)	(624)	(227)	(543)
Income tax credited directly to equity	11	–	17	–
Movement in deferred taxation	71	143	62	172
Movement in taxation liability	(3)	(40)	11	(70)
	<u>(221)</u>	<u>(521)</u>	<u>(137)</u>	<u>(441)</u>

38. BUSINESS COMBINATIONS

2013

Additions

Travel Insurance Consultants (Pty) Ltd

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

Details of the assets and liabilities acquired at fair value are as follows:

Intangible assets	22	–
Loans and receivables	1	–
Cash and cash equivalents	15	–
Deferred taxation	(7)	–
Trade and other payables	(12)	–
Net asset value acquired	<u>19</u>	<u>–</u>
Goodwill	76	–
Purchase consideration paid	<u>95</u>	<u>–</u>

Beyonda Group (Pty) Ltd

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

2012

Additions

Riscor Underwriting Managers (Pty) Ltd

The group acquired 100% of Riscor Underwriting Managers (Pty) Ltd (Riscor) on 1 September 2012 for a nominal amount. Riscor acquired from Topexec Management Bureau (Pty) Ltd and Combined Administration Management Services (Pty) Ltd their broker administration businesses, comprising fixed assets and intangible assets on 1 September 2012 and 1 November 2012 respectively. The merged Riscor entity operates as an independent administration business.

The total purchase price amounted to R29 million. Intangible assets of R39 million and deferred taxation of R10 million were recognised. Net operating assets amounted to approximately R1 million.

Disposals

Stilus Underwriting Managers (Pty) Ltd

On 1 January 2012, Swanvest 120 (Pty) Ltd sold its 60% interest in Stilus Underwriting Managers (Pty) Ltd.

Details of the assets and liabilities sold are as follows:

Deferred taxation	–	(2)
Trade and other payables	–	4
Net asset value sold	<u>–</u>	<u>2</u>
Plus: Non-controlling interest	–	(2)
Purchase consideration received	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2013 R million	2012 R million	2013 R million	2012 R million
39. DIVIDENDS PAID				
Amounts paid for the year to company's shareholders	745	1 626	778	1 713
Amounts paid for the year to non-controlling interests	37	48	–	–
	782	1 674	778	1 713

40. CONTINGENCIES

The group, like all other insurers, is subject to litigation in the normal course of its business. The group does not believe that such litigation will have a material effect on its profit or loss and financial condition.

41. COMMITMENTS

Operating lease commitments – where group company is the lessee

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

The group also leases vehicles under cancellable operating lease agreements. The group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 30.

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

	Up to 1 year R million	Between 1 to 5 years R million	More than 5 years R million	Total R million
2013				
Motor vehicles	16	19	–	35
Office equipment	2	3	–	5
Offices	109	322	113	544
	127	344	113	584
2012				
Motor vehicles	15	18	–	33
Office equipment	3	3	–	6
Offices	94	257	153	504
	112	278	153	543
2013				
Computer equipment	210	215	–	425
2012				
Computer equipment	179	157	–	336

42. RELATED-PARTY TRANSACTIONS

Major shareholders

Sanlam Ltd (incorporated in South Africa) is the ultimate holding company with a 59.34% shareholding in Santam Ltd. The balance of the shareholders (40.7%) do not have significant influence and thus no other shareholder is treated as a related party. The shares are widely held by public, non-public, individual and corporate shareholders (refer to Analysis of shareholders on page 88 for detail).

Transactions with the Sanlam group

The company transacts with the Sanlam group on various levels, predominantly insurance-related cover, provided to Sanlam group companies. Sanlam Investment Management acts as the largest investment fund manager for the group with its fees negotiated on a regular basis. Santam also subscribed to target shares in Santam Emerging Markets (SEM) as described in note 9.

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, associated companies and other stakeholders.

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 note 46).

The company has guaranteed liabilities of MiWay Group Holdings (Pty) Ltd with Absa Bank Ltd and IBM South Africa (Pty) Ltd, for an amount of R19 million (2012: R19 million) and R13 million (2012: R13 million) respectively.

