santam

2018

ANNUAL FINANCIAL STATEMENTS

CONTENTS

HOW TO NAVIGATE THE ANNUAL FINANCIAL STATEMENTS

The format of the annual financial statements for 2018 is consistent with that of 2017. All key information relating to a financial line item is grouped in one note.

PRIMARY STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

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

ACCOUNTING POLICIES

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF SANTAM LTD

RESPONSIBILITY FOR AND APPROVAL OF THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

The board of Santam Ltd accepts responsibility for the integrity, objectivity and reliability of the group and company financial statements of Santam Ltd. Adequate accounting records have been maintained. The board endorses the principle of transparency in financial reporting. The responsibility for the preparation and presentation of the financial statements has been delegated to management.

The responsibility of the external auditors is to express an independent opinion on the fair presentation of the financial statements based on their audit of Santam Ltd and its subsidiaries.

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

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

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

VP Khanyile
Chairman

L Lambrechts

L Lambrechts
Chief executive officer
27 February 2019

PREPARATION AND PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

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

SECRETARIAL CERTIFICATION

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

M Allie
Company secretary
27 February 2019

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SANTAM LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Santam Limited (the Company) and its subsidiaries (together the Group) as at 31 December 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

WHAT WE HAVE AUDITED

Santam Limited's consolidated and separate financial statements set out on pages 14 to 129 comprise:

- the consolidated and separate statements of financial position as at 31 December 2018;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

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

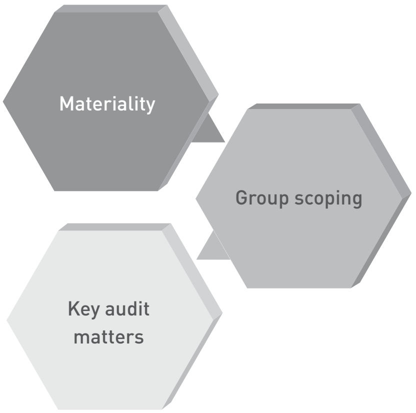
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

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

OUR AUDIT APPROACH

Overview



Overall group materiality

- Overall group materiality: R 175.95 million, which represents 5% of the consolidated profit before tax.

Group audit scope

- Full scope audits have been performed in respect of the Company and material subsidiaries based on their financial significance and the risk associated with these subsidiaries.

Key audit matters

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

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

INDEPENDENT AUDITOR'S REPORT

MATERIALITY

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

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

Overall group materiality	R175.95 million
How we determined it	5% of consolidated profit before tax
Rationale for the materiality benchmark applied	We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

HOW WE TAILORED OUR GROUP AUDIT SCOPE

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

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

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Assessment of the Incurred But Not Reported (IBNR) liability	
The total value of the Group's gross IBNR liability at 31 December 2018 was R2 909 million (Company – R2 415 million) as disclosed in note 4 – *Insurance liabilities and reinsurance assets*. The calculation of this insurance liability is subject to inherent uncertainty and significant estimation is required. We considered the assessment of the IBNR liability to be a matter of most significance to our current year audit due to the following: – The magnitude of the IBNR liability; – The significance of estimation uncertainty as a result of assumptions used by management; – Substantial uncertainty regarding the ultimate outcome of claims that have occurred but had not yet been reported by the reporting date; and – The stochastic approach applied by management to determine the IBNR liability.	Our audit procedures included testing relevant internal controls over the data used by management in their calculation of the IBNR liability. We assessed the reasonability of management's estimate of claim reserves by comparing previous claim estimates to the runoff actually experienced between initial recognition of the claims and the ultimate settlement of the claims. We found the claim reserve estimates to be reasonable. We made use of our actuarial expertise to test the model used by management to calculate the IBNR by performing the following procedures: – Comparing the methodology applied by management to the methodology applied by other companies in the industry. We found the methodology to be consistent; – Recalculating the estimated claims development factors used in the model based on historical data. No material differences were noted; – On a sample basis, we tested the data used in calculating actuarial reserves by comparing the data to the claims information (e.g. date of loss, gross claim amount paid, claim number), on the underlying system. No material differences were noted; and – On a sample basis, we tested the claims information recorded on the system (e.g. loss event, claim estimate, and item being claimed) by tracing the claims to the claim documentation which detailed the loss event. We compared the claim values used by management to assessor reports. We also tested if the claims were valid claims by testing if the claims related to valid policies (e.g. if the item being claimed was included on the original policy and if the premium has been paid up). No material differences were noted. We performed independent stochastic simulations, taking into account the standard industry practice. We compared the results of our independent simulations to management's proposed estimates (i.e. best estimate plus margin). We noted that the methods used by management were in line with standard industry practice and no material differences were noted.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
The fair value of unquoted equity investments in Sanlam Emerging Markets (SEM) target shares	
The Company subscribes from time to time in separate classes of target shares issued by SEM in terms of a Participation Transaction, with each separate class linked to a participatory interest in the target companies. During the current year, the Company did not subscribe to additional target shares. The fair value of the SEM target shares (R1 323 million at 31 December 2018 for both the Group and the Company) as disclosed in note 5.1 – *Financial assets at fair value through income* is predominantly determined using a discounted cash flow model. The most significant assumptions used by management in these models are the discount rate, exchange rate and net insurance margin expectations. We considered the fair value of the unquoted equity investments in SEM target shares to be a matter of most significance to our current year audit due to the following: – The magnitude of the unlisted investments; – The estimation uncertainties in the assumptions used by management; and – The amount of judgement applied by management. The target companies with the unquoted SEM target shares are disclosed in note 5.	We assessed the discounted cash flow model (the model) used by management for appropriateness, taking into account the nature of the investments. We found the model to be consistent with industry norms. We made use of our valuation expertise to test the assumptions used by management in the model by performing the following procedures: – On a sample basis, we compared the discount rates used by management in the model to a range of discount rates that we independently calculated based on the markets in which the target companies with the unquoted SEM target shares operate, taking into account the nature of the individual target companies. We found the discount rates used to be within a reasonable range of our independently calculated discount rates; – In order to assess the reasonability of the cash flow forecasts used by management in the model, we compared previous budgets to the actual experience of the target companies. We found the cash flow forecasts to be reasonable; – We tested the key drivers of the net insurance margin expectations, namely, claims loss ratios and premium growth, by comparing them to our independent expectations which were based on the historical experience of the target companies and the markets in which the individual target companies operate. No material differences were noted; and – We compared the exchange rates used by management in the model to those quoted in the market. We found the exchange rates to be reasonable. We compared the fair value of the unquoted equity investments in the SEM target shares used by management to our independently recalculated range of fair values and no material differences were noted.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the *Santam 2018 Annual Financial Statements*, which includes the Directors' Report, the Report of the Audit Committee and the Secretarial Certification as required by the Companies Act of South Africa, and the *Santam 2018 Integrated Report*. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Santam Limited for 90 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Z Abrahams
Registered Auditor
Cape Town
27 February 2019

REPORT OF THE AUDIT COMMITTEE

COMPOSITION AND CHARTER

The Santam audit committee appointed to hold office until the conclusion of the annual general meeting (AGM) on 29 May 2019, comprises four independent non-executive directors of the company. Messrs MJ Reyneke, B Campbell, PE Speckmann and Ms NV Mtetwa were elected to the committee by the company's shareholders at the AGM on 30 May 2018. The qualifications of the members of the committee are listed on page 74 of the integrated report. The members possess the necessary expertise to direct the committee in the execution of its duties.

The audit committee of Santam acts as such for the following companies of the group where an audit committee is required in terms of the Companies Act, 71 of 2008, as amended: Santam Ltd, MiWay Insurance Ltd, Centriq Insurance Company Ltd, Centriq Life Insurance Company Ltd, Nova Risk Partners Ltd, Santam Structured Insurance Ltd and Santam Structured Life Ltd. The committee has a charter, approved by the board, dealing, inter alia, with its membership, frequency of meetings and responsibilities. The charter is reviewed annually and was updated during November 2018. The committee has a formal work plan to structure the execution of its responsibilities. The committee reviews reports from the external and internal auditors and the chairman of the committee reports on the findings at board meetings.

FUNCTIONS

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

INTERNAL AND EXTERNAL AUDIT

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

MEETINGS

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

CHIEF FINANCIAL OFFICER

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

INTEGRATED REPORT AND ANNUAL FINANCIAL STATEMENTS

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

EFFECTIVENESS OF INTERNAL FINANCIAL CONTROLS

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

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

PE Speckmann
Chairman of the audit committee
27 February 2019

DIRECTORS' REPORT

ACTIVITIES

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

FINANCIAL REVIEW

The Santam group reported gross written premium growth of 11% (9.5% excluding the impact of the Santam Structured Insurance acquisition in March 2017), and delivered excellent underwriting results under difficult economic circumstances.

The group's conventional insurance book achieved gross written premium growth of 7% and a net underwriting margin of 9.2% (2017: 6.0%), comfortably exceeding the group's target range of 4% to 8%. The Alternative Risk Transfer (ART) insurance segment grew gross written premium by 40% (26% excluding the impact of the Santam Structured Insurance acquisition) and reported operating results of R96 million (2017: R84 million). The Sanlam Emerging Markets (SEM) general insurance businesses delivered acceptable operating results.

Net investment income attributable to shareholders, inclusive of investment return on insurance funds of R1 105 million (2017: R1 012 million) was reported. Gains on foreign exchange differences of R376 million (2017: loss of R116 million) was the key contributor to the improved performance. The 2017 investment income included the release of the foreign currency translation reserve of R175 million relating to the unwinding of the Santam International investment.

Cash generated from operations increased to R5.5 billion (2017: R3.3 billion), positively impacted by the improved claims experience.

The key drivers of the 47% increase in headline earnings per share from 1 425 cents per share in 2017 to 2 099 cents per share in 2018 were the significant improvement in the underwriting and investment results.

A return on capital of 31.8% was achieved. The economic capital coverage ratio was 159% – slightly above the midpoint of the target range of 130% to 170%.

CONVENTIONAL INSURANCE

The conventional insurance business reported a net underwriting margin of 9.2% compared to the 6.0% reported in 2017. The underwriting results in the current period benefitted from the absence of significant catastrophe claims in contrast to the severe catastrophe events experienced in 2017. Fewer large commercial fire claims were also reported during this period, following improved risk management actions.

Gross written premium growth

Conventional insurance reported satisfactory growth of 7%. The intermediated personal and commercial lines business and MiWay experienced growth pressure in the difficult economic conditions, while strong growth was achieved in the specialist business and Santam re.

Gross written premium growth from the rest of Africa was strained. Santam Namibia reported a contraction in gross written premium (GWP) of 7% in a low-growth competitive market. Specialist business benefitted from a one-off construction project in 2017 which did not reoccur in 2018. Santam re, on the other hand, achieved strong growth in Southeast Asia, India and the Middle East through selective participations in these markets. The net effect was a 5% increase in premiums from outside of South Africa written on the Santam Ltd and Santam Namibia Ltd licences (2018: R3 367 million; 2017: R3 200 million).

The property class reported growth of 11% on the back of strong growth in the corporate property business following lower reinsurance capacity available in the market. Crop insurance gross written premiums contracted by 12% following a lower take-up of crop insurance in the 2018/2019 crop year.

The motor class grew by 6%, with MiWay reporting 8% growth (gross written premium of R2 496 million; 2017: R2 319 million). MiWay reversed the slowdown in growth reported during the first half of the year with a strong performance during the second half of the year following focused management actions. The commercial and personal lines intermediated business experienced a slowdown in growth of the motor book in competitive low-growth market conditions.

The liability class continued to experience significant competitive pressure and focused on the improved profitability, resulting in growth of only 2% reported during the period. The engineering class also reported low gross written premium growth of 3%, reflecting the impact of fewer large construction projects and the uncertainties impacting the construction sector.

The accident and health class reported growth of 11%, mainly driven by excellent growth in the travel insurance business. The transportation class reported gross written premium growth of 1% following Santam's continued focus on profitability. The growth in the guarantee class was positively impacted by the acquisition of the Santam Structured Insurance credit guarantee business.

Underwriting result

The property class reported a significant turnaround from the R165 million net underwriting loss reported in 2017 to R519 million net underwriting profit in 2018 following the absence of significant catastrophe claims, as well as fewer large commercial fire claims. The underwriting results were positively impacted by the underwriting actions implemented since the second half of 2017.

DIRECTORS' REPORT

The motor class reported strong underwriting performance in both the intermediated and direct distribution channels. MiWay reported good results with a claims ratio of 55.2% (2017: 56.9%) and reported an underwriting profit of R334 million (2017: R317 million).

The engineering class of business achieved excellent underwriting results with limited claims activity during the period, while the guarantee class of business was negatively impacted by the poor economic environment in South Africa. A number of large claims, including product recall claims relating to the listeriosis outbreak, reduced the underwriting results of the liability class. Estimate adjustments on previously reported claims further contributed to a net underwriting loss of R20 million for the liability class (2017: net underwriting profit of R85 million).

The crop insurance business reported strong underwriting results, although lower than the excellent results reported in the comparative period. Santam re was negatively impacted by claims activity and increased claim provisions relating to previous periods on the foreign book of business.

Following the significant losses incurred by the global and South African reinsurance market during 2017, Santam's deductible per catastrophe event increased to R150 million (2017: R100 million) for the 2018 financial year. It also resulted in increased reinsurance rates.

The net acquisition cost ratio of 30.4% increased from 28.1% in 2017. The management expense ratio increased from 16.0% in 2017 to 18.1% in 2018, mainly due to increased variable incentive costs in 2018, increased direct acquisition costs to support growth initiatives at MiWay, as well as additional underwriting risk management costs incurred to improve the loss ratio across all business lines. A further driver of the increased cost was a provision raised to account for the liquidity concerns at a third-party premium-collection agency that went into voluntary curatorship in September 2018. The impact of the increased incentive costs and one-off items added 1% to the management expense ratio in 2018.

Strategic project costs, included as part of management expenses, amounted to 1% of net earned premium (2017: 0.8%). These costs mainly relate to the continued development of a new core underwriting, administration and product management platform for the Santam intermediated business, compliance projects, data enhancement and future digital solutions.

The new core underwriting platform project is progressing according to plan, with personal lines now fully deployed and almost 100% migrated to the new platform. For commercial products, more than 90% of on-platform intermediaries have now been deployed for new business, while the migration process is well underway and expected to be completed in 2019. Santam will continue to invest in strategic projects to optimise the use of technology in the group.

The net commission ratio was 12.4% compared to 12.1% in 2017.

Investment return on insurance funds

The investment return on insurance funds was negatively impacted by lower returns on the investment portfolios backing the insurance funds following lower interest rates compared to 2017.

ALTERNATIVE RISK TRANSFER INSURANCE (ART)

The 2017 reporting period included the results of Santam Structured Insurance for nine months following the acquisition of the business in March 2017. The ART business reported growth of 40% (26% on a like-for-like basis) with gross written premiums of R5 398 million (2017: R3 867 million). Centriq reported excellent growth of 46%. Santam Structured Insurance also reported good growth over the comparative period.

The ART business reported solid operating results of R96 million (2017: R84 million).

SANLAM EMERGING MARKETS GENERAL INSURANCE BUSINESS

The emerging markets general insurance business portfolio includes investments in the Saham Finances Group in Morocco (with subsidiaries in 26 countries in Africa and the Middle East), Pacific & Orient Insurance Co. Berhad (P&O) in Malaysia, Shriram General Insurance Company Ltd (SGI) in India and a further 12 general insurance businesses throughout Africa which are held in conjunction with SEM, excluding South Africa and Namibia.

Santam's share of the gross written premiums of these businesses increased by 7% to R2 547 million (2017: R2 382 million) following the dilution of Santam's effective shareholding in Saham Finances from 7.5% to 7% in May 2017 and the subsequent increase to 10% in October 2018, as well as the disposal of Enterprise Insurance Company in Ghana in June 2017.

Saham Finances

Effective 9 October 2018, SEM and Santam, through SAN JV, acquired the remaining minority interest in Saham Finances via a subscription for new shares for US$1 045 million (R15.4 billion). Santam's share of the purchase price, including transaction costs, was US$64 million (R957 million), before applying hedge accounting. Hedge accounting resulted in R46 million of foreign currency gains accounted for as part of the investment in SAN JV. This transaction increased Santam's effective interest in Saham Finances from 7% to 10%.

Santam's share of the net underwriting results of Saham Finances for the year amounted to R79 million (2017: R4 million loss). Given the changes in Santam's shareholding in SAN JV (Saham Finances) during 2017 and 2018, the financial results of 100% of Saham Finances for 2017 and 2018 are analysed below to ensure like for like comparison.

Gross written premiums increased by 4% (8% in local currency) to R16.6 billion (2017: R16 billion). The net underwriting profit decreased by 9% to R296 million, with life insurance earnings decreasing by 7% due to investments in growth, and general insurance earnings being in line with 2017.

DIRECTORS' REPORT

The general insurance businesses achieved a net underwriting margin of 4.1% (2017: 5.6%). The following items impacted on the general insurance results:

- One-off incentives of R28 million were paid to staff as part of the post-acquisition integration process.
- Angola's loss declined from R40 million in 2017 to R29 million in 2018. An improvement in claims experience was partially offset by a higher cost base. Exchange rate weakness contributed to higher expense inflation.
- Lebanon experienced a better claims environment, resulting in an increase of 107% in underwriting profit.
- The other regions recorded lower earnings from direct insurance, primarily due to pressure on premium growth in Côte d'Ivoire.
- Reinsurance profit increased by 11% from R232 million in 2017 to R257 million in 2018.

The investment return earned on insurance funds declined by 45% to R951 million (2017: R1 734 million). The underlying portfolios included legacy equity exposures, which benefitted from positive investment market returns in 2017, while most markets declined in 2018. The difference in relative market performance contributed more than R700 million to the decline. The strategic asset allocation of these portfolios will be reassessed as part of the planned capital management activities.

Other SEM General Insurance businesses

SGI in India had a solid year, with the net insurance result growing by 13% in local currency, attributable to an improvement in underwriting margin.

P&O in Malaysia benefitted from a more diversified book of business, which contributed to an improvement in the claims experience. The net insurance result increased by 6% in local currency.

INVESTMENT RESULTS

Listed equities achieved a negative return of 11% for the year ended 31 December 2018, relative to the SWIX benchmark (60% SWIX and 40% Capped SWIX), which delivered a negative return of 11.9%.

The Santam group's interest exposure is managed in enhanced cash and active income portfolios. The interest portfolios performed in line with or exceeded their STeFI-related benchmarks.

Exchange rate volatility due to the weakening of the rand in 2018 compared to December 2017 resulted in a foreign exchange gain of R480 million (2017: foreign currency loss of R173 million), inclusive of the currency movements on Santam's interest in SEM's general insurance businesses in Africa, India and Southeast Asia.

Santam used the opportunity to lock in some of the foreign currency gains on R500 million worth of exposure against the US dollar. The foreign currency collar was entered into on 10 September 2018 at a spot rate of 15.125 ZAR against the USD. As at 31 December 2018, the instrument's valuation amounted to R24.8 million. The collar expired in two equal tranches on 4 January and 7 January 2019 and realised a total profit of R36.5 million.

Positive fair value movements (excluding the impact of currency movements) of R130 million (2017: R121 million) in Santam's interest in SEM's general insurance businesses in Africa, India and Southeast Asia contributed to the improved investment performance. The main driver of the fair value movements was an increase in the value of Shriram General Insurance Company Ltd (SGI) of R120 million which was mainly attributed to improved loss ratios.

Net earnings from associated companies of R291 million (2017: R110 million) included R266 million (including profit on deemed disposal of associate of R164 million) from Saham Finances. The other key contributor to earnings from associated companies was Western Group Holdings Ltd.

CAPITAL

The group economic capital requirement at 31 December 2018, based on the Santam internal economic model, amounted to R6.9 billion (2017: R6 billion). This resulted in an economic capital coverage ratio of 159% (2017: 158%), somewhat above the midpoint of the target range of 130% to 170%. Santam has submitted its internal model application pack to the Prudential Authority in July 2018 for approval. We remain committed to efficient capital management.

ORDINARY SHARES ISSUED

The shares in issue remained at 115 131 417 (2017: 115 131 417) shares of no par value (including 4 674 917 (2017: 4 770 066) treasury shares). In terms of the deferred share plan (DSP) implemented in 2007 and the performance deferred share plan (PDSP), 289 759 (2017: 340 682) shares were granted to employees on a deferred delivery basis during the year, 94 011 (2017: 54 243) shares lapsed as a result of resignations and 323 319 (2017: 332 404) treasury shares were issued in terms of the DSP and PDSP. Full details are set out in note 18 to the annual financial statements.

A subsidiary in the group holds a total of 4 355 468 (2017: 4 391 161) Santam shares. The shares are held as "Treasury shares". Furthermore, since the unwinding of the Central Plaza structure in 2015, the Emthunzini BBBEE Staff Trust is under the control of Santam Ltd, resulting in 319 449 (2017: 378 905) shares being recognised as treasury shares as at 31 December 2018 (refer to notes 17 and 18.1 for further details).

DIRECTORS' REPORT

CAPITAL STRUCTURE

DEBT SECURITIES

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

SHARE CAPITAL

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

ORDINARY DIVIDENDS

	Group	
	2018 R million	**2017 R million**
The following dividends were paid and are proposed:		
Interim dividend of 363 cents per share (2017: 336 cents)	**418**	387
Final dividend of 665 cents per share (2017: 616 cents)	**766**	709
	1 184	1 096

SUBSIDIARIES

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

- During November 2018, the Santam group acquired a shareholding of 100% in Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd.
- During April 2018, the group disposed of Nautical Underwriting Managers (Pty) Ltd.

ASSOCIATED COMPANIES AND JOINT VENTURES

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

- Effective 9 October 2018, SEM and Santam, through its investment in SAN JV (RF) (Pty) Ltd (SAN JV), acquired a further 53.3% interest in Saham Finances for US$1 045 million. Santam's share of the purchase price, including transaction costs, was US$64 million (R957 million before applying hedge accounting). Hedge accounting resulted in R46 million of foreign currency gains accounted for as part of the investment in SAN JV. Santam's interest in SAN JV therefore diluted to 10% (previously 15%), due to limited participation in this transaction.
- Santam Ltd held 49% of Professional Provident Society Short-term Insurance Company Ltd. During March, June and September 2018 pro rata recapitalisations took place in terms of which Santam injected a further total of R15 million into the company. No dilution in shareholding took place. Effective 7 December 2018, the group sold its 49% shareholding in Professional Provident Society Short-term Insurance Company Ltd for R114 million.
- On 31 October 2018, Santam restructured its investment in Western Group. Santam effectively sold its 40% shareholding in Western Group Holdings Ltd and received a cash component of R54 million as well as 40% shareholding of R215 million in Western National Insurance Ltd.
- Effective 1 December 2018, Santam obtained a 25% interest in Ctrl Investment Holdings (Pty) Ltd for R12.5 million.

RELATED PARTIES

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

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

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

HOLDING COMPANY

Sanlam Ltd, the company's holding company, holds 61.5% (2017: 61.5%) of the total issued ordinary share capital, net of treasury shares.

DIRECTORS' REPORT

SEGMENT INFORMATION

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

DIRECTORATE AND COMPANY SECRETARY AT 31 DECEMBER 2018

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

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

Y Ramiah – Resigned from the board on 5 January 2018
JJ Ngulube – Appointed to the board on 23 April 2018
GG Gelink – Resigned from the board on 30 June 2018
VP Khanyile – Appointed to the board on 1 July 2018

There were no changes to the company's board of directors subsequent to 31 December 2018.