Santam Ltd has entered into a contingent capital facility with Centriq Insurance Company Ltd of R50 million. A facility fee of 0.5% of the contingent capital facility is charged. The capital facility ensures appropriate capital levels for the future implementation of the Financial Services Board's new solvency regime, solvency assessment and management (SAM)

Transactions with key management

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

Key management also have short-term insurance contracts with the company in their private capacity. Premiums on these contracts amounted to less than R1 million in total.

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

	2013 R million	2012 R million
a) Sale of insurance contracts and other services		
Insurance contracts		
– Sanlam Ltd and related parties	10	11
– MiWay Group Holdings Ltd	1 154	955
– Centriq Insurance Holdings Ltd	113	142
– Santam Namibia	66	39
Sale of services		
– subsidiaries	17	3
b) Purchase of services		
– associates (for administration services)	(72)	(75)
– associates (for reinsurance contracts)	(125)	–
– associates (for reinsurance claims recovered)	77	–
– associates (for reinsurance commissions recovered)	14	–
– subsidiaries (for administration services)	(408)	(417)
– subsidiaries (for brokerage commission)	(538)	(483)
– Sanlam Ltd and related parties (for investment management services)	(29)	(31)
– Sanlam Ltd and related parties (for IT infrastructure costs)	(202)	(170)
– Sanlam Ltd and related parties (for insurance claims paid)	–	(1)
– MiWay Group Holdings Ltd (for reinsurance claims paid)	(725)	(537)
– Centriq Insurance Holdings Ltd (for reinsurance claims paid)	(78)	(56)
– Sanlam Ltd and related parties (for commission paid)	–	(6)
– Sanlam Ltd (insurance services)	(5)	(4)

NOTES TO THE FINANCIAL STATEMENTS

	2013 R million	2012 R million
42. RELATED-PARTY TRANSACTIONS (continued)		
c) Investment income and net realised/unrealised (gains)/losses received from:		
– Sanlam Ltd and related parties	(46)	(43)
d) Key management compensation		
Salaries and other short-term employee benefits	29	28
Share-based payments	11	6
e) Dividends paid		
– to Sanlam Group	(442)	(973)
f) Year-end balances with related parties		
Sanlam Group: Santam Emerging Markets		
– target shares acquired (Refer note a)	528	–
– target shares issued (Refer note 16)	(277)	–
Sanlam Alternative Income Fund		
– investment	287	275
Sanlam Property Fund		
– investment	74	24
Sanlam Capital Markets		
– Sanlam Bond	53	56
– money market instruments	65	179
Sanlam Life Insurance Ltd		
– trade payable	(10)	(14)
– shares	1	1
Simhedgo (Pty) Ltd		
– Gen-X Enhanced Cash Fund	275	259
Western National Insurance	34	–

Transaction with directors and prescribed officers

Remuneration is paid to directors and prescribed officers in the form of fees to non-executive directors and remuneration to executive directors of the company. All directors of Santam Ltd have notified that they did not have 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 short-term 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 report reflects the total of executive and non-executive directors' earnings and other benefits in accordance with the requirements of the Companies Act, 2008, and Listings Requirements introduced by the JSE Ltd.

	Salary R000	Performance bonus* R000	Other benefits R000	Total R000
Executive directors and prescribed officers				
2013				
<i>Paid by the company</i>				
IM Kirk	3 337	2 300	691	6 328
HD Nel	2 085	1 100	389	3 574
Y Ramiah	2 321	500	12	2 833
	7 743	3 900	1 092	12 735
2012				
<i>Paid by the company</i>				
IM Kirk	3 222	2 500	578	6 300
HD Nel (appointed 17 September 2012)	685	500	1 612*	2 797
Y Ramiah	1 769	1 200	173	3 142
MJ Reyneke (resigned as executive director on 17 September 2012)	1 604	1 500	2 262*	5 366
	7 280	5 700	4 625	17 605

* HD Nel: Includes retention payment of R1.5 million.