COMPANY SECRETARY

M Allie

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

REGISTERED OFFICE FOR COMPANY SECRETARY

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

AUDITORS

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

SPECIAL RESOLUTIONS PASSED

The following special resolutions were passed by Santam Ltd at the annual general meeting held on 30 May 2018:

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

NOTICE IN TERMS OF SECTION 45(5) OF THE COMPANIES ACT, 71 OF 2008 (THE ACT)

The company is from time to time, as an essential part of conducting the business of the group, required to provide financial assistance to group companies as part of its day-to-day operations in the form of loan funding, guarantees or general financial assistance as contemplated in section 45 of the Act. In accordance with section 45(5) of the Act, this serves to give notice that the Santam board, in line with existing practice, approved that the company may, in accordance with and subject to the provisions of section 45 of the Act and in terms of the special resolution passed at the company's annual general meeting in 2018, provide such direct or indirect financial assistance to related and interrelated companies and corporations as described in section 45 of the Act. The amount and format of financial assistance which may be granted pursuant to the resolution are subject to ongoing review by the Santam board and may in total exceed the reporting threshold of 0.1% of the Santam group's net asset value provided for in the Act.

STATEMENTS OF FINANCIAL POSITION

	Notes	Group 2018 R million	Group Restated 2017 R million	Group Restated 1 January 2017 R million	Company 2018 R million	Company Restated 2017 R million	Company Restated 1 January 2017 R million
ASSETS							
Intangible assets	13	**885**	841	885	**242**	283	324
Property and equipment	16	**142**	135	106	**60**	61	64
Investment in subsidiaries	10	**–**	–	–	**1 109**	1 125	1 893
Investment in associates and joint ventures	12	**2 927**	1 789	1 536	**2 476**	1 652	1 477
Strategic investment – unquoted SEM target shares	1, 5.1	**1 323**	1 089	1 127	**1 323**	1 089	1 127
Deferred income tax	23	**155**	91	105	**45**	–	–
Deposit with cell owner	9.3	**191**	174	219	**–**	–	–
Cell owners' and policyholders' interest	9.1, 9.2	**13**	10	7	**–**	–	–
Financial assets at fair value through income	5.1, 5.2	**22 454**	19 178	13 665	**10 777**	9 342	9 549
Reinsurance assets	4.1	**6 487**	5 824	4 489	**5 676**	5 168	3 909
Deferred acquisition costs	4.1.2	**619**	537	469	**564**	490	437
Loans and receivables including insurance receivables	4.2, 5.6	**6 274**	5 253	3 754	**4 988**	4 748	3 470
Current income tax assets		**10**	17	19	**–**	–	–
Cash and cash equivalents	5.7	**3 618**	4 321	2 887	**1 361**	2 026	1 610
Non-current assets held for sale	15	**–**	–	8	**–**	–	–
Total assets		**45 098**	39 259	29 276	**28 621**	25 984	23 860
EQUITY							
Capital and reserves attributable to the company's equity holders							
Share capital	17	**103**	103	103	**103**	103	103
Treasury shares	17	**(467)**	(470)	(472)	**–**	–	–
Other reserves	19.1	**(90)**	(214)	(41)	**–**	–	(6)
Distributable reserves	19.2	**9 311**	7 999	7 286	**7 763**	6 980	6 552
		8 857	7 418	6 876	**7 866**	7 083	6 649
Non-controlling interest	11	**508**	506	469	**–**	–	–
Total equity		**9 365**	7 924	7 345	**7 866**	7 083	6 649
LIABILITIES							
Deferred income tax	23	**81**	87	101	**–**	14	42
Cell owners' and policyholders' interest	9.1, 9.2	**3 343**	3 227	1 153	**–**	–	–
Reinsurance liability relating to cell owners	9.4	**191**	174	219	**–**	–	–
Financial liabilities at fair value through income							
Debt securities	6.1	**2 072**	2 056	2 053	**2 072**	2 056	2 053
Investment contracts	6.3	**1 528**	1 703	101	**–**	–	–
Derivatives	6.4	**4**	–	–	**4**	–	–
Financial liabilities at amortised cost							
Repo liability	6.5	**759**	531	–	**–**	–	–
Collateral guarantee contracts	6.6	**158**	130	123	**158**	130	123
Insurance liabilities	4.1	**20 662**	17 848	13 596	**13 300**	12 429	10 740
Deferred reinsurance acquisition revenue	4.1.2	**487**	326	273	**374**	284	247
Provisions for other liabilities and charges	20	**162**	106	71	**99**	39	38
Trade and other payables including insurance payables	4.3, 6.7	**5 922**	4 953	4 093	**4 434**	3 796	3 847
Current income tax liabilities		**364**	194	148	**314**	153	121
Total liabilities		**35 733**	31 335	21 931	**20 755**	18 901	17 211
Total shareholders' equity and liabilities		**45 098**	39 259	29 276	**28 621**	25 984	23 860

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Group 2018 R million	Group 2017 R million	Company 2018 R million	Company 2017 R million
Gross written premium		**33 109**	29 720	**26 361**	24 500
Less: reinsurance written premium		**9 041**	8 027	**5 320**	4 808
Net written premium		**24 068**	21 693	**21 041**	19 692
Less: change in unearned premium					
Gross amount	4.1.1	**2 019**	648	**225**	148
Reinsurers' share	4.1.1	**(763)**	(285)	**(192)**	(137)
Net insurance premium revenue		**22 812**	21 330	**21 008**	19 681
Interest income on amortised cost instruments	5.10	**91**	136	**21**	19
Interest income on fair value through income instruments	5.10	**2 205**	1 184	**800**	750
Other investment income	5.10	**523**	15	**466**	696
Income from reinsurance contracts ceded		**1 889**	1 794	**1 336**	1 200
Net (losses)/gains on financial assets and liabilities at fair value through income	5.11	**(1 136)**	427	**6**	199
Investment income and fair value losses on financial assets held for sale	5.12	**–**	175	**–**	(95)
Other income		**246**	127	**64**	–
Net income		**26 630**	25 188	**23 701**	22 450
Insurance claims and loss adjustment expenses	4.4	**18 442**	20 466	**15 659**	17 775
Insurance claims and loss adjustment expenses recovered from reinsurers	4.4	**(4 615)**	(6 400)	**(3 030)**	(4 767)
Net insurance benefits and claims		**13 827**	14 066	**12 629**	13 008
Expenses for the acquisition of insurance contracts	21	**4 524**	4 218	**4 792**	4 354
Expenses for marketing and administration	21	**4 465**	3 652	**3 324**	2 717
Expenses for investment-related activities	21	**67**	67	**24**	38
Amortisation and impairment of intangible assets	13, 21	**69**	71	**41**	41
Impairment of loans		**5**	–	**–**	–
Investment return allocated to cell owners and structured insurance products		**179**	563	**–**	–
Expenses		**23 136**	22 637	**20 810**	20 158
Results of operating activities		**3 494**	2 551	**2 891**	2 292
Finance costs	6.8	**(331)**	(295)	**(265)**	(286)
Net income from associates and joint ventures	12	**291**	110	**–**	–
Impairment of net investments and loans of subsidiaries	10	**–**	–	**–**	(230)
Profit on sale of associates	12, 14	**40**	5	**11**	–
(Loss)/gain on dilution of associate	12	**(88)**	18	**–**	–
Reclassification of foreign currency translation reserve on dilution of associate	14	**19**	(90)	**–**	–
Impairment of associates and joint ventures	12	**(12)**	(3)	**–**	–
Income tax recovered from cell owners and structured insurance products	22	**106**	–	**–**	–
Profit before tax		**3 519**	2 296	**2 637**	1 776
Tax expense allocated to shareholders		**(884)**	(489)	**(700)**	(302)
Tax expense allocated to cell owners and structured insurance products		**(106)**	–	**–**	–
Total tax expense	22	**(990)**	(489)	**(700)**	(302)
Profit for the year		**2 529**	1 807	**1 937**	1 474
Other comprehensive income, net of tax					
Items that may subsequently be reclassified to income					
Currency translation differences		**–**	(3)	**–**	–
Release of translation differences on financial assets held for sale		**–**	(175)	**–**	–
Share of associates' currency translation differences	19.1	**143**	(41)	**–**	–
Reclassification of foreign currency translation reserve on dilution of associate	14, 19.1	**(19)**	90	**–**	–
Hedging reserve release	19.1	**(46)**	6	**(46)**	6
Hedging reserve movement	19.1	**46**	–	**46**	–
Total comprehensive income for the year		**2 653**	1 684	**1 937**	1 480
Profit attributable to:					
– equity holders of the company		**2 427**	1 667	**1 937**	1 474
– non-controlling interest		**102**	140	**–**	–
		2 529	1 807	**1 937**	1 474
Total comprehensive income attributable to:					
– equity holders of the company		**2 551**	1 544	**1 937**	1 480
– non-controlling interest		**102**	140	**–**	–
		2 653	1 684	**1 937**	1 480
Earnings attributable to equity holders	24				
Basic earnings per share (cents)		**2 198**	1 511		
Diluted earnings per share (cents)		**2 182**	1 496		

STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the company						
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	Total R million	Non-controlling interest R million	Total R million
GROUP							
Balance as at 1 January 2017	**103**	**(472)**	**(41)**	**7 286**	**6 876**	**469**	**7 345**
Profit for the year	–	–	–	1 667	**1 667**	140	**1 807**
Other comprehensive income:							
Currency translation differences	–	–	(3)	–	**(3)**	–	**(3)**
Release of translation differences on financial assets held for sale	–	–	(175)	–	**(175)**	–	**(175)**
Share of associates' currency translation differences	–	–	(41)	–	**(41)**	–	**(41)**
Reclassification of foreign currency translation reserve on dilution of associate	–	–	90	–	**90**	–	**90**
Hedging reserve release	–	–	6	–	**6**	–	**6**
Total comprehensive income for the year ended 31 December 2017	**–**	**–**	**(123)**	**1 667**	**1 544**	**140**	**1 684**
Issue of treasury shares in terms of share option schemes	–	78	–	(78)	**–**	–	**–**
Purchase of treasury shares	–	(76)	–	–	**(76)**	–	**(76)**
Transfer to reserves	–	–	(50)	50	**–**	–	**–**
Share-based payment costs	–	–	–	77	**77**	–	**77**
Dividends paid	–	–	–	(1 003)	**(1 003)**	(103)	**(1 106)**
Balance as at 31 December 2017	**103**	**(470)**	**(214)**	**7 999**	**7 418**	**506**	**7 924**
Profit for the year	–	–	–	2 427	**2 427**	102	**2 529**
Other comprehensive income:							
Share of associates' currency translation differences	–	–	143	–	**143**	–	**143**
Reclassification of foreign currency translation reserve on dilution of associate	–	–	(19)	–	**(19)**	–	**(19)**
Hedging reserve release	–	–	(46)	–	**(46)**	–	**(46)**
Hedging reserve movement	–	–	46	–	**46**	–	**46**
Total comprehensive income for the year ended 31 December 2018	**–**	**–**	**124**	**2 427**	**2 551**	**102**	**2 653**
Issue of treasury shares in terms of share option schemes	–	94	–	(94)	**–**	–	**–**
Purchase of treasury shares	–	(91)	–	–	**(91)**	–	**(91)**
Share-based payment costs	–	–	–	65	**65**	–	**65**
Dividends paid	–	–	–	(1 086)	**(1 086)**	(100)	**(1 186)**
Balance as at 31 December 2018	**103**	**(467)**	**(90)**	**9 311**	**8 857**	**508**	**9 365**
COMPANY							
Balance as at 1 January 2017	**103**	**–**	**(6)**	**6 552**	**6 649**	**–**	**6 649**
Profit for the year	–	–	–	1 474	**1 474**	–	**1 474**
Other comprehensive income:							
Hedging reserve release	–	–	6	–	**6**	–	**6**
Total comprehensive income for the year ended 31 December 2017	–	–	6	1 474	**1 480**	–	**1 480**
Share-based payment costs	–	–	–	79	**79**	–	**79**
Loss on delivery of shares in terms of share scheme	–	–	–	(82)	**(82)**	–	**(82)**
Dividends paid	–	–	–	(1 043)	**(1 043)**	–	**(1 043)**
Balance as at 31 December 2017	**103**	**–**	**–**	**6 980**	**7 083**	**–**	**7 083**
Profit for the year	–	–	–	1 937	**1 937**	–	**1 937**
Other comprehensive income:							
Hedging reserve release	–	–	(46)	–	**(46)**	–	**(46)**
Hedging reserve movement	–	–	46	–	**46**	–	**46**
Total comprehensive income for the year ended 31 December 2018	**–**	**–**	**–**	**1 937**	**1 937**	**–**	**1 937**
Share-based payment costs	–	–	–	76	**76**	–	**76**
Loss on delivery of shares in terms of share scheme	–	–	–	(103)	**(103)**	–	**(103)**
Dividends paid	–	–	–	(1 127)	**(1 127)**	–	**(1 127)**
Balance as at 31 December 2018	**103**	**–**	**–**	**7 763**	**7 866**	**–**	**7 866**

STATEMENTS OF CASH FLOWS

	Notes	Group 2018 R million	Group Restated[1] 2017 R million	Company 2018 R million	Company Restated[1] 2017 R million
Cash flows from operating activities					
Cash generated from operations	26	**5 461**	3 289	**3 290**	1 575
Interest paid		**(322)**	(252)	**(274)**	(246)
Income tax paid	27	**(785)**	(543)	**(606)**	(300)
Acquisition of financial assets		**(19 025)**	(18 482)	**(13 949)**	(12 709)
Proceeds from sale of financial assets		**15 807**	17 229	**12 476**	12 036
Net cash from operating activities		**1 136**	1 241	**937**	356
Cash flows from investing activities					
Acquisition of financial assets		**(909)**	(1 840)	**(909)**	(1 840)
Proceeds from sale of financial assets		**1 166**	2 825	**1 166**	2 825
Settlement of zero cost collar		**–**	(58)	**–**	(58)
Acquisition of subsidiaries, net of cash acquired	14	**(86)**	852	**–**	–
Capital distribution from subsidiary		**–**	–	**–**	443
Purchases of equipment		**(62)**	(68)	**(30)**	(28)
Purchases of intangible assets		**(27)**	(27)	**–**	–
Proceeds from sale of equipment and intangible assets		**3**	3	**–**	1
Acquisition of associates and joint ventures	14	**(923)**	(152)	**(911)**	(152)
Capitalisation of associates	14	**(15)**	(23)	**(15)**	(23)
Proceeds from sale of associates	14	**168**	23	**114**	–
Net cash (used in)/from investing activities		**(685)**	1 535	**(585)**	1 168
Cash flows from financing activities					
Purchase of treasury shares		**(91)**	(76)	**–**	–
Proceeds from issue of unsecured subordinated callable notes		**–**	1 000	**–**	1 000
Redemption of unsecured subordinated callable notes		**–**	(1 000)	**–**	(1 000)
Decrease in investment contract liabilities[2]	6.3	**–**	(32)	**–**	–
Decrease in collateral guarantee contracts[2]	6.6	**–**	(1)	**–**	(1)
Dividends paid to company's shareholders		**(1 086)**	(1 003)	**(1 127)**	(1 043)
Dividends paid to non-controlling interest		**(100)**	(103)	**–**	–
Decrease in cell owners' and policyholders' interest[2]	9.1, 9.2	**–**	(51)	**–**	–
Net cash used in financing activities		**(1 277)**	(1 266)	**(1 127)**	(1 044)
Net (decrease)/increase in cash and cash equivalents		**(826)**	1 510	**(775)**	480
Cash and cash equivalents at beginning of year		**4 321**	2 887	**2 026**	1 610
Exchange gains/(losses) on cash and cash equivalents		**123**	(76)	**110**	(64)
Cash and cash equivalents at end of year	5.7	**3 618**	4 321	**1 361**	2 026

[1] Refer to note 32 for detail.

[2] Cash flows relating to investment contract liabilities, collateral guarantee contracts and cell owners' and policyholders' interest have previously been included as part of financing activities in the statement of cash flows. As a result of the acquisition of SSI, management has reassessed the classification of these cash flows and determined that these cash flows relate to operating activities. This change in classification has been applied prospectively, as these cash flows were previously considered immaterial.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.1 STATEMENT OF COMPLIANCE

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

1.2 BASIS OF PREPARATION

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

The following changes were made to the annual financial statements in the current year:

- Change in accounting policy to present the statement of financial position in order of liquidity (refer to note 32.1). Doing away with the current/non-current distinction resulted in the aggregation of some line items, but in total no changes were made to the amounts previously presented, except for strategic investments in unquoted SEM target shares now separately disclosed.
- Reclassification of some investment portfolios from investment activities to operating activities in the statement of cash flows (refer to note 32.2).
- Recognition of the repo liability, as well as underlying financial assets, relating to a repurchase agreement entered into by the SSI group (refer to note 32.3).
- A new note, note 34, was added to provide information on cellholder/policyholder versus shareholder statements of financial position and statements of comprehensive income.
- The tax on cell owners and structured insurance products has been separately disclosed in the statement of comprehensive income in the current year, as with the acquisition of SSI in 2017 the tax on cell owners and structured insurance products became more significant.
- Cash flows relating to investment contract liabilities, collateral guarantee contracts and cell- and policyholders' interest have previously been included as part of financing activities in the statement of cash flows. As a result of the acquisition of SSI, management has reassessed the classification of these cash flows and determined that these cash flows relate to operating activities. This change in classification has been applied prospectively, as these cash flows were previously considered immaterial.

Refer to note 33 for new standards, amendments and interpretations effective and not yet effective in 2018, as well as a detailed analysis of the expected impact of the standards that are not yet effective.

STANDARDS EFFECTIVE IN 2018

Of the standards that became effective in 2018, only IFRS 9 had an impact on the group and company and only on disclosure.

IFRS 9 addresses the classification and measurement of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Financial assets that were previously classified as designated at fair value through income are now classified as mandatorily at fair value through income. Refer to note 33 for a detailed assessment.

IFRS 15 Rev*enue from Contracts with Customers* introduces a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 does not apply to insurance contracts within the scope of IFRS 4 *Insurance Contracts*. The impact on the net results was not material.

STANDARDS NOT YET EFFECTIVE IN 2018

The group did not early adopt any of the standards not yet effective. Of these standards, management expects IFRS 16 and IFRS 17 to have a future impact on the group and company.

IFRS 16 *Leases* (effective 1 January 2019) addresses the establishment of principles for the recognition, measurement, presentation and disclosure of all lease arrangements within the scope of the standard. Under the new standard, an asset (the right to use the leased item) and the liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. A detailed analysis relating to the implementation of IFRS 16 is also provided in note 33.

IFRS 17 *Insurance Contracts* (effective 1 January 2022) addresses the establishment of principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. This is to effect a measurement model for insurance liabilities relating to policyholder contracts as well as related accounting treatments. A detailed analysis relating to the implementation of IFRS 17 is provided in note 33. The group is currently facilitating a programme to review the impact of the implementation and to insure a seamless transition.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1.3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

2 SEGMENT INFORMATION

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

The group conducts mainly insurance and investment activities.

INSURANCE ACTIVITIES

The group presents its insurance results in the following segments:

- Conventional insurance business written on insurance licences controlled by the group, consisting of Santam Commercial and Personal, Santam Specialist (niche business and agriculture), credit insurance written by SSI, Santam re and MiWay
- Alternative risk transfer insurance business written on the insurance licences of Centriq and SSI
- Santam's share of the insurance results of the SEM general insurance businesses, including SAN JV (Saham Finances)

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

Growth is measured for SEM general insurance businesses based on the gross written premium generated by the underlying businesses. With regard to the SEM and SAN JV (Saham Finances) insurance business, this information is considered to be a reallocation of fair value movements recognised on the SEM target shares as well as equity-accounted earnings on the investments in associates and joint ventures. It is also included as reconciling items in order to reconcile to the consolidated statement of comprehensive income. Overall profitability is measured based on net investment income and fair value movements from SEM target share investments and net income from associates for the investment in SAN JV.

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

INVESTMENT ACTIVITIES

Investment activities are all investment-related activities undertaken by the group, excluding investment returns on insurance funds. Due to the nature of the activities conducted, investment activities are considered to be one operating segment. Investment activities are measured based on net investment income.

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

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

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

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

2 SEGMENT INFORMATION (continued)

2.1 SEGMENT REPORT

For the year ended 31 December 2018 Business activity	Insurance Conventional R million	 Alternative risk R million	 Santam's share of SEM R million	 Total R million
Revenue	**27 711**	**5 398**	**2 547**	**35 656**
Net earned premium	22 371	441	1 994	**24 806**
Net claims incurred	13 499	328	1 354	**15 181**
Net commission	2 764	(129)	161	**2 796**
Management expenses (excluding BEE costs)[1]	4 042	211	453	**4 706**
Net underwriting result	**2 066**	**31**	**26**	**2 123**
Investment return on insurance funds	532	65	257	**854**
Net insurance result	**2 598**	**96**	**283**	**2 977**
Other income[2]	187	59	4	**250**
Other expenses[2]	(189)	(59)	–	**(248)**
Operating result before non-controlling interest and tax	**2 596**	**96**	**287**	**2 979**
Reallocation of operating result[3]	–	–	(287)	**(287)**
Investment income/(losses) net of investment-related fees	–	179	234	**413**
Investment return allocated to cell owners and structured insurance products	–	(179)	–	**(179)**
Finance costs	–	–	–	**–**
Income from associates and joint ventures including profit on sale and impairment	–	–	266	**266**
Loss on dilution of associate	–	–	(88)	**(88)**
Reclassification of foreign currency translation reserve on dilution of associate	–	–	19	**19**
Santam BEE costs	–	–	–	**–**
Amortisation and impairment of intangible assets[1]	(23)	(1)	–	**(24)**
Impairment of loans	(5)	–	–	**(5)**
Income tax recovered from cell owners and structured insurance products	–	106	–	**106**
Profit before tax	**2 568**	**201**	**431**	**3 200**

1 Amortisation of computer software included as part of management expenses. Santam's share of the costs to manage the SEM portfolio of R36 million has been included in management expenses.
2 Includes other operating income and expenses not related to underwriting results.
3 Reconciling items consist of the reallocation of net operating results relating to the underlying investments of the SEM target shares and SAN JV (Saham Finances) for management reporting purposes.

For the year ended 31 December 2017 Business activity	Insurance Conventional R million	 Alternative risk R million	 Santam's share of SEM R million	 Total R million
Revenue	**25 853**	**3 867**	**2 382**	**32 102**
Net earned premium	20 893	437	1 790	**23 120**
Net claims incurred	13 753	313	1 344	**15 410**
Net commission	2 526	(102)	125	**2 549**
Management expenses (excluding BEE costs)[1]	3 354	206	433	**3 993**
Net underwriting result	**1 260**	**20**	**(112)**	**1 168**
Investment return on insurance funds	584	64	356	**1 004**
Net insurance result	**1 844**	**84**	**244**	**2 172**
Other income[2]	84	43	–	**127**
Other expenses[2]	(86)	(43)	–	**(129)**
Operating result before non-controlling interest and tax	**1 842**	**84**	**244**	**2 170**
Reallocation of operating result[3]	–	–	(244)	**(244)**
Investment income/(losses) net of investment-related fees	–	563	84	**647**
Investment return allocated to cell owners and structured insurance products	–	(563)	–	**(563)**
Finance costs	–	–	–	**–**
Income from associates and joint ventures including profit on sale and impairment	–	–	65	**65**
Gain on dilution of associate	–	–	18	**18**
Reclassification of foreign currency translation reserve on dilution of associate	–	–	(90)	**(90)**
Santam BEE costs	–	–	–	**–**
Amortisation and impairment of intangible assets[1]	(31)	–	–	**(31)**
Profit before tax	**1 811**	**84**	**77**	**1 972**

1 Amortisation of computer software included as part of management expenses. Santam's share of the costs to manage the SEM portfolio of R33 million has been included in management expenses.
2 Includes other operating income and expenses not related to underwriting results.
3 Reconciling items consist of the reallocation of net insurance results relating to the underlying investments of the SEM target shares and SAN JV (Saham Finances) for management reporting purposes.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Investment R million	Total R million	Reconciling and unallocated R million	IFRS total R million
725	36 381	(3 272)	33 109
–	24 806	(1 994)	22 812
–	15 181	(1 354)	13 827
–	2 796	(161)	2 635
–	4 706	(453)	4 253
–	2 123	(26)	2 097
–	854	(257)	597
–	2 977	(283)	2 694
–	250	(4)	246
–	(248)	–	(248)
–	2 979	(287)	2 692
–	(287)	287	–
605	1 018	–	1 018
–	(179)	–	(179)
(331)	(331)	–	(331)
53	319	–	319
–	(88)	–	(88)
–	19	–	19
–	–	(8)	(8)
–	(24)	–	(24)
–	(5)	–	(5)
–	106	–	106
327	3 527	(8)	3 519

Investment R million	Total R million	Reconciling and unallocated R million	IFRS total R million
689	32 791	(3 071)	29 720
–	23 120	(1 790)	21 330
–	15 410	(1 344)	14 066
–	2 549	(125)	2 424
–	3 993	(433)	3 560
–	1 168	112	1 280
–	1 004	(356)	648
–	2 172	(244)	1 928
–	127	–	127
–	(129)	–	(129)
–	2 170	(244)	1 926
–	(244)	244	–
575	1 222	–	1 222
–	(563)	–	(563)
(295)	(295)	–	(295)
47	112	–	112
–	18	–	18
–	(90)	–	(90)
–	–	(3)	(3)
–	(31)	–	(31)
327	2 299	(3)	2 296

2 SEGMENT INFORMATION (continued)

2.2 ADDITIONAL INFORMATION ON INSURANCE ACTIVITIES

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

	2018		2017	
	Gross written premium R million	Underwriting result R million	Gross written premium R million	Underwriting result R million
Accident and health	**535**	**82**	482	58
Crop	**729**	**54**	829	114
Engineering	**1 335**	**296**	1 290	296
Guarantee	**301**	**(69)**	182	(18)
Liability	**1 250**	**(20)**	1 227	85
Miscellaneous	**8**	**(1)**	4	2
Motor	**12 801**	**1 176**	12 125	860
Property	**10 031**	**519**	9 000	(165)
Transportation	**721**	**29**	714	28
Total	**27 711**	**2 066**	**25 853**	**1 260**
Comprising:				
Commercial insurance	**15 809**	**920**	14 589	513
Personal insurance	**11 902**	**1 146**	11 264	747
Total	**27 711**	**2 066**	**25 853**	**1 260**

2.3 ADDITIONAL INFORMATION ON INVESTMENT ACTIVITIES

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

	2018 R million	2017 R million
Investment income	**895**	557
Net (losses)/gains on financial assets and liabilities at fair value through income	**(223)**	85
Income from associates and joint ventures	**53**	47
Investment-related revenue	**725**	**689**
Expenses for investment-related activities	**(67)**	(67)
Finance costs	**(331)**	(295)
Net total investment-related transactions	**327**	**327**

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

2.4 ADDITIONAL INFORMATION ON SANTAM'S SHARE OF SEM

The group's return on Santam's share of SEM activities can be analysed as follows:

For the year ended 31 December 2018	SEM R million	SAN JV (Saham Finances)[3] R million	Total R million
Revenue	**1 265**	**1 282**	**2 547**
Net earned premium	923	1 071	**1 994**
Net claims incurred	679	675	**1 354**
Net commission	49	112	**161**
Management expenses (excluding BEE costs)	248	205	**453**
Net underwriting result	**(53)**	**79**	**26**
Investment return on insurance funds	183	74	**257**
Net insurance result	**130**	**153**	**283**
Other income	–	4	**4**
Operating result before non-controlling interest and tax[2]	**130**	**157**	**287**
Reallocation of operating result[1]	(130)	(157)	**(287)**
Investment income net of investment-related fees	234	–	**234**
Income from associates and joint ventures	–	266	**266**
Loss on dilution of associate	–	(88)	**(88)**
Reclassification of foreign currency translation reserve on dilution of associate	–	19	**19**
Profit before tax	**234**	**197**	**431**

[1] Reconciling items consist of the reallocation of net operating results relating to the underlying investments of the SEM target shares and SAN JV (Saham Finances) for management reporting purposes.
[2] Sanlam held an effective interest of 7% until 9 October 2018, after which the effective interest increased to 10%. Refer to note 14.
[3] Santam's share of SAN JV's non-controlling interest and tax of R47 million resulted in net results of R49 million.

For the year ended 31 December 2017	SEM R million	SAN JV (Saham Finances)[4] R million	Total R million
Revenue	**1 267**	**1 115**	**2 382**
Net earned premium	881	909	**1 790**
Net claims incurred	723	621	**1 344**
Net commission	30	95	**125**
Management expenses (excluding BEE costs)[2]	236	197	**433**
Net underwriting result	**(108)**	**(4)**	**(112)**
Investment return on insurance funds[2]	234	122	**356**
Net insurance result/operating results before non-controlling interest and tax[3]	**126**	**118**	**244**
Reallocation of operating result[1]	(126)	(118)	**(244)**
Investment income net of investment-related fees	84	–	**84**
Income from associates and joint ventures	–	65	**65**
Gain on dilution of associate	–	18	**18**
Reclassification of foreign currency translation reserve on dilution of associate	–	(90)	**(90)**
Profit before tax	**84**	**(7)**	**77**

1 Reconciling items consist of the reallocation of net insurance results relating to the underlying investments of the SEM target shares and SAN JV (Saham Finances) for management reporting purposes.
2 A reclassification of R26 million between management expenses and investment return on insurance funds was made as a result of alignment with Sanlam.
3 Santam's share of SAN JV's non-controlling interest and tax of R30 million resulted in net results of R32 million.
4 Santam held an effective interest of 7.3%, until 10 May 2017, after which the effective interest decreased to 7.0%.

2.5 GEOGRAPHICAL ANALYSIS

	Gross written premium	
	2018 R million	**2017 R million**
South Africa	**29 742**	26 520
Rest of Africa[1]	**3 684**	3 810
Southeast Asia, India and Middle East	**1 969**	1 549
Other	**261**	223
	35 656	32 102
Reconciling items[2]	**(2 547)**	(2 382)
Group total	**33 109**	29 720

	Non-current assets	
	2018 R million	**2017 R million**
South Africa	**1 109**	1 125
Rest of Africa	**3 109**	1 967
Southeast Asia, India and Middle East	**1 059**	886
Group total	**5 277**	3 978

1 Includes gross written premium of R1 110 million (Dec 2017: R1 197 million) relating to Namibia.
2 Reconciling items relate to the underlying investments included in SEM and SAN JV (Saham Finances) activities for management reporting purposes.

2 SEGMENT INFORMATION (continued)

2.6 ANALYSIS OF SAN JV (SAHAM)'S RESULTS

The Saham Finances contribution was impacted by corporate activity in 2018 and 2017. The tables included in this note provide an analysis of the Saham Finances earnings on a 100% basis for both years, which eliminates the distortion caused by changes in shareholding. Santam's share of the net underwriting results for the year amounted to R79 million (2017: R4 million loss).

Saham Finances net result from financial services for the year ended 31 December 2018 (100%)	2018 R million	2017 R million
Gross written premiums	**16 569**	**15 975**
Net earned premiums	**13 843**	12 723
Net claims incurred	**(9 448)**	(8 537)
Net commission	**(1 454)**	(1 289)
Management expenses	**(2 645)**	(2 572)
Net underwriting result	**296**	**325**
Investment return on insurance funds	**951**	1 734
Non-insurance earnings	**52**	116
Operating result before taxation and non-controlling interest	**1 299**	**2 175**
Taxation and non-controlling interest	**(609)**	(1 078)
Operating result after taxation and non-controlling interest	**690**	**1 097**
Net investment income	**172**	110
Finance costs	**(160)**	(76)
Attributable earnings	**702**	**1 131**
Foreign currency translation differences	**(124)**	151
Total comprehensive income for the year	**578**	**1 282**

Analysis of SAN JV's (Saham)'s gross written premium (100%)	Life insurance		General insurance		Reinsurance		Total	
	2018 R million	2017 R million	2018 R million	2017 R million	2018 R million	2017 R million	2018 R million	2017 R million
Morocco	**1 481**	1 420	**6 708**	6 000	**–**	–	**8 189**	7 420
Lebanon	**736**	680	**791**	871	**–**	–	**1 527**	1 551
Mauritius (Saham Re)	**–**	–	**–**	–	**1 108**	1 061	**1 108**	1 061
Ivory Coast	**585**	547	**1 251**	1 220	**–**	–	**1 836**	1 767
Angola	**35**	42	**968**	1 415	**–**	–	**1 003**	1 457
Other	**462**	363	**2 335**	2 246	**1 305**	1 267	**4 102**	3 876
Consolidation adjustment	**(23)**	(30)	**(145)**	(164)	**(1 028)**	(963)	**(1 196)**	(1 157)
	3 276	**3 022**	**11 908**	**11 588**	**1 385**	**1 365**	**16 569**	**15 975**

Analysis of SAN JV's (Saham)'s net underwriting results (100%)	Life insurance		General insurance		Reinsurance		Total	
	2018 R million	2017 R million	2018 R million	2017 R million	2018 R million	2017 R million	2018 R million	2017 R million
Morocco	**(135)**	(191)	**439**	488	**–**	–	**304**	297
Lebanon	**(117)**	(78)	**58**	28	**–**	–	**(59)**	(50)
Mauritius (Saham Re)	**–**	–	**–**	–	**311**	289	**311**	289
Ivory Coast	**(111)**	(72)	**77**	100	**–**	–	**(34)**	28
Angola	**1**	18	**(29)**	(40)	**–**	–	**(28)**	(22)
Other	**(86)**	(96)	**(58)**	(64)	**(54)**	(57)	**(198)**	(217)
	(448)	**(419)**	**487**	**512**	**257**	**232**	**296**	**325**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3 RISK AND CAPITAL MANAGEMENT

3.1 OBJECTIVE AND FRAMEWORK

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

Santam has adopted an enterprise risk management (ERM) approach and framework that enables management to effectively deal with uncertainty and thus enhance the capacity to build value by efficiently and effectively deploying resources in pursuit of achieving the group's objectives. The ERM process adopted is considered appropriate to the nature, scale and complexity of the group and company's business and risks. The Santam approach is aligned with the principles of the King Report on Corporate Governance™ for South Africa, 2016 (King IV™)[1], ISO 31000, SAM requirements as well as the requirements of our majority shareholder, Sanlam.

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

[1] Copyright and trademarks are owned by the Institute of Directors in Southern Africa (NPC) and all of its rights are reserved.

3.2 RISK ASSESSMENT PROCESS

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

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

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

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

- Insurance risk (consisting of underwriting and reinsurance risk)
- Credit risk
- Market risk
- Operational risk

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3 RISK AND CAPITAL MANAGEMENT (continued)

3.2 RISK ASSESSMENT PROCESS (continued)

	Notes	Group total 2018 R million	Group total 2017 R million	Group foreign 2018 R million	Group foreign 2017 R million
Financial and insurance assets					
Equity securities					
Quoted		**2 378**	2 097	**322**	177
Unquoted	5.1, 5.4	**1 418**	1 179	**1 336**	1 137
Total equity securities		**3 796**	3 276	**1 658**	1 314
Debt securities					
Quoted		**8 463**	8 942	**1 725**	1 202
Unquoted		**5 449**	3 733	**92**	92
Total debt securities	5.1, 5.5, 5.8	**13 912**	12 675	**1 817**	1 294
Unitised funds					
Quoted					
Underlying equity securities		**615**	1 765	**43**	39
Underlying debt securities		**2 501**	369	**34**	–
Total unitised funds	5.1	**3 116**	2 134	**77**	39
Derivatives	5.2, 5.5	**25**	8	**25**	8
Short-term money market instruments	5.1, 5.5, 5.8	**2 928**	2 174	**804**	295
Receivables due from contract holders/intermediaries	4.2, 4.5, 4.7	**4 749**	3 593	**1 309**	821
Reinsurance receivables	4.2, 4.6, 4.7	**419**	686	**13**	12
Other loans and receivables	5.6, 5.8	**1 106**	974	**–**	–
Total loans and receivables including insurance receivables		**6 274**	5 253	**1 322**	833
Cell owners' and policyholders' interest	9.1, 9.2	**13**	10	**–**	–
Reinsurance assets	4.1, 4.6	**6 487**	5 824	**1 220**	931
Deposit with cell owner	9.3	**191**	174	**–**	–
Deferred acquisition cost	4.1.2, 4.5	**619**	537	**–**	–
Cash and cash equivalents	5.5, 5.7, 5.8	**3 618**	4 321	**1 515**	1 448
Total financial and insurance assets		**40 979**	36 386	**8 438**	6 162
Investment in associates and joint ventures		**2 927**	1 789	**2 626**	1 638
Total assets with direct or indirect foreign currency exposure		**43 906**	38 175	**11 604**	7 800
Financial and insurance liabilities					
Cell owners' and policyholders' interest	9.1, 9.2	**3 343**	3 227	**–**	–
Reinsurance liability relating to cell owners	9.4	**191**	174	**–**	–
Debt securities	6.1, 6.2	**2 072**	2 056	**–**	–
Investment contracts	6.3	**1 528**	1 703	**–**	–
Derivatives	6.4	**4**	–	**4**	–
Repo liability	6.5	**759**	531	**–**	–
Collateral guarantee contracts	6.6	**158**	130	**–**	–
Insurance liabilities	4.1, 4.5	**20 662**	17 848	**3 711**	2 573
Deferred reinsurance acquisition revenue	4.1.2, 4.6	**487**	326	**–**	–
Payables due to contract holders/intermediaries	4.3	**3 762**	3 010	**1 032**	773
Other payables	6.7	**2 160**	1 943	**55**	7
Total trade and other payables including insurance payables		**5 922**	4 953	**1 087**	780
Total financial and insurance liabilities		**35 126**	30 948	**4 802**	3 353

	Notes	Company total 2018 R million	Company total 2017 R million	Company foreign 2018 R million	Company foreign 2017 R million
Financial and insurance assets					
Equity securities					
Quoted		**995**	1 420	**–**	–
Unquoted		**1 391**	1 143	**1 336**	1 101
Total equity securities	5.1, 5.4	**2 386**	2 563	**1 336**	1 101
Debt securities					
Quoted		**5 286**	4 936	**1 498**	1 069
Unquoted		**1 914**	1 560	**–**	–
Total debt securities	5.1, 5.5, 5.8	**7 200**	6 496	**1 498**	1 069
Unitised funds					
Quoted					
Underlying equity securities		**87**	59	**–**	–
Underlying debt securities		**206**	151	**–**	–
Total unitised funds	5.1	**293**	210	**–**	–
Derivatives	5.2, 5.5	**25**	8	**25**	8
Short-term money market instruments	5.1, 5.5, 5.8	**2 196**	1 153	**756**	266
Receivables due from contract holders/intermediaries	4.2, 4.5, 4.7	**4 074**	3 447	**1 309**	821
Reinsurance receivables	4.2, 4.6, 4.7	**217**	575	**13**	12
Other loans and receivables	5.6, 5.8	**697**	726	**–**	–
Total loans and receivables including insurance receivables		**4 988**	4 748	**1 322**	833
Reinsurance assets	4.1, 4.6	**5 676**	5 168	**900**	684
Deferred acquisition cost	4.1.2, 4.5	**564**	490	**–**	–
Cash and cash equivalents	5.5, 5.7, 5.8	**1 361**	2 026	**1 201**	1 138
Total financial and insurance assets		**24 689**	22 862	**7 038**	5 099
Investment in associates and joint ventures		**2 476**	1 652	**2 476**	1 565
Total assets with direct or indirect foreign currency exposure		**27 165**	24 514	**9 514**	6 664
Financial and insurance liabilities					
Debt securities	6.1, 6.2	**2 072**	2 056	**–**	–
Derivatives	6.4	**4**	–	**4**	–
Collateral guarantee contracts	6.6	**158**	130	**–**	–
Insurance liabilities	4.1, 4.5	**13 300**	12 429	**3 200**	2 136
Deferred reinsurance acquisition revenue	4.1.2, 4.6	**374**	284	**–**	–
Payables due to contract holders/intermediaries	4.3	**2 976**	2 627	**853**	645
Other payables	6.7	**1 458**	1 169	**2**	6
Total trade and other payables including insurance payables		**4 434**	3 796	**855**	651
Total financial and insurance liabilities		**20 342**	18 695	**4 059**	2 787

3.2.1 INSURANCE RISK

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

- Underwriting risk
- Reinsurance risk

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

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

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

3 RISK AND CAPITAL MANAGEMENT (continued)

3.2 RISK ASSESSMENT PROCESS (continued)

3.2.1 INSURANCE RISK (continued)

3.2.1.1 Underwriting risk

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

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

In order to determine the underwriting risk faced by Santam and its subsidiaries, a stochastic simulation of Santam's claims is performed at a line of business level. Assumptions for each line of business are determined based on more than 10 years' worth of historic data. The results of this analysis are then used to identify where underwriting action is required. These actions can include, but is not limited to, changes to the pricing of insurance policies or adjustments to the reinsurance programme.

Refer to note 4.5 for details on these risks and the way the group manages them.

3.2.2 REINSURANCE RISK

Reinsurance risk is the risk of loss due to either insufficient or inappropriately structured reinsurance cover relative to the group and company's risk management strategy and objectives. It also includes the risk that the reinsurance programme is inappropriately administered. The group and company obtain third-party reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or the company's capital.

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

3.2.3 CREDIT RISK

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

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

- Failure of an asset counterparty to meet their financial obligations (note 5.8)
- Reinsurer default on presentation of a large claim (note 4.6)
- Reinsurers default on their share of Santam's insurance liabilities (note 4.6)
- Default on amounts due from insurance contract intermediaries (note 4.6)

Santam determines the credit quality for each of its counterparties by reference to ratings from independent rating agencies such as Standard & Poor's (S&P) and Moody's. Santam measures the probability of default on the basis of assessments made by the rating agencies over a one-year time horizon and the resulting loss given default. The underlying default probabilities are based on the credit migration models developed by S&P and Moody's which incorporate up to 90 years' worth of credit default information. For default risk, Santam uses a model which is largely based on Basel II regulations.

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

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

Refer to notes 4.6 and 5.8 as indicated above for details on credit risk.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3.2.4 MARKET RISK

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

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

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

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

3.2.4.1 Price risk

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

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

Refer to note 5.4 for details on price risk.

3.2.4.2 Interest rate risk

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

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

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

3.2.4.3 Currency risk

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

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

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

Refer to note 7 for details on foreign currency risk.

3 RISK AND CAPITAL MANAGEMENT (continued)

3.2 RISK ASSESSMENT PROCESS (continued)

3.2.5 LIQUIDITY RISK

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

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

Refer to note 8 for more details on liquidity risk.

3.2.6 OPERATIONAL RISK

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

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

3.3 SOLVENCY AND CAPITAL MANAGEMENT

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

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

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

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

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

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

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

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

The group economic capital requirement at 31 December 2018 based on the internal economic capital model amounted to R6.9 billion (2017: R6.0 billion) or an economic capital coverage ratio of 159% (2017: 158%).

3.4 REGULATORY AND COMPLIANCE RISK MANAGEMENT

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

In addition to the regulatory and compliance risk, note that the Financial Sector Regulations Act, 2017, commenced on 1 April 2018 and established the Financial Sector Conduct Authority (the Authority) to regulate and supervise financial product providers and financial services providers and to improve market conduct in order to protect financial customers. Market conduct and/or conduct of business risk can be described as the risk to customers, insurers, the insurance sector or the insurance market that arises from insurers and/or intermediaries conducting their business in a way that does not ensure fair treatment of customers.

Santam constituted a conduct of business committee (previously the TCF committee), consisting of key stakeholders, to monitor the manner in which treating customers fairly outcomes are evidenced within the group and company. This committee meets on a quarterly basis. Quarterly reports are also submitted to the Santam social, ethics and sustainability (SES) committee and the risk committee, and a summary is submitted to the board, touching on the relevant information, progress and risk profile pertaining to market conduct outcomes. The conduct framework was formalised and presented to the SES committee.

Santam's conduct of business committee is aligned with the Authority's focus to improve market conduct to protect financial customers. As a result of the well-entrenched treating customers fairly culture in the organisation, Santam is well positioned to ensure fair treatment and protection to financial customers through its commitment to doing ***Insurance good and proper***, puts the considerations of its clients at the forefront of its commercial endeavours, and conducts significant work in adopting and demonstrating compliance with the Treating Customers Fairly (TCF) regulations.

National Treasury published the draft Conduct of Financial Institutions (COFI) Bill for public comment on 11 December 2018. One of the purposes of the COFI Bill is to build a consistent, strong and effective market conduct legislative framework for all institutions performing financial activities. As a result of Santam's commitment to continuous refinement of its processes across the group to ensure that it is able to demonstrate fair treatment of its clients and the implementation of the policyholder protection rules (PPR) under the Short-term Insurance Act, it is in a favourable position to ensure compliance with the proposed COFI Bill.