MJ Reyneke: Includes a restraint of trade payment of R2 million.

NOTES TO THE FINANCIAL STATEMENTS

	Directors' fees	
	2013 R000	2012 R000
Non-executive directors		
<i>Paid by the company</i>		
B Campbell	456	381
MD Dunn	509	447
MP Fandesio	439	381
BTPKM Gamedze*	350	331
GG Gelink	683	261
VP Khanyile**	322	750
MLD Marole	404	397
JP Möller*	438	397
YG Muthien*	–	188
MJ Reyneke	1 583	438
J van Zyl*	351	331
BP Vundla	–	8
	<u>5 535</u>	<u>4 310</u>
Total directors' remuneration	<u>18 270</u>	<u>21 915</u>

* Fees were paid to the holding company, Sanlam Ltd.

** Resigned 29 May 2013.

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

The deferred share plan (DSP), was implemented during 2007, in terms of which shares are granted to employees on a deferred delivery basis over a five-year period (refer note 17).

DEFERRED SHARE PLAN (DSP) – DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION

	As at 31 December 2012	Number of shares granted during year	Number of shares exercised during year	Gain per share on options exercised	Date awarded	As at 31 December 2013
Santam shares						
IM Kirk	2 747		(2 747)	176.20	01/06/08	–
	32 882		(16 441)	176.20	01/06/09	16 441
	8 364		(3 346)	176.20	01/06/10	5 018
	10 481				01/06/11	10 481
	6 551				01/06/12	6 551
		19 092			01/06/13	19 092
	<u>61 025</u>	<u>19 092</u>	<u>(22 534)</u>			<u>57 583</u>
MJ Reyneke*	904	–	(904)	169.69	01/06/2008	–
	17 862	–	(17 862)	180.37	01/06/2009	–
	1 195	–	(1 195)	182.49	01/06/2010	–
	930	–	(930)	191.05	01/06/2011	–
	<u>20 891</u>	<u>–</u>	<u>(20 891)</u>			<u>–</u>
HD Nel	15 174				17/09/12	15 174
		625			01/06/13	625
	<u>15 174</u>	<u>625</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>15 799</u>
Y Ramiah	22 655		(9 061)	176.2		13 594
	1 733					1 733
	659					659
	<u>25 047</u>	<u>–</u>	<u>(9 061)</u>			<u>15 986</u>
TOTAL	<u>122 137</u>	<u>19 717</u>	<u>(52 486)</u>			<u>89 368</u>

* Resigned as executive director and became a non-executive director on 17 September 2012. It was agreed that all unvested shares will vest at the end of June 2013.

NOTES TO THE FINANCIAL STATEMENTS

42. RELATED-PARTY TRANSACTIONS (continued)

	As at 31 December 2011	Number of shares granted during year	Number of shares exercised during year	Gain per share on options exercised	Date awarded	As at 31 December 2012
2012						
IM Kirk	5 212	283	(2 748)	167.00	01/06/08	2 747
	51 928	2 876	(21 922)	167.00	01/06/09	32 882
	7 910	454			01/06/10	8 364
	9 890	591			01/06/11	10 481
		6 551			01/06/12	6 551
	74 940	10 755	(24 670)			61 025
MJ Reyneke*	1 695	91	(1 786)	167.00	01/06/07	–
	1 716	93	(905)	167.00	01/06/08	904
	28 209	1 562	(11 909)	167.00	01/06/09	17 862
	1 130	65			01/06/10	1 195
	878	52			01/06/11	930
	33 628	1 863	(14 600)			20 891
HD Nel	–	15 174			17/09/12	15 174
Y Ramiah	21 425	1 230			01/06/10	22 655
	1 636	97			01/06/11	1 733
		659			01/06/12	659
	23 061	1 986	–			25 047
TOTAL	131 629	29 778	(39 270)			122 137

* Resigned as executive director and became a non-executive director on 17 September 2012. It was agreed that all unvested shares will vest at the end of June 2013.