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

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

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

3.5 CONDUCT RISK

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

Santam constituted a conduct of business committee, consisting of key stakeholders, to monitor the manner in which TCF outcomes are evidenced within Santam and the Santam group. This committee meets on a quarterly basis. Quarterly reports are also submitted to the Santam SES committee, the risk committee and a summary to the board touching on the relevant information, progress and risk profile pertaining to TCF outcomes. The conduct framework is also being formalised and was presented to the SES committee. Business, risk and compliance processes are being reviewed and aligned with the conduct framework. This will continue with the development of the conduct regulator and as certain principles and precedents are set and better understood.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS

		Group		Company	
	Notes	2018 R million	2017 R million	2018 R million	2017 R million
Insurance liabilities	4.1	**20 662**	17 848	**13 300**	12 429
Reinsurance assets	4.1	**(6 487)**	(5 824)	**(5 676)**	(5 168)
Receivables arising from insurance and reinsurance contracts	4.2	**(5 168)**	(4 279)	**(4 291)**	(4 022)
Payables arising from insurance and reinsurance contracts	4.3	**3 762**	3 010	**2 976**	2 627
		12 769	10 755	**6 309**	5 866

Risk management

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

4.1 INSURANCE LIABILITIES AND REINSURANCE ASSETS

		Group		Company	
	Notes	2018 R million	2017 R million	2018 R million	2017 R million
Gross					
Long-term insurance contracts					
– claims reported and loss adjustment expenses		**32**	75	**–**	–
– claims incurred but not reported		**41**	62	**–**	–
General insurance contracts					
– claims reported and loss adjustment expenses		**8 465**	8 273	**7 470**	7 462
– claims incurred but not reported		**2 868**	2 310	**2 415**	1 914
– unearned premiums		**9 256**	7 128	**3 415**	3 053
Total insurance liabilities – gross		**20 662**	17 848	**13 300**	12 429
Expected to be settled after 12 months		**2 339**	1 789	**1 673**	1 482
Expected to be settled within 12 months		**18 323**	16 059	**11 627**	10 947
Recoverable from reinsurers					
Long-term insurance contracts					
– claims reported and loss adjustment expenses		**14**	18	**–**	–
– claims incurred but not reported		**10**	15	**–**	–
General insurance contracts					
– claims reported and loss adjustment expenses		**4 138**	3 918	**3 741**	3 663
– claims incurred but not reported		**667**	496	**529**	352
– unearned premiums		**1 658**	1 377	**1 406**	1 153
Total reinsurers' share of insurance liabilities		**6 487**	5 824	**5 676**	5 168
Expected to be realised after 12 months		**505**	202	**302**	166
Expected to be realised within 12 months		**5 982**	5 622	**5 374**	5 002
Net					
Long-term insurance contracts					
– claims reported and loss adjustment expenses		**18**	57	**–**	–
– claims incurred but not reported		**31**	47	**–**	–
General insurance contracts					
– claims reported and loss adjustment expenses		**4 327**	4 355	**3 729**	3 799
– claims incurred but not reported		**2 201**	1 814	**1 886**	1 562
– unearned premiums		**7 598**	5 751	**2 009**	1 900
Total insurance liabilities – net		**14 175**	12 024	**7 624**	7 261

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

ACCOUNTING POLICY – INSURANCE AND INVESTMENT CONTRACTS – CLASSIFICATION

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

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

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

Insurance contracts

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

a) General insurance

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

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

Recognition and measurement

i) Gross written premium

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

ii) Provision for unearned premiums

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

iii) Provision for unexpired risk

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

iv) Provision for claims

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

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

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

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.1 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

vi) Deferred acquisition costs (DAC)

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

vii) Reinsurance contracts held

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

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

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

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

The group assesses its reinsurance assets for impairment on a six-monthly basis. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of comprehensive income. A provision for impairment of reinsurance assets is established when there is objective evidence that the group will not be able to collect all amounts due according to their original terms.

viii) Salvage reimbursements

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

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

b) Long-term insurance

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

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

4.1.1 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

	2018			2017		
Year ended 31 December	Gross R million	Reinsurance R million	Net R million	Gross R million	Reinsurance R million	Net R million
a) Claims and loss adjustment expenses						
GROUP						
Notified claims	**8 348**	**(3 936)**	**4 412**	6 814	(2 841)	3 973
Incurred but not reported	**2 372**	**(511)**	**1 861**	1 915	(341)	1 574
Total at the beginning of the year	**10 720**	**(4 447)**	**6 273**	8 729	(3 182)	5 547
Cash paid for claims settled in the year	**(17 997)**	**3 890**	**(14 107)**	(18 823)	5 004	(13 819)
Increase in liabilities						
– arising from current year claims	**18 442**	**(4 615)**	**13 827**	20 466	(6 400)	14 066
– arising from portfolio transfer	**–**	**–**	**–**	(113)	105	(8)
– arising from foreign currency adjustments	**241**	**(55)**	**186**	(121)	(16)	(137)
– business combinations	**–**	**–**	**–**	582	(361)	221
Transfer to cell owners' and policyholders' interest	**–**	**398**	**398**	–	403	403
Total at the end of the year	**11 406**	**(4 829)**	**6 577**	10 720	(4 447)	6 273
Notified claims	**8 497**	**(4 152)**	**4 345**	8 348	(3 936)	4 412
Incurred but not reported	**2 909**	**(677)**	**2 232**	2 372	(511)	1 861
Total at the end of the year	**11 406**	**(4 829)**	**6 577**	10 720	(4 447)	6 273
COMPANY						
Notified claims	**7 462**	**(3 663)**	**3 799**	6 190	(2 620)	3 570
Incurred but not reported	**1 914**	**(352)**	**1 562**	1 631	(246)	1 385
Total at the beginning of the year	**9 376**	**(4 015)**	**5 361**	7 821	(2 866)	4 955
Cash paid for claims settled in the year	**(15 377)**	**2 817**	**(12 560)**	(16 136)	3 635	(12 501)
Increase in liabilities						
– arising from current year claims	**15 659**	**(3 030)**	**12 629**	17 775	(4 767)	13 008
– arising from foreign currency adjustments	**227**	**(42)**	**185**	(84)	(17)	(101)
Total at the end of the year	**9 885**	**(4 270)**	**5 615**	9 376	(4 015)	5 361
Notified claims	**7 470**	**(3 741)**	**3 729**	7 462	(3 663)	3 799
Incurred but not reported	**2 415**	**(529)**	**1 886**	1 914	(352)	1 562
Total at the end of the year	**9 885**	**(4 270)**	**5 615**	9 376	(4 015)	5 361

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.1 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.1.1 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

Year ended 31 December	2018 Gross R million	2018 Reinsurance R million	2018 Net R million	2017 Gross R million	2017 Reinsurance R million	2017 Net R million
b) Provision for unearned premiums						
GROUP						
At the beginning of the year	**7 128**	**(1 377)**	**5 751**	4 867	(1 307)	3 560
Charged to the statement of comprehensive income	**2 019**	**(763)**	**1 256**	648	(285)	363
Foreign currency movement	**137**	**(61)**	**76**	(13)	26	13
Business combinations	**–**	**–**	**–**	1 660	(30)	1 630
Other	**(28)**	**54**	**26**	(34)	40	6
Transfer to cell owners' and policyholders' interest	**–**	**489**	**489**	–	179	179
Total at the end of the year	**9 256**	**(1 658)**	**7 598**	7 128	(1 377)	5 751
COMPANY						
At the beginning of the year	**3 053**	**(1 153)**	**1 900**	2 919	(1 043)	1 876
Charged to the statement of comprehensive income	**225**	**(192)**	**33**	148	(137)	11
Foreign currency movement	**137**	**(61)**	**76**	(14)	27	13
Total at the end of the year	**3 415**	**(1 406)**	**2 009**	3 053	(1 153)	1 900

4.1.2 MOVEMENTS IN DEFERRED ACQUISITION COSTS AND DEFERRED REINSURANCE ACQUISITION REVENUE

	Group 2018 R million	Group 2017 R million	Company 2018 R million	Company 2017 R million
a) Deferred acquisition costs				
At the beginning of the year	**537**	469	**490**	437
Movement for the period (included in "Expenses for the acquisition of insurance contracts")	**82**	59	**74**	53
Business combinations	**–**	9	**–**	–
Total at the end of the year	**619**	537	**564**	490
b) Deferred reinsurance acquisition revenue				
At the beginning of the year	**326**	273	**284**	247
Movement for the period (included in "Income from reinsurance contracts ceded")	**161**	51	**90**	37
Business combinations	**–**	2	**–**	–
Total at the end of the year	**487**	326	**374**	284

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

Insurance liabilities calculations

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

Insurance liabilities include the provisions for unearned premiums (including an evaluation of the necessity for an unexpired risk provision), outstanding claims and IBNR claims.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Process to determine significant assumptions

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

i) Unearned premium provision

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

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

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

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

ii) Unexpired risk provision

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

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

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

iii) Outstanding claims

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.1 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

iv) Claims IBNR

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

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

Stochastic chain-ladder methodology

The basic technique involves analysing historical claims development factors, net of reinsurance, and selecting estimated development factors based on this historical pattern. The selected development factors are applied to cumulative internal claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.
It is the nature of this technique that a weighted average of claims inflation within the past data will be projected into the future.
A stochastic process is applied to the choice of development factors for each accident year in accordance with standard statistical practices. Numerous simulations are performed to obtain a distribution of the ultimate claims cost.

The claims provisions are subject to close scrutiny both within the group's business units and at a company level. In addition, for major insurance classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw 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 to be at least sufficient at the 75th percentile of the ultimate cost distribution.

The IBNR reserve is considered to be the most sensitive to changes in assumptions; therefore a sensitivity analysis is performed. In the southern African operations, excluding alternative risk business, a 5% upward adjustment in the level of sufficiency of the IBNR reserve would result in an additional charge of approximately R54 million (2017: R60 million) (before taxation), while a 5% downward adjustment in the level of sufficiency would result in a release of reserves in the statement of comprehensive income of approximately R50 million (2017: R54 million) (before taxation).

As this method uses historical claims development information, it assumes that the historical claims development pattern will occur again in future. There are reasons why this may not be the case. Such reasons include:

- change in processes that affect the development/recording of claims paid and incurred;
- economic, legal, political and social trends;
- changes in mix of business; and
- random fluctuations, including the impact of large losses.

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

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

v) Unexpired risk reserve (URR)

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

4.2 RECEIVABLES ARISING FROM INSURANCE AND REINSURANCE CONTRACTS

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
Due from contract holders/intermediaries	**4 908**	3 593	**4 233**	3 447
Less: provision for impairment of receivables from intermediaries	**(159)**	–	**(159)**	–
Due from reinsurers	**483**	742	**279**	630
Less: provision for impairment of receivables from reinsurers	**(64)**	(56)	**(62)**	(55)
Total	**5 168**	4 279	**4 291**	4 022
Receivables arising from insurance and reinsurance contracts are expected to be received within 12 months.				
Reconciliation of provisions for impairment of receivables from intermediaries and reinsurers				
At the beginning of the year	**56**	52	**55**	48
Charge to the statement of comprehensive income:				
– Increase in provisions	**167**	7	**166**	7
– Provisions reversed	**–**	(3)	**–**	–
Total at the end of the year	**223**	56	**221**	55

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

The carrying value of receivables approximates fair value. Provisions for impairment are based on the recoverability of individual loans and receivables. The current year includes a provision that was raised for liquidity concerns at a third-party premium-collection agency that went into voluntary curatorship in September 2018.

ACCOUNTING POLICY – RECEIVABLES ARISING FROM INSURANCE AND REINSURANCE CONTRACTS

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

If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of comprehensive income. A provision for impairment of insurance receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to their original terms.

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.3 PAYABLES ARISING FROM INSURANCE AND REINSURANCE CONTRACTS

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
Amounts due to intermediaries	**1 188**	1 086	**1 167**	1 060
Amounts due to reinsurers	**2 439**	1 849	**1 809**	1 567
Amounts due to policyholders	**135**	75	**–**	–
Total	**3 762**	3 010	**2 976**	2 627

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

The carrying value of payables approximates fair value.

ACCOUNTING POLICY – PAYABLES ARISING FROM INSURANCE AND REINSURANCE CONTRACTS
Payables are recognised when due. These include amounts due to agents, intermediaries and insurance contract holders.

4.4 INSURANCE BENEFITS AND CLAIMS

	Gross R million	Reinsurance R million	Net R million
2018			
GROUP			
Claims paid	**17 997**	**(3 890)**	**14 107**
Movement in the expected cost of outstanding claims	**445**	**(725)**	**(280)**
Total claims and loss adjustment expenses	**18 442**	**(4 615)**	**13 827**
COMPANY			
Claims paid	**15 377**	**(2 817)**	**12 560**
Movement in the expected cost of outstanding claims	**282**	**(213)**	**69**
Total claims and loss adjustment expenses	**15 659**	**(3 030)**	**12 629**
2017			
GROUP			
Claims paid	18 823	(5 004)	13 819
Movement in the expected cost of outstanding claims	1 643	(1 396)	247
Total claims and loss adjustment expenses	20 466	(6 400)	14 066
COMPANY			
Claims paid	16 136	(3 635)	12 501
Movement in the expected cost of outstanding claims	1 639	(1 132)	507
Total claims and loss adjustment expenses	17 775	(4 767)	13 008

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4.4.1 CLAIMS DEVELOPMENT TABLES

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

Payment development

		Claims paid in respect of								
	Total R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 R million	2013 R million	2012 R million	2011 R million	2010 and prior R million
GROUP										
– General insurance claims – gross										
Reporting year										
Actual claims costs:										
– 2018	**17 997**	**12 231**	4 627	503	371	165	84	11	5	–
– 2017	**18 823**	**–**	13 623	4 032	534	438	104	68	16	8
– 2016	**16 112**	**–**	–	11 087	3 909	506	380	111	93	26
– 2015	**14 019**	**–**	–	–	9 786	3 388	354	247	112	132
– 2014	**13 556**	**–**	–	–	–	9 031	3 578	493	173	281
– 2013	**13 148**	**–**	–	–	–	–	9 152	3 411	250	335
– 2012	**11 340**	**–**	–	–	–	–	–	8 176	2 366	798
– 2011	**10 327**	**–**	–	–	–	–	–	–	7 767	2 560
– 2010	**9 999**	**–**	–	–	–	–	–	–	–	9 999
– 2009	**10 016**	**–**	–	–	–	–	–	–	–	10 016
– 2008	**8 996**	**–**	–	–	–	–	–	–	–	8 996
Cumulative payments to date		**12 231**	18 250	15 622	14 600	13 528	13 652	12 517	10 782	33 151
– General insurance claims – net										
Reporting year										
Actual claims costs:										
– 2018	**14 107**	**10 955**	2 563	246	191	80	69	8	(5)	–
– 2017	**13 819**	**–**	10 852	2 359	242	196	91	68	10	1
– 2016	**12 808**	**–**	–	9 865	2 386	212	153	98	85	9
– 2015	**11 476**	**–**	–	–	8 734	2 239	171	172	75	85
– 2014	**11 040**	**–**	–	–	–	7 927	2 489	323	131	170
– 2013	**11 335**	**–**	–	–	–	–	8 423	2 493	168	251
– 2012	**9 904**	**–**	–	–	–	–	–	7 616	1 743	545
– 2011	**8 989**	**–**	–	–	–	–	–	–	7 082	1 907
– 2010	**8 710**	**–**	–	–	–	–	–	–	–	8 710
– 2009	**8 805**	**–**	–	–	–	–	–	–	–	8 805
– 2008	**7 727**	**–**	–	–	–	–	–	–	–	7 727
Cumulative payments to date		**10 955**	13 415	12 470	11 553	10 654	11 396	10 778	9 289	28 210

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.4 INSURANCE BENEFITS AND CLAIMS (continued)

4.4.1 CLAIMS DEVELOPMENT TABLES (continued)

		Claims paid in respect of								
	Total R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 R million	2013 R million	2012 R million	2011 R million	2010 and prior R million
COMPANY										
– General insurance claims – gross										
Reporting year										
Actual claims costs:										
– 2018	**15 377**	**10 803**	3 671	367	300	153	75	8	–	–
– 2017	**16 136**	**–**	12 114	3 056	412	402	85	59	8	–
– 2016	**14 338**	**–**	–	10 414	2 996	400	343	93	85	7
– 2015	**12 335**	**–**	–	–	9 009	2 708	262	191	89	76
– 2014	**11 901**	**–**	–	–	–	8 539	2 645	357	137	223
– 2013	**11 525**	**–**	–	–	–	–	8 539	2 576	184	226
– 2012	**9 755**	**–**	–	–	–	–	–	7 505	1 744	506
– 2011	**8 917**	**–**	–	–	–	–	–	–	7 106	1 811
– 2010	**8 996**	**–**	–	–	–	–	–	–	–	8 996
– 2009	**8 833**	**–**	–	–	–	–	–	–	–	8 833
– 2008	**7 673**	**–**	–	–	–	–	–	–	–	7 673
Cumulative payments to date		**10 803**	15 785	13 837	12 717	12 202	11 949	10 789	9 353	28 351
– General insurance claims – net										
Reporting year										
Actual claims costs:										
– 2018	**12 560**	**9 716**	2 341	204	153	74	66	6	–	–
– 2017	**12 501**	**–**	9 935	2 049	194	176	79	62	6	–
– 2016	**11 714**	**–**	–	9 208	2 032	165	137	87	79	6
– 2015	**10 399**	**–**	–	–	8 053	1 894	152	159	70	71
– 2014	**10 021**	**–**	–	–	–	7 354	2 118	284	122	143
– 2013	**10 446**	**–**	–	–	–	–	7 740	2 335	167	204
– 2012	**9 157**	**–**	–	–	–	–	–	7 173	1 563	421
– 2011	**8 308**	**–**	–	–	–	–	–	–	6 681	1 627
– 2010	**8 199**	**–**	–	–	–	–	–	–	–	8 199
– 2009	**8 188**	**–**	–	–	–	–	–	–	–	8 188
– 2008	**7 124**	**–**	–	–	–	–	–	–	–	7 124
Cumulative payments to date		**9 716**	12 276	11 461	10 432	9 663	10 292	10 106	8 688	25 983

4.4.2 REPORTING DEVELOPMENT

		Financial year in which claim occurred								
	Total R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 R million	2013 R million	2012 R million	2011 R million	2010 and prior R million
GROUP										
– General insurance claims provision – gross										
Reporting year										
Provision raised:										
– 2018	**8 497**	**5 033**	1 405	1 082	221	312	134	124	186	–
– 2017	**8 348**	**–**	5 240	1 541	493	506	201	125	132	110
– 2016	**6 814**	**–**	–	3 870	1 143	895	297	171	135	303
– 2015	**6 279**	**–**	–	–	3 100	1 577	758	208	193	443
– 2014	**6 240**	**–**	–	–	–	4 069	844	410	206	711
– 2013	**5 523**	**–**	–	–	–	–	3 267	788	376	1 092
– 2012	**4 948**	**–**	–	–	–	–	–	3 133	599	1 216
– 2011	**4 192**	**–**	–	–	–	–	–	–	2 448	1 744
– 2010	**3 777**	**–**	–	–	–	–	–	–	–	3 777
– 2009	**4 288**	**–**	–	–	–	–	–	–	–	4 288
– 2008	**4 075**	**–**	–	–	–	–	–	–	–	4 075
– General insurance claims provision – net										
Reporting year										
Provision raised:										
– 2018	**4 345**	**2 679**	602	321	175	135	113	101	219	–
– 2017	**4 442**	**–**	3 031	451	252	170	171	104	169	94
– 2016	**3 973**	**–**	–	2 334	512	312	234	157	173	251
– 2015	**4 056**	**–**	–	–	2 291	581	348	197	257	382
– 2014	**3 968**	**–**	–	–	–	2 337	448	325	239	619
– 2013	**4 207**	**–**	–	–	–	–	2 459	568	331	849
– 2012	**3 971**	**–**	–	–	–	–	–	2 550	466	955
– 2011	**3 273**	**–**	–	–	–	–	–	–	1 919	1 354
– 2010	**2 896**	**–**	–	–	–	–	–	–	–	2 896
– 2009	**2 952**	**–**	–	–	–	–	–	–	–	2 952
– 2008	**2 699**	**–**	–	–	–	–	–	–	–	2 699

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.4 INSURANCE BENEFITS AND CLAIMS (continued)

4.4.2 REPORTING DEVELOPMENT (continued)

		Financial year in which claim occurred								
	Total R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 R million	2013 R million	2012 R million	2011 R million	2010 and prior R million
COMPANY										
– General insurance claims provision – gross										
Reporting year										
Provision raised:										
– 2018	**7 470**	**4 172**	1 290	1 067	222	307	122	115	175	–
– 2017	**7 462**	**–**	4 396	1 523	503	516	200	115	109	100
– 2016	**6 191**	**–**	–	3 431	1 068	890	269	164	161	208
– 2015	**5 675**	**–**	–	–	2 782	1 442	705	191	217	338
– 2014	**5 711**	**–**	–	–	–	3 768	741	375	231	596
– 2013	**5 038**	**–**	–	–	–	–	3 101	676	389	872
– 2012	**4 523**	**–**	–	–	–	–	–	2 915	586	1 022
– 2011	**3 711**	**–**	–	–	–	–	–	–	2 256	1 455
– 2010	**3 360**	**–**	–	–	–	–	–	–	–	3 360
– 2009	**3 842**	**–**	–	–	–	–	–	–	–	3 842
– 2008	**3 492**	**–**	–	–	–	–	–	–	–	3 492
– General insurance claims provision – net										
Reporting year										
Provision raised:										
– 2018	**3 729**	**2 125**	567	313	171	133	109	99	212	–
– 2017	**3 829**	**–**	2 495	435	241	158	163	100	150	87
– 2016	**3 570**	**–**	–	2 208	405	250	209	135	199	164
– 2015	**3 656**	**–**	–	–	2 104	487	317	174	280	294
– 2014	**3 556**	**–**	–	–	–	2 122	374	289	256	515
– 2013	**3 865**	**–**	–	–	–	–	2 279	502	354	730
– 2012	**3 696**	**–**	–	–	–	–	–	2 391	468	837
– 2011	**2 953**	**–**	–	–	–	–	–	–	1 795	1 158
– 2010	**2 611**	**–**	–	–	–	–	–	–	–	2 611
– 2009	**2 681**	**–**	–	–	–	–	–	–	–	2 681
– 2008	**2 446**	**–**	–	–	–	–	–	–	–	2 446

4.5 INSURANCE RISK

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

- Underwriting risk
- Reinsurance risk

4.5.1 UNDERWRITING RISK

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

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

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

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

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

Credit insurance – Covers risks associated with the financial losses that result from the default of specified third parties (typically trade partners – both local and foreign) of the insured.

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

Engineering – Provides cover for risks relating to:

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

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

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

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

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

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

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

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

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

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.5 INSURANCE RISK (continued)

4.5.1 UNDERWRITING RISK (continued)

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

Santam also models various catastrophes and the losses from each catastrophe are allocated to multiple classes of business. The following catastrophes are modelled:

- Earthquake
- Storm (small)
- Storm (large)
- Hail (excluding crop damage)
- Marine (cargo)
- Aviation (hull/liability)
- Conflagration (property)
- Conflagration (liability)
- Utility failure
- Latent liability
- Economic downturn

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

Loss history	2018	2017	2016	2015	2014	2013	2012
Net claims paid and provided %[1]	60.6	65.9	65.1	62.1	63.1	69.3	68.3

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

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

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

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

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

Underwriting risk is further mitigated by ensuring that reserve and reinsurance risk (discussed in section 4.5.2) is adequately managed.

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

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

Percentile approach

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

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

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

Cost-of-capital approach

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

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

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

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

4.5.2 REINSURANCE RISK

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

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

The core components of the reinsurance programme comprised:

- Individual excess-of-loss cover for property, liability, engineering, aviation and marine risks, which provides protection to limit losses between the range of R25 million to R85 million per risk, excluding reinstatement premiums, following a claim or claims against the covers. Santam protects its per risk loss exposure down to a maximum amount of R85 million on any one risk.
- Santam buys catastrophe cover exceeding the 1 in 250-year earthquake catastrophe loss using an externally validated earthquake loss prediction model. This model typically results in cover of up to 1.3% of the total exposure of the significant geographical areas, amounting to protection of R8.2 billion per event, with an attachment point of R150 million.
- The catastrophe programme for an aggregate amount of losses from events in excess of R10 million was not renewed in 2018, since the price for value was not deemed worthwhile.
- During the course of the year, Santam purchased a multi-year aggregate excess loss treaty, which protects the group against the accumulation of multiple catastrophe losses over a financial year, which losses are below the catastrophe excess of loss retention of R150 million.
- Our agriculture portfolio is protected through a 60% proportional and a non-proportional reinsurance arrangement with non-proportional cover set at levels offering protection from extreme aggregate loss events.

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

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

The board approves the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is placed with external reinsurers that have an international credit rating of no less than A- (2017: A-) from S&P or AM Best, unless specific approval is obtained from the board to use reinsurers with ratings lower than the agreed benchmark.

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.6 INSURANCE-RELATED CREDIT RISK

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

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

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

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

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

The group is protected by guarantees provided by the Intermediary Guarantee Facility (IGF) for the non-payment of premiums collected by intermediaries. The protected portion of receivables due from contract holders and intermediaries amounts to 46.0% (2017: 43.3%). For the company, this amounts to 52.4% (2017: 42.0%). The IGF will cease to exist from 31 March 2019. Debtors falling into the "Not rated" category are managed by the internal credit control department on a daily basis to ensure recoverability of amounts.

Santam uses a large panel of secure reinsurance companies. The credit risk of reinsurers included in the reinsurance programme is considered annually by reviewing their financial strength as part of the renewal process. The group's largest reinsurance counterparty is Allianz (2017: SCOR). The credit risk exposure is further monitored throughout the year to ensure that changes in credit risk positions are adequately addressed.

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

31 December 2018	AA R million	AA- R million	A+ R million	A R million	A- R million	BBB- R million	Not rated R million	Carrying value R million
GROUP								
Receivables due from contract holders/ intermediaries	–	–	–	–	69	29	4 651	4 749
Reinsurance receivables	12	27	7	23	40	–	310	419
Total	**12**	**27**	**7**	**23**	**109**	**29**	**4 961**	**5 168**
COMPANY								
Receivables due from contract holders/intermediaries	–	–	–	–	69	29	3 976	4 074
Reinsurance receivables	6	–	6	3	34	–	168	217
Total	**6**	**–**	**6**	**3**	**103**	**29**	**4 144**	**4 291**

31 December 2017	AA R million	AA- R million	A+ R million	A R million	A- R million	BBB+ R million	BB R million	Not rated R million	Carrying value R million
GROUP									
Receivables due from contract holders/intermediaries	–	–	–	–	–	98	37	3 458	3 593
Reinsurance receivables	37	24	118	111	116	–	–	280	686
Total	**37**	**24**	**118**	**111**	**116**	**98**	**37**	**3 738**	**4 279**
COMPANY									
Receivables due from contract holders/intermediaries	–	–	–	–	–	98	37	3 312	3 447
Reinsurance receivables	37	9	81	109	98	–	–	241	575
Total	**37**	**9**	**81**	**109**	**98**	**98**	**37**	**3 553**	**4 022**

AGEING OF INSURANCE-RELATED RECEIVABLES

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

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

31 December 2018	Neither past due nor impaired R million	0–3 months R million	3–6 months R million	6 months–1 year R million	Greater than 1 year R million	Financial assets that have been impaired R million	Impairment R million	Carrying value R million
GROUP								
Receivables due from contract holders/intermediaries	3 641	573	216	129	193	159	(159)	4 751
Reinsurance receivables	276	31	51	30	29	65	(65)	418
Total	**3 197**	**604**	**267**	**159**	**222**	**224**	**(224)**	**5 168**
COMPANY								
Receivables due from contract holders/intermediaries	3 211	451	97	129	185	159	(159)	4 074
Reinsurance receivables	133	7	9	43	25	63	(63)	217
Total	**3 345**	**459**	**106**	**171**	**210**	**222**	**(222)**	**4 291**

31 December 2017	Neither past due nor impaired R million	0–3 months R million	3–6 months R million	6 months–1 year R million	Greater than 1 year R million	Financial assets that have been impaired R million	Impairment R million	Carrying value R million
GROUP								
Receivables due from contract holders/intermediaries	2 850	386	198	101	58	20	(20)	3 593
Reinsurance receivables	393	118	96	52	27	56	(56)	686
Total	**3 243**	**504**	**294**	**153**	**85**	**76**	**(76)**	**4 279**
COMPANY								
Receivables due from contract holders/intermediaries	2 847	307	134	101	58	–	–	3 447
Reinsurance receivables	359	107	31	52	26	55	(55)	575
Total	**3 206**	**414**	**165**	**153**	**84**	**55**	**(55)**	**4 022**

5 FINANCIAL ASSETS

	Notes	Group 2018 R million	Group Restated 2017 R million	Company 2018 R million	Company 2017 R million
The group's financial assets are summarised below:					
Financial assets mandatorily measured at fair value through income					
Strategic investments – unquoted SEM target shares	5.1	**1 323**	1 089	**1 323**	1 089
Financial assets at fair value through income (excluding derivatives) (restated, refer to note 32.3)	5.1	**22 429**	19 170	**10 752**	9 333
Derivative assets	5.2	**25**	8	**25**	8
Financial assets measured at amortised cost					
Loans and receivables excluding insurance receivables	5.6	**1 106**	1 004	**697**	756
Cash and cash equivalents	5.7	**3 618**	4 321	**1 361**	2 026
Financial assets		**28 501**	25 592	**14 158**	13 212

Risk management

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

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

5.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME (EXCLUDING DERIVATIVES)

The group's financial assets at fair value through income are summarised below by investment type:

	Group 2018 R million	Group Restated 2017 R million	Company 2018 R million	Company 2017 R million
Equity securities				
– quoted	**2 378**	2 097	**995**	1 420
– unquoted				
strategic investment – SEM target shares	**1 323**	1 089	**1 323**	1 089
unquoted other	**95**	90	**68**	54
	3 796	3 276	**2 386**	2 563
Debt securities				
– quoted				
government and other bonds	**4 750**	4 307	**2 781**	2 180
collateralised securities	**370**	541	**188**	373
money market instruments (long-term instruments)	**3 343**	4 094	**2 317**	2 383
	8 463	8 942	**5 286**	4 936
– unquoted				
government and other bonds	**292**	184	**186**	167
money market instruments (long-term instruments)	**5 026**	3 367	**1 658**	1 236
redeemable preference shares	**131**	182	**70**	157
	5 449	3 733	**1 914**	1 560
Total debt securities	**13 912**	12 675	**7 200**	6 496
Unitised investments				
– quoted				
underlying equity securities	**615**	1 765	**87**	59
underlying debt securities	**2 501**	369	**206**	151
	3 116	2 134	**293**	210
Short-term money market instruments	**2 928**	2 174	**2 196**	1 153
Financial assets at fair value through income	**23 752**	20 259	**12 075**	10 422
Financial assets at fair value through income (excluding SEM target shares)				
Expected to be realised after 12 months	**16 265**	16 988	**8 017**	8 171
Expected to be realised within 12 months	**6 164**	2 182	**2 735**	1 162
Strategic investments – unquoted SEM target shares				
Expected to be realised after 12 months	**1 135**	1 089	**1 135**	1 089
Expected to be realised within 12 months	**188**	–	**188**	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

CURRENT YEAR ACCOUNTING POLICY – FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME

a) Classification

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

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

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

b) Recognition and measurement

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

Financial assets carried at fair value through income 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.

PRIOR YEAR ACCOUNTING POLICY – FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME

a) Classification

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

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

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

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

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

b) Recognition and measurement

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

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

SEM TARGET SHARES

Santam subscribes from time to time in separate classes of target shares issued by SEM in terms of a participation transaction, with each separate class linked to a participatory interest in the target companies listed below. The fair value of these instruments at year-end was R1 323 million (2017: R1 089 million). The shares were classified as unquoted equity securities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5 FINANCIAL ASSETS (continued)

5.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME (EXCLUDING DERIVATIVES) (continued)

	Incorporated in	Type of business	Santam effective holding 2018 %	Santam effective holding 2017 %
Pacific & Orient Insurance Co. Berhad (P&O)[1]	Malaysia	P&O is a niche general insurer based in Kuala Lumpur, Malaysia.	**15.4**	15.4
Shriram General Insurance Company Ltd (SGI)[1]	India	SGIC is the general insurance business of the Shriram group, a financial conglomerate based in India.	**15.0**	15.0
BIHL Insurance Company Ltd (BIHL Sure)	Botswana	BIHL Sure is a subsidiary of Botswana Insurance Holdings Ltd, a company listed on the Botswana Stock Exchange. BIHL Sure is a start-up general insurer providing a variety of insurance products.	**21.2**	21.2
NICO Holdings general insurance subsidiaries	Malawi, Zambia	The NICO subsidiaries offer predominantly personal and commercial insurance products.	**19.8**	19.8
Sanlam General Insurance (Uganda) Ltd	Uganda	The company offers predominantly personal and commercial insurance products.	**28.6**	28.6
Sanlam General Insurance (Tanzania) Ltd	Tanzania	The company offers predominantly personal and commercial insurance products.	**17.4**	17.4
SORAS Assurance Générales Ltd	Rwanda	The company offers motor, medical, fire, goods in transit, weather index and other miscellaneous insurance products.	**26.1**	26.1
SOCAR s.a. Burundi	Burundi	Forms part of the SORAS group and offers general insurance products.	**8.6**	8.6
FBN General Insurance Ltd	Nigeria	FBN General Insurance Ltd offers a wide range of general insurance products.	**12.3**	12.3
Sanlam General Insurance (Kenya) Ltd	Kenya	Sanlam General Insurance Ltd offers a wide range of general insurance products.	**13.7**	13.7
Zimnat Lion Insurance Company Ltd	Zimbabwe	Zimnat Lion Insurance Company Ltd offers a wide range of general insurance products.	**14.0**	14.0
Grand Reinsurance Company (Private) Ltd (Grand Re)	Zimbabwe	Grand Re provides reinsurance solutions to cover all general insurance business.	**14.0**	14.0
Botswana Insurance Company Ltd	Botswana	Botswana Insurance Company Ltd offers a wide range of general insurance products.	**10.3**	10.3

[1] These are currently the more material investments.

STRUCTURED ENTITIES

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

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
Collective investment schemes				
Local and foreign				
Property	**301**	214	**87**	59
Money market	**949**	222	**86**	77
Equity	**1 819**	1 624	**120**	74
Mixed	**47**	74	**–**	–
Total investment in unconsolidated structured entities	**3 116**	2 134	**293**	210

5.2 DERIVATIVE ASSETS

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
Financial assets – at fair value through income				
Exchange traded futures	–	8	–	8
Over the counter				
Interest rate swaps*	–	–	–	–
Foreign currency collar	25	–	25	–
	25	8	25	8

* Carrying value as at 31 December 2018 and 31 December 2017 is less than R1 million.

All derivative assets are expected to be realised within 12 months.

On 10 September 2018, Santam entered into a foreign currency collar against the US dollar. As at 31 December 2018, the instrument's valuation amounted to R24.8 million, with an exposure value of R500 million. The collar expired in two equal tranches on 4 January and 7 January 2019 and realised a total profit of R36.5 million. The foreign currency collar is classified as level 2 per the fair value hierarchy.

At 31 December 2018, the group had exchange traded futures, with an exposure value of R459 million (2017: R235 million). In 2018 it is classified as a derivative liability. Refer to note 6.4.

At 31 December 2018, the group also had interest rate swaps as part of the international bond portfolio. The fair value of the swap is disclosed on a net basis in the statement of financial position as well as the statement of comprehensive income due to the contractual right to settle the instrument on a net basis. They are classified as level 3 per the fair value hierarchy. The gross exposure asset and liability at year-end amounted to R38 million (2017: R33 million) and R38 million (2017: R33 million) respectively.

On 31 July 2017, a zero-cost collar structure on equities to the value of R1.2 billion was entered into based on the SWIX 40, providing full downside protection from the implementation level of 10 972, with upside participation (excluding dividends) of 2.2%. The structure matured on 21 December 2017 (resulting in a realised loss of R58 million) and was not renewed.

ACCOUNTING POLICY – DERIVATIVES

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

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

5 FINANCIAL ASSETS (continued)

5.3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following financial instruments are carried at fair value through income. The table below analyses these financial instruments per valuation method. There were no significant changes in the valuation methods applied since 31 December 2017.

The valuation methods are categorised as follows:

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

There were no significant transfers between level 1 and level 2 during the current or prior year. The group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

31 December 2018	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
GROUP				
Financial assets				
Equity securities				
Quoted				
Listed	2 377	–	–	2 377
Irredeemable preference shares	1	–	–	1
Unquoted	–	28	1 390	1 418
Total equity securities	2 378	28	1 390	3 796
Debt securities				
Quoted				
Government and other bonds	–	4 750	–	4 750
Collateralised securities	–	370	–	370
Money market instruments > 1 year	–	3 343	–	3 343
Unquoted				
Government and other bonds	–	292	–	292
Money market instruments > 1 year	–	5 026	–	5 026
Redeemable preference shares	–	70	61	131
Total debt securities	–	13 851	61	13 912
Unlisted investments				
Quoted				
Underlying equity securities	–	615	–	615
Underlying debt securities	–	2 501	–	2 501
Total unitised investments	–	3 116	–	3 116

31 December 2018	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
GROUP				
Financial assets				
Derivatives				
Foreign currency collar	–	25	–	25
Interest rate swaps[1]	–	–	–	–
Total derivatives	–	25	–	25
Short-term money market instruments	–	2 928	–	2 928
	2 378	19 948	1 451	23 777

31 December 2018	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
COMPANY				
Financial assets				
Equity securities				
Quoted				
Listed	994	–	–	994
Irredeemable preference shares	1	–	–	1
Unquoted	–	1	1 390	1 391
Total equity securities	995	1	1 390	2 386
Debt securities				
Quoted				
Government and other bonds	–	2 781	–	2 781
Collateralised securities	–	188	–	188
Money market instruments > 1 year	–	2 317	–	2 317
Unquoted				
Government and other bonds	–	186	–	186
Money market instruments > 1 year	–	1 658	–	1 658
Redeemable preference shares	–	70	–	70
Total debt securities	–	7 200	–	7 200
Unlisted investments				
Quoted				
Underlying equity securities	–	87	–	87
Underlying debt securities	–	206	–	206
Total unitised investments	–	293	–	293
Derivatives				
Foreign currency collar	–	25	–	25
Interest rate swaps[1]	–	–	–	–
Total derivatives	–	25	–	25
Short-term money market instruments	–	2 196	–	2 196
	995	9 715	1 390	12 100

[1] Carrying value as at 31 December 2018 is less than R1 million.

5 FINANCIAL ASSETS (continued)

5.3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS (continued)

31 December 2017	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
GROUP				
Financial assets				
Equity securities				
Quoted				
Listed	2 086	9	–	2 095
Irredeemable preference shares	2	–	–	2
Unquoted	–	36	1 143	1 179
Total equity securities	**2 088**	**45**	**1 143**	**3 276**
Debt securities				
Quoted				
Government and other bonds (restated, please refer to note 32.3)	–	4 307	–	4 307
Collateralised securities	–	541	–	541
Money market instruments > 1 year	–	4 094	–	4 094
Unquoted				
Government and other bonds	–	184	–	184
Money market instruments > 1 year	–	3 367	–	3 367
Redeemable preference shares	–	157	25	182
Total debt securities	**–**	**12 650**	**25**	**12 675**
Unlisted investments				
Quoted				
Underlying equity securities	–	1 765	–	1 765
Underlying debt securities	–	369	–	369
Total unitised investments	**–**	**2 134**	**–**	**2 134**
Derivatives				
Exchange traded futures	–	8	–	8
Interest rate swaps[1]	–	–	–	–
Total derivatives	**–**	**8**	**–**	**8**
Short-term money market instruments	**–**	**2 174**	**–**	**2 174**
	2 088	**17 011**	**1 168**	**20 267**

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

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

LEVEL 1

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

LEVEL 2

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

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

LEVEL 3

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

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

- ***Unquoted equity instruments***
  - Fair value (excluding SEM target shares) is determined based on valuation techniques where the input is determined by management, e.g. multiples of net asset value, and is not readily available in the market or where market observable input is significantly adjusted. Valuations are generally based on price/earnings multiples ranging between 1 and 11.
  - The fair value of the SEM target shares is determined using predominantly DCF models, with the remainder valued at or within close proximity of the latest available net asset value of the underlying company. The most significant assumptions used in these DCF models are the discount rate, exchange rate and net insurance margin expectations. Should the discount rates increase or decrease by 10%, the cumulative value of the most significant target shares (SGI and P&O) valued by way of DCF models would decrease by R146 million (Dec 2017: R140 million) or increase by R229 million (Dec 2017: R211 million) respectively. If the relative foreign exchange rates increase or decrease by 10%, the cumulative fair values will increase or decrease by R106 million (Dec 2017: R86 million). Should the net insurance margin profile (projected over a period of 10 years) increase or decrease by 10%, the cumulative fair values will increase by R81 million (Dec 2017: R93 million) or decrease by R82 million (Dec 2017: R93 million) respectively. The remaining target shares are mostly impacted by changes in exchange rates.
- ***Derivatives***
  - The zero-cost collar structures in 2017 were valued by the respective commercial banks using option models with the SWIX 40 index as reference point. Refer to note 5.2 for details regarding derivative zero-cost collar structures.

5 FINANCIAL ASSETS (continued)

5.3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS (continued)

ACCOUNTING POLICY – DETERMINATION OF FAIR VALUE

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

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

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – FAIR VALUE OF FINANCIAL INSTRUMENTS THAT ARE NOT LISTED OR QUOTED

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2018:

31 December 2018	Equity securities R million	Debt securities R million	Derivatives R million	Total R million
GROUP				
Opening balance	1 143	25	–	1 168
Acquisitions	12	36	–	48
Gains recognised in profit or loss	235	–	–	235
Closing balance	**1 390**	**61**	**–**	**1 451**
COMPANY				
Opening balance	1 143	–	–	1 143
Acquisitions	12	–	–	12
Gains recognised in profit or loss	235	–	–	235
Closing balance	**1 390**	**–**	**–**	**1 390**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Of the R235 million gain (Dec 2017: R66 million gain) recognised on equity securities, a R234 million gain (Dec 2017: R65 million gain) relates to the SEM target shares, of which R104 million (Dec 2017: R57 million loss) relates to foreign exchange gains, and R130 million to an increase (Dec 2017: R122 million) in fair value in local currency terms. A key driver of the fair value movements of Santam's share of the SEM investment portfolio was:

- An increase in the value of Shriram General Insurance Company Ltd of R120 million, in local currency terms, was mainly attributed to an improved underwriting margin.

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

31 December 2017	Equity securities R million	Debt securities R million	Derivatives R million	Total R million
GROUP				
Opening balance	1 181	29	–	1 210
Acquisitions	2	–	–	2
Business combination	–	(4)	–	(4)
Disposals	(106)	–	–	(106)
Settlements	–	–	58	58
Gains/(losses) recognised in profit or loss	66	–	(58)	8
Closing balance	**1 143**	**25**	**–**	**1 168**
COMPANY				
Opening balance	1 181	–	–	1 181
Acquisitions	2	–	–	2
Disposals	(106)	–	–	(106)
Settlements	–	–	58	58
Gains/(losses) recognised in profit or loss	66	–	(58)	8
Closing balance	**1 143**	**–**	**–**	**1 143**

5 FINANCIAL ASSETS (continued)

5.4 PRICE RISK

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

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			
	2018		2017		2018		2017	
	Number of shares	Market value R million	Number of shares	Market value R million	Number of shares	Market value R million	Number of shares	Market value R million
Direct listed equity exposure								
Listed								
Naspers Ltd	**85 360**	**247**	115 570	399	**62 454**	**181**	92 884	320
Sasol Ltd	**275 356**	**129**	145 429	121	**78 503**	**37**	133 255	57
British American Tobacco Plc	**210 998**	**90**	247 973	106	**118 465**	**50**	92 093	76
Compagnie Financière Richemont SA	**843 184**	**79**	283 048	32	**181 578**	**17**	234 518	26
AngloGold Ashanti Ltd[1]	**401 590**	**73**	40 708	5	**27 378**	**5**	40 708	5
Growthpoint Properties Ltd[1]	**2 936 258**	**68**	416 772	12	**1 235 017**	**29**	257 330	7
EOH Holdings Ltd[1]	**2 127 049**	**64**	–	–	**–**	**–**	–	–
Standard Bank Group Ltd	**350 591**	**63**	527 451	103	**289 434**	**52**	344 484	67
Netcare Ltd[1]	**2 366 144**	**63**	804 881	20	**332 125**	**9**	428 945	11
AVI Ltd[1]	**583 626**	**59**	62 397	7	**48 317**	**5**	62 397	7
Telkom SA SOC Ltd[1]	**917 131**	**58**	–	–	**–**	**–**	–	–
Redefine Properties Ltd[1]	**5 597 921**	**54**	1 092 208	12	**1 044 275**	**10**	1 000 371	11
Anheuser-Busch InBev NV[1]	**54 131**	**52**	4 175	6	**3 235**	**3**	4 175	6
Reinet Investments SCA[1]	**231 737**	**51**	36 686	10	**23 690**	**5**	–	–
Anglo American Plc	**156 772**	**51**	208 036	53	**122 618**	**40**	171 738	44
Sappi Ltd[1]	**618 119**	**50**	204 024	18	**126 785**	**10**	163 745	15
Old Mutual Plc	**2 230 603**	**50**	2 147 336	82	**1 143 461**	**26**	1 341 991	51
Glencore PLC[1]	**926 648**	**50**	87 346	6	**86 406**	**5**	87 346	6
MTN Group Ltd	**519 038**	**46**	554 550	76	**378 093**	**34**	426 673	58
Remgro Ltd	**233 907**	**46**	261 804	62	**128 400**	**25**	165 830	39
Bid Corporation Ltd	**159 273**	**42**	115 714	35	**82 690**	**22**	106 800	32
Vodacom Group Ltd[1]	**319 073**	**42**	94 164	14	**67 039**	**9**	86 579	13
Absa Group Ltd	**256 809**	**42**	258 283	47	**150 664**	**24**	218 374	40
BHP Billiton Plc	**125 168**	**38**	164 397	41	**86 660**	**26**	131 220	33
FirstRand Group Ltd[1]	**448 679**	**31**	358 440	24	**386 248**	**25**	318 518	21
Mondi Ltd[1,2]	**75 537**	**23**	73 026	23	**49 409**	**15**	63 819	20
Sanlam Ltd[2]	**279 239**	**22**	261 674	23	**239 303**	**19**	231 920	20
Shoprite Holdings Ltd[1,2]	**112 340**	**21**	91 983	20	**92 782**	**18**	76 972	17
RMB Holdings Ltd[2]	**364 973**	**29**	428 454	34	**302 673**	**24**	390 913	31
Other		**644**		704		**269**		385
		2 377		2 095		**994**		1 418
Irredeemable preference shares		**1**		2		**1**		2
		2 378		2 097		**995**		1 420
Indirect listed equity exposure								
Unitised funds		**615**		1 765		**87**		59

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

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

Equity price risk arises from the negative effect that a fall in the market value of equities can have on Santam's net asset value. The group's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling methods. The group sets appropriate risk limits to ensure that no significant concentrations in individual companies arise. The group's largest investment in any one company comprises 10.4% (2017: 19.0%) of the total quoted equities and 0.6% (2017: 1.0%) of the total assets. The company's largest investment in any one company comprises 18.2% (2017: 22.5%) of the total quoted equities and 0.6% (2017: 1.2%) of the total assets.

SENSITIVITY ANALYSIS ON LISTED EQUITY SECURITIES, UNITISED FUNDS AND DERIVATIVES

At 31 December 2018, the group's quoted equity securities and unitised funds were recorded at their fair value of R2 993 million (2017: R3 862 million). A 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R299 million (2017: R386 million).

The company's quoted equity securities and unitised funds were recorded at their fair value of R1 083 million (2017: R1 479 million). A 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R108 million (2017: R148 million).

5.5 INTEREST RATE RISK – FINANCIAL ASSETS

Exposure to interest rate risk is monitored through several methods that include scenario testing and stress testing using measures such as duration. The bond returns are modelled based on the historic performance of the individual bonds held in the portfolio, and adjusted to reflect the current interest rates and inflation environment. The risk-free rate used for modelling is 9% as at 31 December 2018 (2017: 9%).