	As at 31 December 2012	Number of shares granted during year	Number of shares exercised during year	Gain per share on options exercised	Date awarded	As at 31 December 2013
2013						
Sanlam shares						
IM Kirk	55 640		(27 820)	47.04	01/06/09	27 820
	14 375		(5 749)	47.04	01/06/10	8 626
	19 536					19 536
	14 221					14 221
		32 099				32 099
	103 772	32 099	(33 569)			102 302
MJ Reyneke*	1 504	–	(1 504)	46.0	01/06/08	–
	30 224	–	(30 224)	46.0	01/06/09	–
	31 728	–	(31 728)			–
HD Nel	32 028					32 028
		1 051				1 051
	32 028	1 051	–	–	–	33 079
Y Ramiah	38 937		(15 575)	47.04	01/06/10	23 362
	3 217					3 217
						–
	42 154	–	(15 575)			26 579
TOTAL	209 682	33 150	(80 872)			161 960

* Resigned as executive director and became a non-executive director on 17 September 2012. It was agreed that all unvested shares will vest at the end of June 2013.

NOTES TO THE FINANCIAL STATEMENTS

	As at 31 December 2011	Number of shares granted during year	Number of shares exercised during year	Gain per share on options exercised	Date awarded	As at 31 December 2012
2012						
IM Kirk	92 736		(37 096)	33.30	01/06/09	55 640
	14 375				01/06/10	14 375
	19 536				01/06/11	19 536
		14 221			01/06/12	14 221
	<u>126 647</u>	<u>14 221</u>	<u>(37 096)</u>			<u>103 772</u>
MJ Reyneke*	2 701		(2 701)	33.30	01/06/07	–
	3 008		(1 504)	33.30	01/06/08	1 504
	<u>50 376</u>		<u>(20 152)</u>	<u>33.30</u>	<u>01/06/09</u>	<u>30 224</u>
	56 085	–	(24 357)			31 728
HD Nel	–	32 028			01/10/12	32 028
Y Ramiah	38 937				01/06/10	38 937
	3 217				01/06/11	3 217
	<u>42 154</u>	<u>–</u>	<u>–</u>			<u>42 154</u>
TOTAL	224 886	46 249	(61 453)			209 682

* Resigned as executive director and became a non-executive director on 17 September 2012. It was agreed that all unvested shares will vest at the end of June 2013.

OUTPERFORMANCE PLAN (OPP)

The Santam Ltd human resources committee has extended an OPP to the Chief Executive Officer to reward superior performance over a five-year measurement period. No payment is made under the OPP unless expected growth in net insurance results over hurdle for the period is exceeded and full payment is only made if the stretch performance targets are met. The maximum payment that can be made under the OPP is 200% of annual guaranteed package over the five-year measurement period.

	Measurement period	Achievement	Reward
IM Kirk	1 January 2010 – 31 December 2014	56%	Final measurement and payment on 1 April 2015

DIRECTORS' AND PRESCRIBED OFFICERS' INTEREST IN THE SHARES OF THE COMPANY

	Beneficial holding at 31 December	
	2013	2012
Executive directors and prescribed officers		
IM Kirk	2 265	42 265
HD Nel	–	–
Y Ramiah	100	100
Non-executive directors		
B Campbell	100	100
MD Dunn	100	100
MP Fandesio	103	103
BTPKM Gamedze	200	200
VP Khanyile	–	110
JP Möller	108	108
GG Gelink	–	–
MJ Reyneke (became a non-executive director on 17 September 2012)	25 771	56 351
J van Zyl	108	108
	<u>28 885</u>	<u>99 545</u>

NOTES TO THE FINANCIAL STATEMENTS

42. RELATED-PARTY TRANSACTIONS (continued)

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 2008).