SENSITIVITY ANALYSIS ON INTEREST – BEARING INSTRUMENTS

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

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

	2018		2017	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
GROUP				
Financial assets – fixed rate				
Debt securities				
Quoted	**(88)**	**94**	(83)	80
Unquoted	**(23)**	**24**	(17)	17
Unitised investments				
Quoted with underlying debt securities	**(2)**	**2**	–	–
Short-term money market instruments	**(3)**	**3**	(2)	2
Derivative instruments	**–**	**–**	13	(13)
Financial assets – variable rate				
Cash and cash equivalents	**24**	**(24)**	35	(35)
Debt securities				
Quoted	**49**	**(50)**	32	(33)
Unquoted	**15**	**(17)**	11	(12)
Unitised investments				
Quoted with underlying debt securities	**–**	**–**	–	–
Short-term money market instruments	**20**	**(20)**	8	(8)
Total change in investment income, finance cost and net fair value movements before tax	**(8)**	**12**	(3)	(2)
COMPANY				
Financial assets – fixed rate				
Debt securities				
Quoted	**(70)**	**75**	(69)	65
Unquoted	**(12)**	**12**	(9)	9
Unitised investments				
Quoted with underlying debt securities	**–**	**–**	–	–
Short-term money market instruments	**(2)**	**2**	(1)	1
Derivative instruments	**–**	**–**	13	(13)
Financial assets – variable rate				
Cash and cash equivalents	**2**	**(2)**	12	(12)
Debt securities				
Quoted	**42**	**(42)**	28	(28)
Unquoted	**14**	**(14)**	10	(10)
Unitised investments				
Quoted with underlying debt securities	**–**	**–**	–	–
Short-term money market instruments	**19**	**(19)**	7	(7)
Total change in investment income, finance cost and net fair value movements before tax	**(7)**	**12**	(9)	5

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

5 FINANCIAL ASSETS (continued)

5.6 LOANS AND RECEIVABLES EXCLUDING INSURANCE RECEIVABLES

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
Loans and receivables	**1 243**	1 103	**565**	533
Less provision for impairment	**(137)**	(129)	**(121)**	(117)
Loans to subsidiaries (refer to note 10.1)	**–**	–	**253**	310
Total	**1 106**	974	**697**	726
Expected to be realised within 12 months	**1 106**	974	**444**	416
Expected to be realised after 12 months	**–**	–	**253**	310
Reconciliation of provisions for impairment of other receivables				
At the beginning of the year	**129**	115	**117**	140
Charge to the statement of comprehensive income:				
– Increase in provisions	**8**	14	**4**	15
– Provisions reversed	**–**	–	**–**	(38)
Total at the end of the year	**137**	129	**121**	117

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

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

In the prior year, the impairment of loans and receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables, the estimated impairment losses were recognised in a separate provision for impairment. The group considered that there was evidence of impairment if any of the following indicators were present: significant financial difficulties for of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue).

CURRENT YEAR ACCOUNTING POLICY – LOANS AND RECEIVABLES

Classification

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

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

Recognition and measurement

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Impairment

The group applies the simplified approach to providing for expected credit losses (ECL) prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all loans and receivables. To measure the expected credit losses, loans and receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables over a period of 36 months before 31 December 2018. The loss rates are adjusted to reflect current and forward-looking information on macro-economic factors, such as the socio-economic environment, affecting the ability of the debtors to settle the receivables. Also refer to note 5.9.

PRIOR YEAR ACCOUNTING POLICY – LOANS AND RECEIVABLES

Classification

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

Recognition and measurement

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

Impairment

Refer to note 5.9.

GROUP – 2018		ECL rate	ECL method	Gross	Provision opening balance	(Released)/ raised in the period	Provision closing balance
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	1.97%	12 month	998	24	(4)	20
Underperforming	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/ or principal repayments are 30 days past due	37.83%	Lifetime	115	40	3	43
Not performing	Interest and/or principal repayments are 90 days past due	57.04%	Lifetime	130	65	9	74
Write-off	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery			–	–	–	–
Total				1 243	129	8	137

COMPANY – 2018		ECL rate	ECL method	Gross	Provision opening balance	(Released)/ raised in the period	Provision closing balance
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	3.19%	12 month	596	25	(5)	20
Underperforming	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	37.83%	Lifetime	115	40	3	43
Not performing	Interest and/or principal repayments are 90 days past due	54.07%	Lifetime	107	52	6	58
Write-off	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery			–	–	–	–
Total				818	117	4	121

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

5 FINANCIAL ASSETS (continued)

5.7 CASH AND CASH EQUIVALENTS

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
Cash at bank and in hand	**3 618**	4 321	**1 361**	2 026
	3 618	4 321	**1 361**	2 026

The carrying value of cash and cash equivalents approximates fair value. The full value is expected to be realised within 12 months. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

ACCOUNTING POLICY – CASH AND CASH EQUIVALENTS

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

5.8 CREDIT RISK

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

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

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

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

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

Santam seeks to avoid concentration of credit risk to groups of counterparties, business sectors, product types and geographical segments. The group's financial instruments, except for Santam's exposure to the four large South African banks, do not represent a concentration of credit risk. In terms of Santam's internal risk appetite framework, no more than 15% of total portfolio assets are generally invested in any one of the four major South African banks. Accounts receivable are spread over a number of major companies and intermediary parties, clients and geographic areas. The group assesses concentration risk for debt securities, money market instruments and cash collectively. The group does not have concentrations in these instruments to any one company exceeding 15% of total debt securities, money market instruments or cash. Santam's exposure to Absa amounted to 16.5% on 31 December 2017 and was managed down to 11.7% in the current year in accordance with the risk appetite framework.

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

	Credit rating												
31 December 2018	AA R million	AA- R million	A+ R million	A- R million	BBB+ R million	BBB R million	BBB- R million	BB+ R million	BB R million	BB- R million	Below BB- R million	Not rated R million	Carrying value R million
GROUP													
Debt securities													
Quoted	118	–	–	–	–	16	5 517	231	1 672	556	102	251	8 463
Unquoted	–	–	–	–	4	–	4 278	51	106	176	176	658	5 449
Total debt securities	118	–	–	–	4	16	9 795	282	1 778	732	278	909	13 912
Unitised investments													
Quoted with underlying debt securities	–	–	–	–	–	–	–	–	–	–	–	2 501	2 501
Total unitised funds	–	–	–	–	–	–	–	–	–	–	–	2 501	2 501
Short-term money market instruments	–	–	–	–	–	29	2 274	12	84	261	195	73	2 928
Other loans and receivables	–	10	3	11	–	12	126	3	45	10	4	882	1 106
Cash and cash equivalents	159	420	26	2	–	–	1 598	88	1 322	–	–	3	3 618
Total	277	430	29	13	4	57	13 793	385	3 229	1 003	477	4 368	24 065
COMPANY													
Debt securities													
Quoted	118	–	–	–	–	11	4 281	160	216	387	72	41	5 286
Unquoted	–	–	–	–	4	–	1 558	26	106	92	128	–	1 914
Total debt securities	118	–	–	–	4	11	5 839	186	322	479	200	41	7 200
Unitised investments													
Quoted with underlying debt securities	–	–	–	–	–	–	–	–	–	–	–	206	206
Total unitised funds	–	–	–	–	–	–	–	–	–	–	–	206	206
Short-term money market instruments	–	–	–	–	–	–	1 923	1	41	114	117	–	2 196
Other loans and receivables	–	2	–	–	–	–	76	2	4	7	3	603	697
Cash and cash equivalents	159	363	26	–	–	–	808	–	–	–	–	5	1 361
Total	277	365	26	–	4	11	8 646	189	367	600	320	855	11 660

5 FINANCIAL ASSETS (continued)

5.8 CREDIT RISK (continued)

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5.9 IMPAIRMENT OF ASSETS (2017)

ACCOUNTING POLICY – FINANCIAL ASSETS CARRIED AT AMORTISED COST

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

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

IMPAIRMENT HISTORY

The table on the next page 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 current year expected credit loss information is included in note 5.6.

5 FINANCIAL ASSETS (continued)

5.9 IMPAIRMENT OF ASSETS (2017) (continued)

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

5.10 INVESTMENT INCOME

	Group 2018 R million	Group 2017 R million	Company 2018 R million	Company 2017 R million
Interest income derived from	**2 296**	1 320	**821**	769
Financial assets measured at amortised cost	**91**	136	**21**	19
Financial assets mandatorily measured at fair value through income	**2 205**	1 184	**800**	750
Other investment income/(losses)	**523**	15	**466**	696
Dividend income	**147**	131	**144**	790
Foreign exchange differences	**376**	(116)	**322**	(94)
	2 819	1 335	**1 287**	1 465

Dividend income for the company consists mainly of dividends received from subsidiaries.

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

	Group 2018 R million	Group 2017 R million	Company 2018 R million	Company 2017 R million
Net fair value gains/(losses) on financial assets mandatorily at fair value through income	**(1 171)**	370	**22**	225
Net realised gains on financial assets excluding derivative instruments	**377**	121	**81**	33
Net fair value (losses)/gains on financial assets excluding derivative instruments	**(1 571)**	283	**(82)**	226
Net realised/fair value gains/(losses) on derivative instruments	**23**	(34)	**23**	(34)
Net fair value gains/(losses) on financial liabilities designated as at fair value through income	**35**	57	**(16)**	(26)
Net fair value (losses)/gains on debt securities	**(16)**	19	**(16)**	19
Net realised losses on debt securities	**–**	(45)	**–**	(45)
Net realised gains on investment contracts	**51**	83	**–**	–
	(1 136)	427	**6**	199

CURRENT YEAR ACCOUNTING POLICY – INVESTMENT INCOME AND NET GAINS/(LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME

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

PRIOR YEAR ACCOUNTING POLICY – INVESTMENT INCOME AND NET GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME

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

5.12 INVESTMENT INCOME AND NET LOSSES ON FINANCIAL ASSETS HELD FOR SALE

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
Net fair value losses	**–**	–	**–**	(95)
Foreign currency translation reserve reclassified to profit and loss	**–**	175	**–**	–
	–	175	**–**	(95)

The release of the foreign currency translation reserve of R175 million for the group related to Santam International.

6 FINANCIAL LIABILITIES

		Group		Company	
	Notes	2018 R million	Restated 2017 R million	2018 R million	2017 R million
The group's financial liabilities are summarised below:					
Financial liabilities designated at fair value through income					
Debt securities	6.1	**2 072**	2 056	**2 072**	2 056
Investment contracts	6.3	**1 528**	1 703	**–**	–
Derivative liabilities	6.4	**4**	–	**4**	–
Financial liabilities at amortised cost					
Repo liability (restated, refer to note 32.3)	6.5	**759**	531	**–**	–
Collateral guarantee contracts	6.6	**158**	130	**158**	130
Trade and other payables excluding insurance payables	6.7	**2 160**	1 943	**1 458**	1 169
Financial liabilities		**6 681**	6 363	**3 692**	3 355

Risk management

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

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

6 FINANCIAL LIABILITIES (continued)

6.1 DEBT SECURITIES

	Notes	Group 2018 R million	Group Restated 2017 R million	Company 2018 R million	Company 2017 R million
At the beginning of the year		**2 031**	2 005	**2 031**	2 005
Cash movements					
New debt securities issued		**–**	1 000	**–**	1 000
Debt securities redeemed		**–**	(1 000)	**–**	(1 000)
Non-cash movements					
Net fair value losses on debt securities		**16**	26	**16**	26
		2 047	2 031	**2 047**	2 031
Accrued interest		**25**	25	**25**	25
		2 072	2 056	**2 072**	2 056
Expected to be settled after 12 months		**2 047**	2 031	**2 047**	2 031
Expected to be settled within 12 months		**25**	25	**25**	25
Estimated redemption value on maturity date		**2 000**	2 000	**2 000**	2 000

During 2007, the company issued unsecured subordinated callable notes to the value of R1 billion in two tranches. The fixed effective rate for the R600 million issue was 8.6% and 9.6% for the second tranche of R400 million, representing the R203 companion bond plus an appropriate credit spread at the time of the issues. The fixed coupon rate, based on the nominal value of the issues, amounted to 8.25% and for both tranches the optional redemption date was 15 September 2017. Between the optional redemption date and final maturity date of 15 September 2022, a variable interest rate (JIBAR-based plus additional margin) would have applied. Both tranches were, however, redeemed on 15 September 2017, resulting in the realisation of the initial discount of R45 million.

During April 2016, the company issued additional unsecured subordinated callable notes to the value of R1 billion in two equal tranches of fixed and floating rate notes. The effective rate for the floating rate notes represents the three-month JIBAR plus 245 basis points, while the rate for the fixed rate notes amounted to 11.77%. The floating rate notes have an optional redemption date of 12 April 2021 with a final maturity date of 12 April 2026, and the fixed rate notes an optional redemption date of 12 April 2023 with a final maturity date of 12 April 2028.

During June 2017, the company issued additional unsecured subordinated callable floating rate notes to the value of R1 billion in anticipation of the redemption of the R1 billion subordinated debt issued in 2007. The effective interest rate for the floating rate notes represents the three-month JIBAR plus 210 basis points. The notes have an optional redemption date of 27 June 2022 with a final maturity date of 27 June 2027.

Per the conditions set by the Prudential Authority, Santam is required to maintain liquid assets equal to the value of the callable notes until their maturity. The fair value of the fixed rate notes is calculated using the yield provided by BESA and adding accrued interest. The fair value of the floating rate notes is calculated using the price provided by BESA and adding accrued interest. They are all classified as level 2 (2017: level 2) in the fair value hierarchy.

Santam's national credit rating remained unchanged during the current and prior year, irrespective of the negative impact that the sovereign downgrade in 2017 had on Santam's international rating. The movement in the fair value of the unsecured subordinated callable notes therefore mainly represents the market movement.

Refer to page 131 for the Analysis of bondholders.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

CURRENT YEAR ACCOUNTING POLICY – DEBT SECURITIES

Debt securities issued by the group comprise subordinated debt instruments fair valued against similar quoted debt instruments. Debt securities are designated as at fair value through income as these instruments are managed and its performance evaluated on a fair value basis in accordance with the group's investment strategy, and information about liabilities is provided internally on that basis.

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.

PRIOR YEAR ACCOUNTING POLICY – DEBT SECURITIES

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

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

6.2 INTEREST RATE RISK – FINANCIAL LIABILITIES

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

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

Interest rate risk is also managed using derivative instruments, such as swaps, to provide a degree of hedging against unfavourable market movements in interest rates. At 31 December 2016, the group had an interest rate swap agreement to partially mitigate the effects of potential adverse interest rate movements on financial assets underlying the unsecured subordinated callable notes. The interest rate derivatives represented the fair value of interest rate swaps effected on a total of R100 million of fixed interest securities held in the investment portfolio underlining the subordinated callable note. The interest rate swaps had the effect of swapping a variable interest rate for a fixed interest rate on these assets to eliminate interest rate risk on assets supporting the bond liability. The derivatives matured on 12 June 2017.

SENSITIVITY ANALYSIS ON INTEREST-BEARING INSTRUMENTS

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

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

	2018		2017	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
GROUP				
Financial liabilities – fixed rate				
Debt securities – quoted	**18**	**(18)**	21	(21)
Financial liabilities – variable rate				
Debt securities – quoted	**(15)**	**15**	(15)	15
Total change in finance cost and net fair value movement before tax	**3**	**(3)**	6	(6)
COMPANY				
Financial liabilities – fixed rate				
Debt securities – quoted	**18**	**(18)**	21	(21)
Financial liabilities – variable rate				
Debt securities – quoted	**(15)**	**15**	(15)	15
Total change in finance cost and net fair value movement before tax	**3**	**(3)**	6	(6)

6 FINANCIAL LIABILITIES (continued)

6.3 INVESTMENT CONTRACTS

	Group	
	2018 R million	2017 R million
At the beginning of the year	**1 703**	101
Cash movements		
Investment contracts issued	**159**	84
Investment contracts sold/matured	**(283)**	(116)
Business combinations	**–**	1 551
Non-cash movements		
Net fair value (gains)/losses	**(51)**	83
Investment contracts	**1 528**	1 703
Expected to be settled after 12 months	**1 461**	1 583
Expected to be settled within 12 months	**67**	120

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

ACCOUNTING POLICY – INVESTMENT CONTRACTS

The group recognises the following investment contracts:

a) First-party cells

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

b) Policies with no significant risk transfer

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

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

6.4 DERIVATIVE LIABILITIES

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
Exchange traded futures	**4**	–	**4**	–
	4	–	**4**	–

At 31 December 2018 the group had exchange traded futures classified as derivative liabilities with an exposure of R459 million. These derivatives are expected to be settled within 12 months.

ACCOUNTING POLICY – DERIVATIVES

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

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

6.5 REPO LIABILITY

	Group		Company	
	2018 R million	Restated 2017 R million	2018 R million	2017 R million
At the beginning of the year	**531**	–	**–**	–
Cash movements				
New repurchase agreements entered into	**595**	396	**–**	–
Repurchase agreements settled	**(375)**	(374)	**–**	–
Business combination	**–**	504	**–**	–
	751	526	**–**	–
Accrued interest	**8**	5	**–**	–
	759	531	**–**	–

The repo liability is expected to be settled within 12 months.

The repo liability relates to a sale and repurchase agreement with SSI's portfolio. The liability is secured by debt securities with a value of R759 million (2017: R531 million). The liability is classified as level 2 per the fair value hierarchy. Please refer to note 32.3 for details on restatement.

ACCOUNTING POLICY – REPO LIABILITY

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

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

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

6.6 COLLATERAL GUARANTEE CONTRACTS

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
At the beginning of the year	**130**	123	**130**	123
Cash movements				
New contracts entered into	**21**	27	**21**	27
Contracts ended	**(2)**	(28)	**(2)**	(28)
Non-cash movements				
Interest	**9**	8	**9**	8
	158	130	**158**	130

6 FINANCIAL LIABILITIES (continued)

6.6 COLLATERAL GUARANTEE CONTRACTS (continued)

Collateral guarantee contracts are expected to be settled within 12 months.

Santam issues guarantees on behalf of its corporate clients covering various risks such as mining rehabilitation. The guarantees are issued on the back of full collateral guarantees in the form of moneys deposited with Santam. These assets are included in financial assets, debt securities, at fair value through income and cash, and amounted to R158 million (2017: R130 million) as at 31 December. As a result, the transaction is not recorded as an insurance transaction in terms of IFRS 4, but as a financial instrument in terms of IFRS 9 (2017: IAS 39).

The carrying value of collateral guarantee contracts approximates fair value.

ACCOUNTING POLICY – COLLATERAL GUARANTEE CONTRACTS

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

6.7 TRADE AND OTHER PAYABLES EXCLUDING INSURANCE PAYABLES

	Group		Company	
	2018 R million	**2017 R million**	**2018 R million**	**2017 R million**
Amounts due to subsidiaries (refer to note 10.1)	**–**	–	**392**	346
Trade payables and accrued expenses	**2 017**	1 808	**970**	729
Employee benefits	**143**	135	**96**	94
Total	**2 160**	1 943	**1 458**	1 169

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

ACCOUNTING POLICY – TRADE AND OTHER PAYABLES

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

6.8 FINANCE COSTS

	Group		Company	
	2018 R million	**2017 R million**	**2018 R million**	**2017 R million**
Interest expense				
– interest on collateral guarantee contracts	**9**	8	**9**	8
– banks and other	**115**	69	**57**	65
– subordinated callable note	**199**	213	**199**	213
– repo liability	**8**	5	**–**	–
	331	295	**265**	286

ACCOUNTING POLICY – FINANCE COSTS

Finance costs are recognised using the effective interest method.

7 CURRENCY RISK

The group has two sources of currency risk:

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

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

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

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

Dedicated foreign cash to the value of the dollar-denominated purchase price was designated as the hedging instrument and the proposed acquisition, as described above, was identified as the hedged item (therefore 100% effective).

Effective 10 May 2017, SEM and Santam made its second investment in SAN JV, and SAN JV acquired a further 16.6% interest in Saham Finances via a subscription for new shares for US$351 million (R4.8 billion). Santam's share of the purchase price, including transaction costs, was US$11 million (R152 million). Santam therefore decided to implement another hedging arrangement similar to the one applied in 2015 by purchasing US$10 million before 31 December 2016. The currency loss recognised as part of the cash flow hedge reserve amounted to R6 million. It was subsequently accounted for as part of the investment in SAN JV in 2017.

Effective 9 October 2018, SEM and Santam made a further investment in SAN JV, and SAN JV acquired a further 53.3% interest in Saham Finances for US$1 045 million (R15.4 billion). Santam's share of the purchase price, including transaction costs, was US$64 million (R957 million). Santam therefore decided to implement another hedging arrangement similar to the one applied in 2015 by purchasing US$64 million before 9 October 2018. The currency gains recognised as part of the cash flow hedge reserve amounted to R46 million. It was subsequently accounted for as part of the investment in SAN JV in 2018.

The tables presented on pages 76 and 77 provide a summary of the foreign exposures (including structured currency risk) relating to assets and liabilities included in the statement of financial position at the reporting date. Only the material currencies held at the reporting date are disclosed in the table. The exposure disclosed in rand value does, however, represent the group and the company's total exposure to all currencies held at the reporting date irrespective of whether it was separately disclosed in the table. The foreign currency exposure for reinsurance assets disclosed in the table only includes reinsurance contracts denominated in foreign currencies. Structured currency risk relating to the investment in SAN JV is included in Investments in associates and joint ventures.