Emoluments for the year ended 31 December 2013

	Salary R000	Performance bonus* R000	Other benefits R000	Total R000
2013				
JP Möller	3 475	3 700	662	7 837
Y Ramiah	2 597	300	166	3 063
J van Zyl	4 452	–	848	5 300
MJ Reyneke	450	–	–	450
BTPKM Gamedze	2 500	2 000	–	4 500
Total	13 474	6 000	1 676	19 150
2012				
JP Möller	3 292	3 200	583	7 075
Y Ramiah	396	–	20	416
J van Zyl	4 502	–	798	5 300
Total	8 190	3 200	1 401	12 791

* Performance bonus in respect of 2012 paid in 2013 (2011 paid in 2012)

Deferred share plan Sanlam shares

	Balance 31 December 2012	Awarded in 2013	Shares vested	Balance 31 December 2013
J van Zyl	163 930	1 975	(108 199)	57 706
JP Möller	189 442	31 271	(56 638)	164 075
Y Ramiah	–	34 391	–	34 391
BTPKM Gamedze	–	61 823	–	61 823
Total	353 372	129 460	(164 837)	317 995

	Balance 31 December 2011	Awarded in 2012	Shares vested	Balance 31 December 2012
J van Zyl	289 060	–	(125 130)	163 930
JP Möller	203 525	35 605	(49 688)	189 442
Total	492 585	35 605	(174 818)	353 372

Performance deferred share plan

	Balance 31 December 2012	Awarded in 2013	Shares vested	Balance 31 December 2013
J van Zyl	373 750	4 501	(155 570)	222 681
JP Möller	210 681	34 803	(54 779)	190 705
Y Ramiah	–	32 940	–	32 940
Total	584 431	72 244	(210 349)	446 326

	Balance 31 December 2011	Awarded in 2012	Shares vested	Balance 31 December 2012
J van Zyl	470 889	–	(97 139)	373 750
JP Möller	221 502	44 146	(54 967)	210 681
Total	692 391	44 146	(152 106)	584 431

Restricted share plan

	Balance 31 December 2012	Awarded in 2013	Shares vested	Balance 31 December 2013
J van Zyl	908 824	–	(439 152)	469 672
JP Möller	384 963	41 850	(152 086)	274 727
Y Ramiah	–	–	–	–
Total	1 293 787	41 850	(591 238)	744 399

	Balance 31 December 2011	Awarded in 2012	Shares vested	Balance 31 December 2012
J van Zyl	1 607 832	–	(699 008)	908 824
JP Möller	556 607	62 093	(233 737)	384 963
Total	2 164 439	62 093	(932 745)	1 293 787

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

The chief executive officer's annual fixed cash remuneration package was fixed at R5.3 million (based on the 2010 remuneration level) for the full period until 31 December 2015, with no other variable cash incentives for this employment period. He was allocated five million restricted Sanlam shares of which three million was transferred and delivered during 2011 and two million during 2012. The vesting of these shares will be measured over a six-year period until 31 December 2016, the shares being grouped into various distinct components – each with its own measurement period and detailed group and individual performance hurdles.

43. SOLVENCY MARGIN

The group is subject to insurance solvency regulations in all territories in which it issues insurance contracts, and it has complied with all the local solvency regulations. The group complied with all statutory solvency regulations within all regulated entities.

The group solvency margin is calculated as the ratio of capital and reserves to net written premium per the international method. This method differs from the statutory solvency calculation in that it takes into account all reinsurance, whereas the statutory solvency calculation allows only approved reinsurance, as defined in the Short-term Insurance Act, to be taken into account.

	Group	
	2013	2012
Group capital and reserves attributable to equity holders (R million)	6 132	5 509
Debt securities	1 021	1 034
	7 153	6 543
Net written premium (R million)	16 900	15 822
Group solvency margin (%)	42.33%	41.4%

44. BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

The Santam BBBEE scheme is hosted in a structured entity (Central Plaza) and consists of three components:

- The Emthunzini Black Economic Empowerment Staff Trust (the Staff Trust)
- The Emthunzini Black Economic Empowerment Business Partners Trust (the Business Partners Trust)
- The Emthunzini Broad-based Black Economic Empowerment Community Trust (the Community Trust)

The total value in the scheme at 31 December 2013 was R959 million (2012: R985 million). The value in the scheme is proportionally allocated to these three trusts. Of the current value in the scheme, 49% (R470 million) (2012: R483 million) is attributable to the Business Partners Trust, 26% (R249 million) (2012: R256 million) to the Staff Trust and 25% (R240 million) (2012: R246 million) to the Community Trust. During 2013 the dividend income received by Central Plaza was sufficient to fully service the senior debt facility and make a proportional payment towards servicing of the mezzanine debt.

Within the trusts, allocations are made to beneficiaries according to the specific rules in the respective trust deeds. To date, more than 50% of the value in the scheme has been allocated to participants and we intend to continue with allocations to participants during 2014.

During 2013, the scheme made further unit allocations to new black employees that joined the Santam group and to black employees that were promoted since the previous allocation.

In total, 25% of the value in the scheme will be allocated to specific projects within previously disadvantaged communities. The scheme allocated R6.8 million (2012: R6 million) to the Community Trust for distribution to identified beneficiaries during 2013. More information on the scheme can be found in our integrated report on our website at www.santam.co.za.

45. EVENTS AFTER THE REPORTING PERIOD

There have been no material changes in the affairs or financial position of the company and its subsidiaries since the statement of financial position date.

NOTES TO THE FINANCIAL STATEMENTS

46. ANALYSIS OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investment in subsidiaries

Unlisted companies

	Nature of business	Country of incorporation	Issued capital R	Proportion held by the company 2013	Proportion held by the company 2012	Book value R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
Direct								
Aegis Insurance Company Ltd	Insurance	RSA	179 195 142	100.0%	100.0%	262	268	–
Centriq Insurance Holdings Ltd	Holding co.	RSA	102 330 000	100.0%	100.0%	150	–	22
Guardian National Insurance Company Ltd	Insurance	RSA	178 603 840	100.0%	100.0%	624	458	247
Indwe Broker Holdings Group (Pty) Ltd	Intermediary	RSA	28 552 225	100.0%	100.0%	132	–	–
Main Street 409 (Pty) Ltd	Holding co.	RSA	850	100.0%	100.0%	84	–	–
Mirabilis Engineering Underwriting Managers (Pty) Ltd	Underwriting	RSA	84 000 850	55.0%	55.0%	84	–	–
Santam International Ltd	Holding co.	Guernsey	692 505 672	100.0%	100.0%	538	438	–
Santam Namibia Holdings (Pty) Ltd	Holding co.	RSA	445 000 001	100.0%	0.0%	168	–	–
Sentinel Insurance Corporation Ltd	Investments	RSA	1 000 000	100.0%	100.0%	–	1	–
Swanvest 120 (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	1	–	476
Thebe Risk Services Holdings (Pty) Ltd	Holding co.	RSA	1 000	100.0%	100.0%	47	–	–
Travest Investments (Pty) Ltd*	Investments	RSA	1 824 825 681	100.0%	0.0%	16	28	–
						2 106	1 193	745
Indirect								
Admiral Professional Underwriting Agency (Pty) Ltd	Underwriting	RSA	2 270 403	100.0%	100.0%	12	–	–
Africa Group Financial Services (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	–	–	–
Beyonda Group (Pty) Ltd**	Insurance	RSA	200	100.0%	49.0%	16	–	–
Centriq Insurance Company Ltd	Insurance	RSA	55 000 084	100.0%	100.0%	102	–	–
Centriq Life Insurance Company Ltd	Insurance	RSA	21 000 000	100.0%	100.0%	23	–	–
C-Sure Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	100.0%	100.0%	–	–	–
Echelon Private Client Solutions (Pty) Ltd	Underwriting	RSA	1 000	60.0%	60.0%	–	–	12
Emerald Risk Transfer (Pty) Ltd	Underwriting	RSA	2 000 174	100.0%	100.0%	94	–	–
Insurance Broker Resource Centre (Pty) Ltd	Underwriting	RSA	85 000	100.0%	100.0%	–	–	–
Isure Services (Pty) Ltd	IT Services	RSA	100	100.0%	100.0%	–	–	–
Isure Systems (Pty) Ltd	IT Services	RSA	100	100.0%	100.0%	–	–	–
Just I-Insure Consultants (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	–	–	–
Legal Exchange Corporation (Pty) Ltd	Underwriting	RSA	1 166 830	70.0%	70.0%	1	–	–
Misty Sea Trading 267 (Pty) Ltd	Investments	RSA	11 200 952	100.0%	100.0%	–	–	–
MiWay Group Holdings (Pty) Ltd	Holding co.	RSA	211 101 111	100.0%	100.0%	257	–	–
Namibian National Insurance Company Ltd	Insurance	Namibia	3 100 000	100.0%	100.0%	3	4	–
Nautical Underwriting Managers (Pty) Ltd***	Underwriting	RSA	200	68.5%	68.5%	1	–	–
Nova Risk Partners Ltd	Insurance	RSA	3 000 000	100.0%	100.0%	3	–	–
Risor Underwriting Managers (Pty) Ltd	Underwriting	RSA	100	100.0%	100.0%	–	–	–
Santam Namibia Ltd	Insurance	Namibia	8 307 147	60.0%	60.0%	5	2	–
Santam UK Ltd	Holding co.	United Kingdom	100 006 588	100.0%	100.0%	75	–	–
Stalker Hutchison Admiral (Pty) Ltd	Underwriting	RSA	7 914 393	100.0%	100.0%	53	–	–
Travel Insurance Consultants (Pty) Ltd*	Underwriting	RSA	13 988 239	100.0%	14.0%	–	–	–
Wheatfields Investments no 136 (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	–	–	–
						645	6	12
TOTAL INVESTMENTS IN SUBSIDIARIES						2 751	1 199	757