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

7 CURRENCY RISK (continued)

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

31 December 2018	Euro € million	United States dollar US$ million	British pound £ million	Moroccan dirham MAD million	Chinese yuan CNY million	Indian rupee INR million	South Korean won KRW million	Total exposure R million
GROUP								
Debentures, insurance policies, public sector stocks and other loans	1.49	98.57	2.89	–	–	–	–	**1 497.56**
Cash, deposits and similar securities	17.58	61.91	(0.93)	–	–	–	–	**1 201.07**
Reinsurance assets	0.10	53.22	0.02	35.66	–	13.47	–	**900.07**
Trade and other receivables	1.20	52.53	0.06	1.77	14.58	369.93	4 251.59	**1 321.83**
Insurance liabilities	(20.24)	(113.82)	(2.40)	(42.22)	(53.02)	(903.42)	(9 116.47)	**(3 199.95)**
Trade and other payables	0.83	(54.39)	(0.05)	–	(14.93)	(8.74)	(1 501.14)	**(853.40)**
Total foreign currency exposure relating to insurance business (excluding alternative risk)	**0.96**	**98.02**	**(0.41)**	**(4.79)**	**(53.37)**	**(528.76)**	**(6 366.02)**	**867.18**
Cash, deposits and similar securities:								
– relating to alternative risk business	0.17	15.19	–	–	–	–	–	**221.24**
Trade and other payables:								
– relating to alternative risk business	(0.27)	(3.44)	–	–	–	–	–	**(53.17)**
Equity securities[1]	2.58	10.52	–	–	–	–	–	**1 530.11**
Derivatives instruments	–	1.42	–	–	–	–	–	**21.47**
Investments in associates and joint ventures	–	–	–	1 724.41	–	–	–	**2 625.95**
Foreign currency exposure	**3.44**	**121.71**	**(0.41)**	**1 719.62**	**(53.37)**	**(528.76)**	**(6 366.02)**	**5 212.78**
COMPANY								
Debentures, insurance policies, public sector stocks and other loans	1.49	98.57	2.89	–	–	–	–	**1 497.56**
Cash, deposits and similar securities	17.58	61.91	(0.93)	–	–	–	–	**1 201.07**
Reinsurance assets	0.10	53.22	0.02	35.66	–	13.47	–	**900.07**
Trade and other receivables	1.20	52.53	0.06	1.77	14.58	369.93	4 251.59	**1 321.83**
Insurance liabilities	(20.24)	(113.82)	(2.40)	(42.22)	(53.02)	(903.42)	(9 116.47)	**(3 199.95)**
Trade and other payables	0.83	(54.39)	(0.05)	–	(14.93)	(8.74)	(1 501.14)	**(853.40)**
Total foreign currency exposure relating to insurance business	**0.96**	**98.02**	**(0.41)**	**(4.79)**	**(53.37)**	**(528.76)**	**(6 366.02)**	**867.18**
Equity securities[1]	–	–	–	–	–	–	–	**1 336.00**
Derivative instruments	–	1.42	–	–	–	–	–	**21.47**
Investments in associates and joint ventures	–	–	–	1 626.54	–	–	–	**2 475.34**
Foreign currency exposure	**0.96**	**99.44**	**(0.41)**	**1 621.75**	**(53.37)**	**(528.76)**	**(6 366.02)**	**4 699.99**
Exchange rates:								
Closing rate	16.52	14.42	18.26	1.52	2.12	0.21	0.01	
Average rate	15.95	13.65	17.86	1.45	2.05	0.20	0.01	

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

31 December 2017	Euro € million	United States dollar US$ million	British pound £ million	Moroccan dirham MAD million	Chinese yuan CNY million	Indian rupee INR million	South Korean won KRW million	Total exposure R million
GROUP								
Debentures, insurance policies, public sector stocks and other loans	1.46	72.73	24.52	–	–	–	–	**1 068.55**
Cash, deposits and similar securities	11.42	79.74	(0.42)	–	–	–	–	**1 137.84**
Reinsurance assets	0.05	43.38	–	17.95	–	85.83	–	**684.30**
Trade and other receivables	4.88	41.48	0.06	3.54	11.06	177.65	3 709.28	**832.32**
Insurance liabilities	(15.53)	(98.19)	(3.49)	(20.15)	(30.19)	(735.15)	(6 124.32)	**(2 136.34)**
Trade and other payables	0.02	(43.61)	(0.06)	–	(18.53)	(32.47)	(2 061.12)	**(644.52)**
Total foreign currency exposure relating to insurance business (excluding alternative risk)	**2.30**	**95.03**	**20.61**	**1.34**	**(37.66)**	**(504.14)**	**(4 476.16)**	**942.15**
Cash, deposits and similar securities:								
– relating to alternative risk business	–	9.48	–	–	–	–	–	**118.80**
– relating to net investment in Santam International	–	–	0.13	–	–	–	–	**2.20**
Trade and other payables:								
– relating to alternative risk business	–	(9.31)	–	–	–	–	–	**(116.70)**
– relating to net investment in Santam International	–	–	(0.13)	–	–	–	–	**(2.20)**
Equity securities[1]	2.68	11.62	–	–	–	–	–	**1 102.99**
Derivatives instruments	–	0.57	–	–	–	–	–	**7.67**
Investments in associates and joint ventures	–	–	–	1 086.15	–	–	–	**1 395.56**
Foreign currency exposure	**4.98**	**107.39**	**20.61**	**1 087.49**	**(37.66)**	**(504.14)**	**(4 476.16)**	**3 450.47**
COMPANY								
Debentures, insurance policies, public sector stocks and other loans	1.46	72.73	24.52	–	–	–	–	**1 068.55**
Cash, deposits and similar securities	11.42	78.72	(0.42)	–	–	–	–	**1 137.84**
Reinsurance assets	0.05	43.38	–	17.95	–	85.83	–	**684.30**
Trade and other receivables	4.88	41.47	0.06	3.54	11.06	177.65	3 709.28	**832.32**
Insurance liabilities	(15.53)	(98.19)	(3.49)	(20.15)	(30.19)	(735.15)	(6 124.32)	**(2 136.34)**
Trade and other payables	0.02	(43.57)	(0.06)	–	(18.53)	(32.47)	(2 061.12)	**(644.52)**
Total foreign currency exposure relating to insurance business	**2.30**	**94.54**	**20.61**	**1.34**	**(37.66)**	**(504.14)**	**(4 476.16)**	**942.15**
Equity securities[1]	–	–	–	–	–	–	–	**1 088.70**
Derivatives instruments	–	0.57	–	–	–	–	–	**7.67**
Investments in associates and joint ventures	–	–	–	1 185.27	–	–	–	**1 564.55**
Foreign currency exposure	**2.30**	**95.11**	**20.61**	**1 186.61**	**(37.66)**	**(504.14)**	**(4 476.16)**	**3 603.07**
Exchange rates:								
Closing rate	14.75	12.34	16.61	1.32	1.91	0.19	0.01	
Average rate	14.81	13.24	17.13	1.37	1.96	0.21	0.01	

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

7 CURRENCY RISK (continued)

ACCOUNTING POLICY – FOREIGN CURRENCY TRANSLATION

a) Functional and presentation currency

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

b) Transactions and balances

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

c) Group companies

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

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

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

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

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

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

A 10% change in the rand exchange rate against the US dollar, British pound (2017) and Chinese yuan (2018) would have the following impact on income before taxation:

31 December 2018	10% strengthening in rand/CNY R million	10% weakening in rand/CNY R million	10% strengthening in rand/US$ R million	10% weakening in rand/US$ R million
GROUP				
Impact on profit or loss	**11.32**	**(11.32)**	**(175.51)**	**175.51**
COMPANY				
Impact on profit or loss	**11.32**	**(11.32)**	**(143.40)**	**143.40**

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

The impact of a 10% change in the rand exchange rate against the euro, British pound (2018), Chinese yuan (2017), Indian rupee, South Korean won and Moroccan dirham is not disclosed as it is not material for the group or company for the current year.

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

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

DERIVATIVE RISK

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

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

8 LIQUIDITY RISK

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

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

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

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

31 December 2018	Within 1 year R million	1–5 years R million	More than 5 years R million	Open ended R million	Carrying value R million
GROUP					
Financial and insurance assets					
Equity securities					
Quoted	–	–	–	2 378	**2 378**
Unquoted	–	–	–	1 418	**1 418**
Total	**–**	**–**	**–**	**3 796**	**3 796**
Debt securities					
Quoted	2 380	4 704	1 379	–	**8 463**
Unquoted	714	4 538	11	186	**5 449**
Total	**3 094**	**9 242**	**1 390**	**186**	**13 912**
Unitised investments					
Quoted					
Underlying equity securities	–	–	–	615	**615**
Underlying debt securities	–	–	–	2 501	**2 501**
Total	**–**	**–**	**–**	**3 116**	**3 116**
Short-term money market instruments	**2 928**	**–**	**–**	**–**	**2 928**
Receivables due from contract holders/ intermediaries	4 749	–	–	–	**4 749**
Reinsurance receivables	419	–	–	–	**419**
Cell owners' and policyholders' interest	13	–	–	–	**13**
Other loans and receivables	1 068	34	–	4	**1 106**
Reinsurance assets (incl DAC)	5 864	964	209	69	**7 106**
Deposit with cell owner	53	118	20	–	**191**
Total	**12 166**	**1 116**	**229**	**73**	**13 584**
Cash and cash equivalents	**3 618**	**–**	**–**	**–**	**3 618**
Total financial and insurance assets	**21 806**	**10 358**	**1 619**	**7 171**	**40 954**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

8 LIQUIDITY RISK (continued)

	Within 1 year R million	1–5 years R million	More than 5 years R million	Total R million
Financial and insurance liabilities				
Debt securities	199	2 509	–	**2 708**
Investment contracts	67	–	1 461	**1 528**
Cell owners' and policyholders' interest	–	3 343	–	**3 343**
Collateral guarantee contracts	158	–	–	**158**
Insurance liabilities (incl Reinsurance DAC)	18 358	2 297	494	**21 149**
Reinsurance liability relating to cell owners	53	118	20	**191**
Trade and other payables	5 855	34	33	**5 922**
Total	**24 690**	**8 301**	**2 008**	**34 999**

31 December 2018	Within 1 year R million	1–5 years R million	More than 5 years R million	Open ended R million	Carrying value R million
COMPANY					
Financial and insurance assets					
Equity securities					
Quoted	–	–	–	995	**995**
Unquoted	–	–	–	1 391	**1 391**
Total	**–**	**–**	**–**	**2 386**	**2 386**
Debt securities					
Quoted	658	3 675	953	–	**5 286**
Unquoted	5	1 759	–	150	**1 914**
Total	**663**	**5 434**	**953**	**150**	**7 200**
Unitised investments					
Quoted					
Underlying equity securities	–	–	–	87	**87**
Underlying debt securities	–	–	–	206	**206**
Total	**–**	**–**	**–**	**293**	**293**
Short-term money market instruments	**2 196**	**–**	**–**	**–**	**2 196**
Receivables due from contract holders/ intermediaries	4 074	–	–	–	**4 074**
Reinsurance receivables	217	–	–	–	**217**
Other loans and receivables	697	–	–	–	**697**
Reinsurance assets (incl DAC)	5 044	983	213	–	**6 240**
Total	**10 032**	**983**	**213**	**–**	**11 228**
Cash and cash equivalents	**1 361**	**–**	**–**	**–**	**1 361**
Total financial and insurance assets	**14 252**	**6 417**	**1 166**	**2 829**	**24 664**

	Within 1 year R million	1–5 years R million	More than 5 years R million	Total R million
Financial and insurance liabilities				
Debt securities	199	2 509	–	**2 708**
Collateral guarantee contracts	158	–	–	**158**
Insurance liabilities (incl Reinsurance DAC)	10 925	2 259	490	**13 674**
Trade and other payables	4 434	–	–	**4 434**
Total	**15 716**	**4 768**	**490**	**20 974**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

	Within 1 year R million	1–5 years R million	More than 5 years R million	Total R million
Financial and insurance liabilities				
Debt securities[1]	199	2 179	529	**2 907**
Investment contracts	120	–	1 583	**1 703**
Cell owners' and policyholders' interest	–	3 227	–	**3 227**
Collateral guarantee contracts	130	–	–	**130**
Insurance liabilities (incl Reinsurance DAC)	15 655	2 077	442	**18 174**
Reinsurance liability relating to cell owners	45	105	24	**174**
Trade and other payables	4 953	–	–	**4 953**
Total	**21 102**	**7 588**	**2 578**	**31 268**

[1] Cash flows relating to debt securities to the value of R1 464 million was reclassified from the "more than 5 years" category to the "1–5 years" category based on the optional redemption date of these instruments. It also had the effect to decrease the "1–5 years" category and total by R516 million.

8 LIQUIDITY RISK (continued)

31 December 2017	Within 1 year R million	1–5 years R million	More than 5 years R million	Open ended R million	Carrying value R million
COMPANY					
Financial and insurance assets					
Equity securities					
Quoted	–	–	–	1 420	**1 420**
Unquoted	–	–	–	1 143	**1 143**
Total	**–**	**–**	**–**	**2 563**	**2 563**
Debt securities					
Quoted	215	4 040	681	–	**4 936**
Unquoted	39	1 395	–	126	**1 560**
Total	**254**	**5 435**	**681**	**126**	**6 496**
Unitised investments					
Quoted					
Underlying equity securities	–	–	–	59	**59**
Underlying debt securities	–	–	–	151	**151**
Total	**–**	**–**	**–**	**210**	**210**
Short-term money market instruments	**1 153**	**–**	**–**	**–**	**1 153**
Receivables due from contract holders/ intermediaries	3 447	–	–	–	**3 447**
Reinsurance receivables	575	–	–	–	**575**
Other loans and receivables	726	–	–	–	**726**
Reinsurance assets (incl DAC)	4 589	880	189	–	**5 658**
Total	**9 337**	**880**	**189**	**–**	**10 406**
Cash and cash equivalents	**2 026**	**–**	**–**	**–**	**2 026**
Total financial and insurance assets	**12 770**	**6 315**	**870**	**2 899**	**22 854**

	Within 1 year R million	1–5 years R million	More than 5 years R million	Total R million
Financial and insurance liabilities				
Debt securities[1]	199	2 179	529	**2 907**
Collateral guarantee contracts	130	–	–	**130**
Insurance liabilities (incl Reinsurance DAC)	10 230	2 044	439	**12 713**
Trade and other payables	3 796	–	–	**3 796**
Total	**14 355**	**4 223**	**968**	**19 546**

[1] Cash flows relating to debt securities to the value of R1 464 million was reclassified from the "more than 5 years" category to the "1–5 years" category based on the optional redemption date of these instruments. It also had the effect to decrease the "1–5 years" category and total by R516 million.

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

9.1 RECONCILIATION OF CELL OWNERS' INTEREST

	Group	
	2018 R million	**2017 R million**
At the beginning of the year	**1 552**	1 146
Cash movements		
Net increase/(decrease) in cell owners' interest	**–**	(40)
Preference shares issued by subsidiary	**15**	10
Redemption of preference shares	**(23)**	(7)
Dividends paid to preference shareholders	**(115)**	(54)
Business combination	**–**	251
Non-cash movements		
Net increase in cell owners' interest	**351**	246
	1 780	1 552
Amounts owed by cell owners	**13**	10
	1 793	1 562
Expected to be settled after 12 months	**1 793**	1 562
Expected to be settled within 12 months	**–**	–

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

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

ACCOUNTING POLICY – LIABILITIES TO CELL OWNERS

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 shareholder's agreement. There are currently two distinct types of cell captive arrangements: a) first party and b) third party.

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

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

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

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

9.2 RECONCILIATION OF POLICYHOLDERS' INTEREST

	Group	
	2018 **R million**	**2017** **R million**
At the beginning of the year	**1 665**	–
Cash movements		
Business combinations	**–**	1 598
Non-cash movements		
Net (decrease)/increase in policyholders' interest	**(115)**	67
	1 550	1 665
Expected to be settled after 12 months	**1 550**	1 665
Expected to be settled within 12 months	**–**	–

ACCOUNTING POLICY – LIABILITIES TO POLICYHOLDERS

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

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

9.3 RECONCILIATION OF DEPOSIT WITH CELL OWNER

	2018	2017
At the beginning of the year	**174**	219
Movement for the year (refer to note 9.4)	**17**	(45)
	191	174
Expected to be settled after 12 months	**138**	129
Expected to be settled within 12 months	**53**	45

9.4 RECONCILIATION OF REINSURANCE LIABILITY RELATING TO CELL OWNERS

	2018	2017
At the beginning of the year	**174**	219
Impact of discounting (unwinding)	**9**	13
Exits during the period (lapses and death)	**10**	(4)
Repayments	**(50)**	(47)
New tranches written	**77**	–
Impact of change in basis	**(30)**	–
Other	**1**	(7)
	191	174
Expected to be settled after 12 months	**138**	129
Expected to be settled within 12 months	**53**	45

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

10 INVESTMENT IN SUBSIDIARIES

	Company 2018 R million	2017 R million
At the beginning of the year	**1 125**	1 893
Settlement	**(16)**	(538)
Impairment	**–**	(230)
Unlisted shares at cost price less impairment	**1 109**	1 125
Expected to be realised after 12 months	**1 109**	1 125
Expected to be realised within 12 months	**–**	–

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

During November 2018, the Santam group acquired a shareholding of 100% in Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd for R90 million in cash (refer to note 14).

Santam International group's liquidation was completed during the year (refer to note 15). A capital distribution of £26 million was received during the prior year, resulting in the recognition of a fair value loss (refer to note 5.12).

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

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

10 INVESTMENT IN SUBSIDIARIES (continued)

ACCOUNTING POLICY – CONSOLIDATION

a) Subsidiaries and business combinations

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in profit or loss, or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

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

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

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

b) Changes in ownership interests without change of control

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

c) Disposal of subsidiaries

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

10.1 ANALYSIS OF INVESTMENTS IN SUBSIDIARIES

INVESTMENT IN SUBSIDIARIES

Unlisted companies

	Nature of business	Country of incorporation	Issued capital R	Proportion held by the company 2018	Proportion held by the company 2017	Book value R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
Direct								
Aegis Insurance Company Ltd	Insurance	RSA	7 600 000	**100.0%**	100.0%	–	8	–
Centriq Insurance Holdings Ltd	Holding co.	RSA	102 330 000	**100.0%**	100.0%	150	–	–
Guardian National Insurance Company Ltd	Insurance	RSA	178 603 840	**100.0%**	100.0%	626	258	–
Insurance Broker Resource Centre (Pty) Ltd[5]	Underwriting	RSA	38 172 012	**100.0%**	100.0%	–	–	–
Main Street 409 (Pty) Ltd	Holding co.	RSA	850	**100.0%**	100.0%	33	50	–
Mirabilis Engineering Underwriting Managers (Pty) Ltd	Underwriting	RSA	84 000 850	**55.0%**	55.0%	84	–	–
Riscor Underwriting Managers (Pty) Ltd	Underwriting	RSA	37 500 100	**100.0%**	100.0%	–	–	–
Santam International Ltd[1]	Holding co.	Guernsey	–	**0.0%**	100.0%	–	–	–
Santam Namibia Holdings (Pty) Ltd	Holding co.	RSA	445 000 001	**100.0%**	100.0%	168	–	–
Sentinel Insurance Corporation Ltd	Investments	RSA	1 000 000	**100.0%**	100.0%	1	1	–
Swanvest 120 (Pty) Ltd	Holding co.	RSA	100	**100.0%**	100.0%	–	–	249
Thebe Risk Services Holdings (Pty) Ltd	Holding co.	RSA	1 000	**100.0%**	100.0%	47	57	–
Travest Investments (Pty) Ltd	Investments	RSA	860	**100.0%**	100.0%	–	–	–
						1 109	**374**	**249**
Indirect								
Admiral Professional Underwriting Agency (Pty) Ltd	Underwriting	RSA	2 270 403	**100.0%**	100.0%	12	–	–
Africa Group Financial Services (Pty) Ltd	Holding co.	RSA	100	**100.0%**	100.0%	–	–	–
Beyonda Group (Pty) Ltd	Insurance	RSA	200	**87.5%**	87.5%	15	–	–
Brolink (Pty) Ltd	Administration co.	RSA	106 325 847	**100.0%**	100.0%	26	–	–
Centriq Insurance Company Ltd	Insurance	RSA	55 000 084	**100.0%**	100.0%	102	–	–
Centriq Life Insurance Company Ltd	Insurance	RSA	15 000 000	**100.0%**	100.0%	16	–	–
C-Sure Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	**100.0%**	100.0%	2	–	1
Echelon Private Client Solutions (Pty) Ltd	Underwriting	RSA	1 000	**60.0%**	60.0%	–	–	–
Emerald Risk Transfer (Pty) Ltd	Underwriting	RSA	2 000 174	**100.0%**	100.0%	94	–	–
H & L Underwriting Managers (Pty) Ltd	Underwriting	RSA	100	**100.0%**	100.0%	–	–	–
Just I-Insure Consultants (Pty) Ltd	Underwriting	RSA	120	**100.0%**	100.0%	–	–	–
Misty Sea Trading 267 (Pty) Ltd	Investments	RSA	11 200 952	**100.0%**	100.0%	–	–	–
MiWay Group Holdings (Pty) Ltd	Holding co.	RSA	211 101 111	**100.0%**	100.0%	257	–	–
Multiplex Investment Holding Company (Pty) Ltd	Holding co.	RSA	20 700	**100.0%**	100.0%	–	–	3
Nautical Underwriting Managers (Pty) Ltd[2]	Underwriting	RSA	200	**0.0%**	62.0%	–	–	–
Nova Risk Partners Ltd	Insurance	RSA	3 000 000	**100.0%**	100.0%	3	–	–
Santam Namibia Ltd	Insurance	Namibia	8 307 147	**60.0%**	60.0%	5	18	–
Santam SI Investments (Pty) Ltd[4]	Insurance	RSA	78 551 000	**100.0%**	100.0%	193	–	–
Santam Structured Insurance Ltd	Insurance	RSA	180 476 226	**100.0%**	100.0%	145	–	–
Santam Structured Life Ltd	Insurance	RSA	40 000 000	**100.0%**	100.0%	40	–	–
Santam SI Investments Mauritius Ltd (Mauritius)	Insurance	Mauritius	6 495 866	**100.0%**	100.0%	–	–	–
Santam Structured Insurance Ltd PCC	Insurance	Mauritius	15 000 000	**100.0%**	100.0%	8	–	–
Santam Structured Reinsurance Ltd PCC	Insurance	RSA	819 200 000	**100.0%**	100.0%	823	–	–
Santam Financial Services Ltd DAC	Insurance	Ireland	15 038 450	**100.0%**	100.0%	6	–	–
Credit Innovation (Pty) Ltd	Insurance	RSA	6 428 571	**60.0%**	60.0%	–	–	–
Santam UK Ltd[1]	Holding co.	United Kingdom	–	**0.0%**	100.0%	–	–	–
Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd[3]	Intermediary	RSA	679	**100.0%**	0.0%	90	–	–
Stalker Hutchison Admiral (Pty) Ltd	Underwriting	RSA	7 914 393	**100.0%**	100.0%	53	–	–
Travel Insurance Consultants (Pty) Ltd	Underwriting	RSA	–	**100.0%**	100.0%	–	–	–
Wheatfields Investments no 136 (Pty) Ltd	Underwriting	RSA	120	**100.0%**	100.0%	–	–	–
						1 890	**18**	**4**
TOTAL INVESTMENTS IN SUBSIDIARIES						**2 999**	**392**	**253**

1 These entities were deregistered during 2018.

2 During April 2018, the group disposed of Nautical Underwriting Managers (Pty) Ltd.

3 During November 2018, the Santam group acquired a shareholding of 100% in Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd for R90 million in cash.

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

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

10 INVESTMENT IN SUBSIDIARIES (continued)

10.2 TRANSACTIONS WITH ENTITIES IN THE GROUP

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

The company has several intercompany balances owed by and to subsidiaries in the group as at the end of the year. Loans to subsidiaries with outside shareholders are interest-bearing and are repayable on demand. Loans to wholly owned subsidiaries are interest free and repayable on demand. These inter-Santam group balances have been eliminated on consolidation (for details on balances, refer to the table on page 87).

In 2013, Santam entered into a contingent capital facility with Centriq Insurance Company Ltd of R50 million. A facility fee of 0.5% of the contingent capital facility is charged. The capital facility ensures appropriate economic capital levels for the prudential management of the entity. The contingent capital facility remained in place for 2018.

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

	Company 2018 R million	Company 2017 R million
a) Insurance contracts and other services		
– MiWay Group Holdings Ltd (for insurance premiums)	**2 119**	1 970
– Centriq Insurance Holdings Ltd (for insurance premiums)	**116**	142
– Santam Namibia Ltd (for insurance premiums)	**58**	46
– Other subsidiaries (for administration services)	**39**	25
– Subsidiaries (for administration services)	**(405)**	(410)
– Subsidiaries (for brokerage commission)	**(891)**	(798)
– MiWay Group Holdings Ltd (for insurance claims paid)	**(1 142)**	(1 166)
– Centriq Insurance Holdings Ltd (for insurance claims paid)	**(74)**	(83)
– Santam Namibia Ltd (for insurance claims paid)	**(100)**	(36)
– Santam Namibia Ltd (for reinsurance services)	**(49)**	(43)
– Santam Namibia Ltd (for reinsurance claims)	**27**	37
– Santam Namibia Ltd (for reinsurance commission)	**14**	12
b) Year-end balances with related parties		
Emthunzini Black Economic Empowerment Staff Trust	**46**	39

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

11 NON-CONTROLLING INTEREST IN SUBSIDIARIES

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

	Group	
	2018 R million	**2017 R million**
Santam Namibia Ltd	**476**	478
Mirabilis Engineering Underwriting Managers (Pty) Ltd	**28**	29
Other	**4**	(1)
Total	**508**	506

	Mirabilis Engineering Underwriting Managers (Pty) Ltd		Santam Namibia Ltd	
	2018 R million	**2017 R million**	**2018 R million**	**2017 R million**
Ownership and voting right	**45.0%**	45.0%	**40.0%**	40.0%
Target share interest			**37.4%**	37.4%
Current assets	**68**	73	**578**	653
Non-current assets	**7**	9	**493**	493
Current liabilities	**13**	17	**697**	732
Non-current liabilities	**–**	–	**–**	26
Net assets	**62**	65	**374**	388
Carrying amount of NCI	**28**	29	**476**	478
SEM target shares	**–**	–	**321**	322
Ordinary shareholders	**28**	29	**155**	156
Revenue	**118**	126	**1 110**	1 197
Profit after tax	**49**	50	**91**	145
Total comprehensive income	**49**	50	**91**	145
Profit allocated to NCI	**22**	23	**70**	112
Cash flows from operating activities	**47**	38	**48**	142
Cash flows from investing activities	**5**	–	**(22)**	18
Cash flows from financing activities, before dividends to NCI	**(53)**	(17)	**(98)**	(115)
Cash flows from financing activities – cash dividends to NCI	**(24)**	(14)	**(39)**	(46)
Net (decrease)/increase in cash and cash equivalents	**(25)**	7	**(111)**	(1)

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

ACCOUNTING POLICY – NON-CONTROLLING INTEREST

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

12 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	Group	
	2018 R million	**2017 R million**
At the beginning of the year	**1 789**	1 536
Capitalisation	**15**	23
Acquisitions	**1 139**	152
Share of results after tax	**291**	110
Share of results before tax	**318**	136
Share of tax	**(27)**	(26)
Dividends received from associates and joint ventures	**(6)**	(5)
Impairment	**(12)**	(3)
Disposals	**(344)**	(18)
Business combinations	**–**	17
(Loss)/gain on dilution	**(88)**	18
Foreign currency translation	**143**	(41)
At the end of the year	**2 927**	1 789

Effective 9 October 2018, SEM and Santam, through its investment in SAN JV, acquired the remaining 53.3% interest in Saham Finances for R15.4 billion. Due to Santam Ltd's limited participation in the transaction of R957 million, before applying hedge accounting. Hedge accounting resulted in R46 million of foreign currency gains accounted for as part of the investment in SAN JV. Santam Ltd's interest in SAN JV diluted from 15% to 10%.