* On 1 June 2013, Santam Ltd acquired a 100% interest in Travest Investments (Pty) Ltd and Travel Insurance Consultants (Pty) Ltd.

** On 1 March 2013, Centriq Insurance Holdings Ltd acquired an additional 51% interest in Beyonda Group (Pty) Ltd.

*** On 1 December 2012, Centriq Insurance Holdings Ltd acquired an additional 23.3% interest in Nautical Underwriting Managers (Pty) Ltd.

NOTES TO THE FINANCIAL STATEMENTS

Investment in associated companies Unlisted companies

	Nature of business	Country of incorporation	Issued capital R	Proportion held by the company 2013	Proportion held by the company 2012	Carrying value including equity accounted earnings R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
Direct								
Credit Guarantee Insurance Corporation of Africa Ltd	Insurance	RSA	2 649 333	33.6%	33.6%	207	-	-
NICO Holdings Ltd	Financial Services	Malawi	27 883 614	-	25.1%	-	-	-
South African Nuclear Pool Administrators (Pty) Ltd	Insurance	RSA	120	25.0%	25.0%	-	-	-
						<u>207</u>	<u>-</u>	<u>-</u>
Indirect								
Censeo (Pty) Ltd	Claim assessment	RSA	3 000	37.5%	37.5%	5	-	-
Fame and Fortune Trading 152 (Pty) Ltd	Motor body repair services	RSA	5 000 100	-	49%	-	-	-
H & L Underwriting Managers (Pty) Ltd	Underwriting	RSA	100	30%	30%	-	-	-
STRIDE South Africa (RF) (Pty) Ltd	IT company	RSA	25 140 000	33.3%	33.3%	-	-	-
Paladin Underwriting Managers (Pty) Ltd	Insurance	RSA	3 008 000	40%	40%	13	-	-
Vulindlela Underwriting Management (Pty) Ltd	Underwriting	RSA	800	31.4%	31.4%	1	-	-
Western Group Holdings Ltd	Insurance	Namibia	31 919 643	40%	-	92	-	-
						<u>111</u>	<u>-</u>	<u>-</u>
TOTAL INVESTMENTS IN ASSOCIATED COMPANIES						<u>318</u>	<u>-</u>	<u>-</u>

(I) ANALYSIS OF SHAREHOLDERS

Analysis of shareholders	Number of shareholders	% of total shareholders	Number of shares	% Interest
1 – 100 shares	908	16.42%	65 300	0.05%
101 – 1 000 shares	2 864	51.78%	1 217 887	1.02%
1 001 – 50 000 shares	1 684	30.45%	8 811 262	7.38%
50 001 – 100 000 shares	28	0.51%	1 931 769	1.62%
100 001 – 10 000 000 shares	44	0.80%	27 176 476	22.77%
More than 10 000 000 shares	2	0.04%	80 143 723	67.16%
Total	5 530	100.00%	119 346 417	100.00%

Type of shareholder

Individuals	3 716	67.20%	3 869 592	3.24%
Companies	434	7.84%	90 094 862	75.49%
Growth funds/unit trusts	108	1.95%	10 359 396	8.68%
Nominee companies or trusts	1 196	21.63%	3 891 821	3.26%
Pension and retirement funds	76	1.38%	11 130 746	9.33%
Total	5 530	100.00%	119 346 417	100.00%

Shareholder spread	Shareholders in South Africa		Shareholders other than in South Africa		Total shareholders	
	Nominal number	% Interest	Nominal number	% Interest	Nominal number	% Interest
Public shareholders	5 361	25.76%	155	100.00%	5 516	28.52%
Directors	10	0.14%	–	–	10	0.14%
Trustees of employees' share scheme	1	0.00%	–	–	1	0.00%
Holdings of 5% or more	3	74.10%	–	–	3	71.34%
Sanlam Ltd	1	60.07%	–	–	1	57.83%
Central Plaza Investments						
112 (Pty) Ltd*	1	9.71%	–	–	1	9.35%
Guardian National Insurance Ltd**	1	4.32%	–	–	1	4.16%
Total	5 375	100.00%	155	100.00%	5 530	100.00%

The analysis includes the shares held as treasury shares.

* BEE special-purpose company

** Owner of treasury shares

(II) ANALYSIS OF DEBT SECURITY HOLDERS

Analysis of debt security holders	Number of debt security holders	% of total debt security holders	Number of units	% Interest
1 – 50 000 units	–	0.00%	–	0.00%
50 001 – 100 000 units	3	3.19%	283 300	0.03%
100 001 – 1 000 000 units	32	34.04%	19 263 000	1.93%
1 000 000 – 10 000 000 units	43	45.75%	174 412 433	17.44%
More than 10 000 000 units	16	17.02%	806 041 267	80.60%
Total	94	100.00%	1 000 000 000	100.00%
Type of debt security holder				
Intermediaries	2	2.13%	53 597 700	5.36%
Endowment funds	5	5.32%	13 458 600	1.35%
Insurance companies	11	11.70%	338 792 800	33.88%
Medical aid schemes	2	2.13%	1 150 000	0.12%
Mutual funds	35	37.23%	210 033 900	21.00%
Nominees and trusts	2	2.13%	1 490 000	0.15%
Pension funds	34	36.17%	355 667 000	35.56%
Private companies	3	3.19%	25 810 000	2.58%
Total	94	100.00%	1 000 000 000	100.00%

Debt security holder spread	Debt security holders in South Africa	
	Nominal number	% Interest
Government Employees Pension Fund	215 996 877	21.60%
Old Mutual Life Assurance Company (South Africa) Ltd	145 051 400	14.51%
MMI Group Ltd	125 000 000	12.50%
RMB Capital Markets	53 500 000	5.35%
Other	460 451 723	46.04%
Total	1 000 000 000	100.00%

ADMINISTRATION

NON-EXECUTIVE DIRECTORS

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

EXECUTIVE DIRECTORS

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

SPONSOR

Investec Bank Ltd

TRANSFER SECRETARIES

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ISIN ZAE000093779

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NSX share code: SNM

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