During the current and prior year, the Professional Provident Society Short-term Insurance Company (PPS) issued a pro rata recapitalisation in terms of which Santam Ltd injected a further R15 million and R23 million respectively into the company. Effective 7 December 2018, Santam disposed of its 49% investment in PPS for R114 million in cash.

During the current year, Santam restructured its investment in Western Group. Santam sold its 40% shareholding in Western Group Holdings Ltd in exchange for a 40% shareholding in Western National Insurance Ltd and received the balance of the selling price in cash.

Effective 30 December 2018, Santam obtained a 25% interest in Ctrl Investment Holdings (Pty) Ltd for R12.5 million.

Effective 10 May 2017, SAN JV acquired a further 16.6% interest in Saham Finances for R4.8 billion. Due to Santam Ltd's participation in the transaction of R152 million, Santam Ltd's interest in SAN JV diluted from 25% to 15%.

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

Refer to note 14 for more details regarding these transactions.

Management performed an impairment review on all investments in subsidiaries. In the current year, the carrying value of Indwe Broker Holdings Group (Pty) Ltd was adjusted to align with the current discounted cash flow valuation performed. No impairments were required in the prior year.

	Company	
	2018 R million	**2017 R million**
At the beginning of the year	**1 652**	1 477
Capitalisation	**15**	23
Acquisitions	**911**	152
Disposals	**(102)**	–
At the end of the year	**2 476**	1 652
Dividend income received from associates	**–**	–
Total income from associates	**–**	–

ACCOUNTING POLICY – EQUITY-ACCOUNTED INVESTEES

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

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

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

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

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

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

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

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

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

12 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

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

	Indwe Broker Holdings Group (Pty) Ltd (joint venture) R million	Professional Provident Society Short-term Insurance Company Ltd (associate) R million	SAN JV (RF) (Pty) Ltd (associate) R million	Western National Insurance Ltd[1] (associate) R million	Other (associates) R million	Total R million
2018						
Revenue	**289**	**–**	**5 162**	**–**	**40**	**5 491**
Depreciation and amortisation	**8**	**–**	**300**	**–**	**–**	**308**
Interest income	**12**	**–**	**–**	**–**	**1**	**13**
Interest expense	**–**	**–**	**61**	**–**	**–**	**61**
Income tax expense	**6**	**–**	**(33)**	**–**	**–**	**(27)**
Profit/(loss) from continuing operations	**16**	**–**	**2 380**	**–**	**4**	**2 400**
Total comprehensive income	**16**	**–**	**2 452**	**–**	**3**	**2 471**
Current assets	**174**	**–**	**18 209**	**–**	**10**	**18 393**
Non-current assets	**77**	**–**	**59 105**	**–**	**20**	**59 202**
Current liabilities	**(132)**	**–**	**(8 200)**	**–**	**(9)**	**(8 341)**
Non-current liabilities	**(11)**	**–**	**(35 496)**	**–**	**(10)**	**(35 517)**
Net asset value	**108**	**–**	**33 618**	**–**	**11**	**33 737**
Calculated carrying value	**53**	**–**	**2 626**	**218**	**22**	**2 919**
Intangible assets recognised in the carrying value of associates	**–**	**–**	**–**	**–**	**8**	**8**
Carrying value	**53**	**–**	**2 626**	**218**	**30**	**2 927**

	Indwe Broker Holdings Group (Pty) Ltd (joint venture) R million	Professional Provident Society Short-term Insurance Company Ltd (associate) R million	SAN JV (RF) (Pty) Ltd (associate) R million	Western Group Holdings Ltd[1] (associate) R million	Other (associates) R million	Total R million
2017						
Revenue	290	142	–	888	29	1 349
Depreciation and amortisation	10	4	–	–	(2)	12
Interest income	12	5	–	41	–	58
Interest expense	–	–	–	–	–	–
Income tax expense	10	(12)	–	(23)	(1)	(26)
Profit/(loss) from continuing operations	21	(20)	448	69	–	518
Total comprehensive income	21	(20)	(160)	69	–	(90)
Current assets	176	111	19	453	7	766
Non-current assets	89	51	10 119	558	19	10 836
Current liabilities	(143)	(47)	(7)	(86)	(3)	(286)
Non-current liabilities	(21)	–	–	(428)	(10)	(459)
Net asset value	101	115	10 131	497	13	10 857
Calculated carrying value	66	69	1 396	188	8	1 727
Intangible assets recognised in the carrying value of associates	–	–	–	54	8	62
Carrying value	**66**	**69**	**1 396**	**242**	**16**	**1 789**

[1] Western Group Holdings has a financial period ended 28 February. The information disclosed in the summary is based on the interim financial statements for the six months ended 31 August 2017, as it relates to Western Group Holdings. As the interest in Western National Insurance Ltd was obtained subsequent to its last published financial statements, no disclosures are included here, except for the carrying value.

	Indwe Broker Holdings Group (Pty) Ltd R million
Additional information regarding joint ventures is as follows:	
2018	
Cash and cash equivalents	**160**
Current liabilities (excluding trade and other payables and provisions)	**10**
Non-current liabilities (excluding trade and other payables and provisions)	**12**
2017	
Cash and cash equivalents	159
Current liabilities (excluding trade and other payables and provisions)	19
Non-current liabilities (excluding trade and other payables and provisions)	12

The group's share of future aggregate minimum lease payments under operating leases of joint ventures is as follows:

	Up to 1 year R million	Between 1 and 5 years R million	More than 5 years R million	Total R million
2018				
Offices	**4**	**2**	**–**	**6**
	4	**2**	**–**	**6**
2017				
Offices	4	5	–	9
	4	5	–	9

12 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

12.1 ANALYSIS OF INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

INVESTMENT IN ASSOCIATES AND JOINT VENTURES

Unlisted companies

	Nature of business	Country of incorporation	Issued capital R	Proportion held by the company 2018	Proportion held by the company 2017	Carrying value including equity-accounted earnings R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
Direct								
Professional Provident Society Short-term Insurance Company Ltd[1]	Insurance	RSA	38 063	**–**	49.0%	–	–	–
SAN JV (RF) (Pty) Ltd[2]	Insurance	RSA	26 435 872 236	**10.0%**	15.0%	2 626	–	–
South African Nuclear Pool Administrators (Pty) Ltd	Insurance	RSA	120	**25.0%**	25.0%	–	–	–
						2 626	**–**	**–**
Indirect								
HCV Underwriting Managers (Pty) Ltd	Insurance	RSA	300	**30.0%**	30.0%	14	–	–
Indwe Broker Holdings Group (Pty) Ltd	Intermediary	RSA	28 552 225	**24.0%**	24.0%	53	–	–
Risk Guard Alliance (Pty) Ltd[3]	Insurance	RSA	100	**23.2%**	23.2%	–	–	–
RTS Construction & Engineering (Pty) Ltd[3]	Industrial technologies	RSA	100	**30.0%**	30.0%	–	–	–
STRIDE South Africa (RF) (Pty) Ltd	IT company	RSA	25 140 000	**33.3%**	33.3%	–	–	–
Ctrl Investment Holdings (Pty) Ltd[3]	IT company	RSA	150 976	**25.0%**	0.0%	13	–	–
Vulindlela Underwriting Managers (Pty) Ltd	Underwriting	RSA	800	**47.0%**	47.0%	3	–	–
Western Group Holdings Ltd[4]	Insurance	Namibia	134 233 974	**0.0%**	40.0%	–	–	–
Western National Insurance Ltd[4]	Insurance	RSA	165 000 000	**40.0%**	0.0%	218	16	–
						301	**16**	**–**
Total investments in associates and joint ventures						**2 927**	**16**	**–**

[1] Effective 7 December 2018, Santam disposed of its shareholding in PPS for R114 million cash.

[2] Effective 9 October 2018, SEM and Santam through its investment in SAN JV, acquired the remaining 53.3% interest in Saham Finances. Due to Santam Ltd's limited participation in the transaction, Santam Ltd's interest in SAN JV diluted from 15% to 10%.

[3] Effective 30 November 2018, the group acquired a shareholding of 25% in Ctrl Investment Holdings (Pty) Ltd.

[4] During the current year, Santam restructured its investment in Western Group. Santam sold its 40% shareholding in Western Group Holdings Ltd in exchange for a 40% shareholding in Western National Insurance Ltd and received the balance of the selling price in cash.

12.2 TRANSACTIONS WITH ENTITIES IN THE GROUP

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

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

	Company 2018 R million	Company 2017 R million
a) Insurance contracts and other services		
– associates and joint ventures (for administration services)	**(66)**	(66)
– associates and joint ventures (for brokerage commission)	**(89)**	(90)
– associates (for outward reinsurance contracts)	**(197)**	(183)
– associates (for outward reinsurance claims covered)	**117**	116
– associates (for outward reinsurance commissions covered)	**22**	20
– associates (for inward reinsurance contracts)	**103**	110
– associates (for inward reinsurance claims covered)	**(62)**	(82)
– associates (for inward reinsurance commissions covered)	**(27)**	(34)
b) Year-end balances with related parties		
Western National Insurance	**16**	6

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

13 INTANGIBLE ASSETS

	Goodwill R million	Compute software R million	Brand, trademark and trade names R million	Key business relationships R million	Total R million
GROUP					
At 1 January 2017					
Cost	688	417	31	195	**1 331**
Accumulated impairment/amortisation	(93)	(187)	(31)	(135)	**(446)**
Net book amount	**595**	**230**	**–**	**60**	**885**
Year ended 31 December 2017					
Opening net book amount	595	230	–	60	**885**
Acquisitions	–	27	–	–	**27**
(Impairment)/reversal of impairment	(9)	–	–	1	**(8)**
Amortisation	–	(40)	–	(23)	**(63)**
Closing net book amount	**586**	**217**	**–**	**38**	**841**
At 31 December 2017					
Cost	688	444	31	195	**1 358**
Accumulated impairment/amortisation	(102)	(227)	(31)	(157)	**(517)**
Net book amount	**586**	**217**	**–**	**38**	**841**
Year ended 31 December 2018					
Opening net book amount	586	217	–	38	**841**
Acquisitions	–	26	–	–	**26**
Disposals	(1)	–	–	(1)	**(2)**
Amortisation	–	(49)	–	(20)	**(69)**
Business combinations	89	–	–	–	**89**
Closing net book amount	**674**	**194**	**–**	**17**	**885**
At 31 December 2018					
Cost	776	470	31	194	**1 471**
Accumulated impairment/amortisation	(102)	(276)	(31)	(177)	**(586)**
Net book amount	**674**	**194**	**–**	**17**	**885**

	Goodwill R million	Computer software R million	Brand, trademark and trade names R million	Key business relationships R million	Total R million
COMPANY					
At 1 January 2017					
Cost	76	239	1	93	**409**
Accumulated amortisation	–	(49)	(1)	(35)	**(85)**
Net book amount	**76**	**190**	**–**	**58**	**324**
Year ended 31 December 2017					
Opening net book amount	76	190	–	58	**324**
Amortisation	–	(22)	–	(19)	**(41)**
Closing net book amount	**76**	**168**	**–**	**39**	**283**
At 31 December 2017					
Cost	76	239	1	93	**409**
Accumulated amortisation	–	(71)	(1)	(54)	**(126)**
Net book amount	**76**	**168**	**–**	**39**	**283**
Year ended 31 December 2018					
Opening net book amount	76	168	–	39	**283**
Amortisation	–	(22)	–	(19)	**(41)**
Closing net book amount	**76**	**146**	**–**	**20**	**242**
At 31 December 2018					
Cost	76	239	1	93	**409**
Accumulated amortisation	–	(93)	(1)	(73)	**(167)**
Net book amount	**76**	**146**	**–**	**20**	**242**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

13 INTANGIBLE ASSETS (continued)

COMPUTER SOFTWARE

Additional software acquired by the group during the year consists of external software of R4 million (2017: R6 million) and internally developed software of R22 million (2017: R21 million). The internally developed software acquired in the prior year forms part of a strategic project to develop a new underwriting and product management system. Implementation of phase 1 of the project commenced in 2015 and phase 2 in 2016. It is expected that the useful life of the technology will be 10 years from the implementation date for each phase.

KEY BUSINESS RELATIONSHIPS

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

The valuation of key intermediary or other relationships is based on discounted cash flow models. Discount rates between 15% and 17% (2017: 15% and 17%) are used as significant input.

ACCOUNTING POLICY – GOODWILL

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

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

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

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

Impairment

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

IMPAIRMENT TESTS OF GOODWILL

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

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

	Group	
	2018 R million	**2017 R million**
Crop	**19**	19
Alternative risk	**16**	17
Brokerage	**89**	–
Policy administration	**40**	40
Engineering	**28**	28
MiWay group	**319**	319
Liability	**87**	87
Accident and health	**76**	76
	674	586

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

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

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

Discount rates between 14% and 19% (2017: 14% and 19%) were applied in the recoverable amount valuation. As discount rates are considered a significant input in the valuation of these entities, a sensitivity analysis was performed on the valuation outcome of the most significant CGU. If discount rates increase by 10% the valuations would decrease on average by 12.3% (2017: 9%). Should the discount rates decrease by 10% the valuations would increase on average by 16.5% (2017: 10%). These sensitivities and other relevant factors were considered in the overall impairment testing and it was concluded that no further impairment would be required.

ACCOUNTING POLICY – OTHER INTANGIBLE ASSETS

Computer software

Computer software is recognised at cost less amortisation and impairment charges. Computer software packages acquired are initially recognised at fair value. Cost associated with maintaining computer software programs 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.
- The expenditure attributable to the software product during its development can be reliably measured.

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

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, which do not exceed 10 years.

Brands, trademarks and trade names

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

Key business relationships

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

14 CORPORATE TRANSACTIONS

2018

Acquisitions

SAN JV (RF) (Pty) Ltd

Effective 9 October 2018, SEM and Santam through its investment in SAN JV, acquired a further 53.3% interest in Saham Finances for US$1 045 million. Santam's share of the purchase price, including transaction costs, was US$64 million (R957 million), before applying hedge accounting. A cash flow hedge was implemented to cover Santam's foreign currency exposure by designating US dollar denominated cash balances to the transaction. The impact of this was that foreign currency gains of R46 million recognised on the designated cash balances since implementation date were not recognised in the statement of comprehensive income, but were accounted for as part of the investment in SAN JV. Santam's interest in SAN JV diluted to 10% (previously 15%) due to the limited participation in this transaction. As a result of the dilution, R19 million of the foreign currency translation reserve relating to SAN JV was released to profit or loss. An R88 million loss on dilution was also recognised.

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

During March, June and September 2018 pro rata recapitalisations took place in terms of which Santam injected a further total of R15 million into the company.

Ctrl Investment Holdings (Pty) Ltd

On 30 November 2018, Santam subscribed for a 25% equity stake in Ctrl Investment Holdings (Pty) Ltd for an amount of R12.5 million.

Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd

During November 2018, the Santam group acquired a shareholding of 100% in Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd for R90 million in cash. Due to the limited time available to perform a purchase price allocation a provisional allocation to goodwill was recorded based on the IFRS historical cost values. Per IFRS 3 requirements a detailed valuation and allocation will be performed within 12 months of the purchase.

	R million
Details of the assets and liabilities acquired (based on provisional purchase price allocation) are as follows:	
Property and equipment and intangible assets	1
Loans and receivables including insurance receivables	3
Cash and cash equivalents	4
Deferred income tax	1
Provisions for other liabilities and charges	(3)
Trade and other payables including insurance payables	(2)
Current income tax liabilities	(3)
Net asset value acquired	1
Goodwill	89
Purchase consideration paid	90

Disposals

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

During December 2018, the group sold its 49% shareholding in PPS for R114 million. The group realised a net profit of R40 million and the company a net profit of R11 million, with capital gains tax of R3 million.

Western Group Holdings Ltd

On 31 October 2018, Santam restructured its investment in Western Group. Santam effectively sold its 40% shareholding in Western Group and received a cash component of R54 million as well as 40% shareholding of R215 million in Western National Insurance Ltd. An immaterial profit was recognised on the disposal. Santam Ltd recognised capital gains tax of R10 million.

2017

Acquisitions

Santam Structured Insurance (Pty) Ltd (SSI)

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

	R million
Details of the assets and liabilities acquired are as follows:	
Property and equipment	15
Investment in associates and joint ventures	17
Financial assets at fair value through income (restated, refer to note 32.3)	4 845
Reinsurance assets	391
Deferred acquisition costs	9
Loans and receivables including insurance receivables	519
Cash and cash equivalents	1 045
Deferred income tax	(86)
Cell owners' and policyholders' interest	(1 849)
Financial liabilities at fair value through income	(1 551)
Financial liabilities at amortised cost (restated, refer to note 32.3)	(504)
Insurance liabilities	(2 242)
Deferred reinsurance acquisition revenue	(2)
Provisions for other liabilities and charges	(30)
Trade and other payables including insurance payables	(350)
Current income tax liabilities	(14)
Net asset value acquired	**213**
Long-term incentive provision	(20)
Purchase consideration paid	**193**

SAN JV (RF) (Pty) Ltd

Effective 10 May 2017, SEM and Santam, through its investment in (SAN JV, acquired a further 16.6% interest in Saham Finances via a subscription for new shares for US$351 million. Santam's share of the purchase price, including transaction costs, was U$11 million (R152 million). Santam's interest in SAN JV therefore diluted to 15% (previously 25%). As a result of the dilution, R90 million of the foreign currency translation reserve relating to SAN JV was released to profit or loss. An R18 million gain on dilution was also recognised.

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

During March, June, September and December 2017 pro rata recapitalisations took place in terms of which Santam injected a further total of R23 million into the company.

Disposals

Paladin Underwriting Managers (Pty) Ltd

During January 2017, the group sold its 40% shareholding in Paladin Underwriting Managers (Pty) Ltd for R23 million. The net profit realised was R5 million and capital gains tax of R2 million was recognised.

ACCOUNTING POLICY – BUSINESS COMBINATIONS

Refer to note 10(a).

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

15 NON-CURRENT ASSETS HELD FOR SALE

	Group	
	2018 R million	2017 R million
Assets that are classified as held for sale		
Financial assets at fair value through income		
Opening balance	–	8
Settlements	–	(8)
Closing balance	–	–

Non-current assets held for sale related to the winding up of the Santam International group. The winding up also resulted in the release of the foreign currency translation reserve relating to the investment of R175 million in the prior year (refer to note 5.12).

16 PROPERTY AND EQUIPMENT

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and other assets R million	Total R million
GROUP				
At 1 January 2017				
Cost or valuation	2	212	145	**359**
Accumulated depreciation	(1)	(156)	(96)	**(253)**
Net book amount	**1**	**56**	**49**	**106**
Year ended 31 December 2017				
Opening net book amount	1	56	49	**106**
Additions	27	30	11	**68**
Disposals	(1)	–	(2)	**(3)**
Depreciation charge	(1)	(41)	(9)	**(51)**
Business combinations	3	12	–	**15**
Closing net book amount	29	57	49	**135**
At 31 December 2017				
Cost or valuation	33	260	128	**421**
Accumulated depreciation	(4)	(203)	(79)	**(286)**
Net book amount	**29**	**57**	**49**	**135**
Year ended 31 December 2018				
Opening net book amount	29	57	49	**135**
Additions	6	42	14	**62**
Disposals	–	(1)	–	**(1)**
Depreciation charge	–	(43)	(11)	**(54)**
Closing net book amount	35	55	52	**142**
At 31 December 2018				
Cost or valuation	39	291	136	**466**
Accumulated depreciation	(4)	(236)	(84)	**(324)**
Net book amount	**35**	**55**	**52**	**142**

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and other assets R million	Total R million
COMPANY				
At 1 January 2017				
Cost or valuation	1	122	79	**202**
Accumulated depreciation	–	(80)	(58)	**(138)**
Net book amount	**1**	**42**	**21**	**64**
Year ended 31 December 2017				
Opening net book amount	1	42	21	**64**
Additions	–	20	8	**28**
Disposals	–	–	(1)	**(1)**
Depreciation charge	–	(25)	(5)	**(30)**
Closing net book amount	1	37	23	**61**
At 31 December 2017				
Cost or valuation	1	130	61	**192**
Accumulated depreciation	–	(93)	(38)	**(131)**
Net book amount	**1**	**37**	**23**	**61**
Year ended 31 December 2018				
Opening net book amount	1	37	23	**61**
Additions	–	27	3	**30**
Depreciation charge	–	(26)	(5)	**(31)**
Closing net book amount	1	38	21	**60**
At 31 December 2018				
Cost or valuation	1	147	64	**212**
Accumulated depreciation	–	(109)	(43)	**(152)**
Net book amount	**1**	**38**	**21**	**60**

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

ACCOUNTING POLICY – PROPERTY AND EQUIPMENT

a) Property

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

b) Equipment

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

Estimated useful lives are as follows:

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

17 SHARE CAPITAL

	Group and company Ordinary shares		Group Treasury shares	
	Number of shares (thousands)	Stated capital R million	Number of shares (thousands)	Stated capital R million
At 1 January 2017	**115 131**	**103**	**4 878**	472
Purchase of treasury shares	–	–	309	76
Reissue of treasury shares	–	–	(416)	(78)
At 31 December 2017	**115 131**	**103**	**4 771**	**470**
Purchase of treasury shares	–	–	290	**91**
Reissue of treasury shares	–	–	(384)	**(94)**
At 31 December 2018	**115 131**	**103**	**4 677**	**467**

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

In 2007, a subsidiary in the group acquired 6 972 940 Santam shares through a voluntary share buy-back offer on 20 April 2007 at R102 per share. During 2018, the subsidiary acquired an additional 290 000 (2017: 308 500) shares to utilise as part of the deferred share plan (DSP), while 325 488 (2017: 339 790) shares were reissued in terms of the DSP. The net amount of these transactions has been deducted from shareholders' equity. The shares are held as "Treasury shares".

Since the unwinding of the Central Plaza structure in 2015, the Emthunzini BBBEE Staff Trust is under the control of Santam Ltd. During 2018, the Staff Trust distributed 59 456 (2017: 75 541) shares.

ACCOUNTING POLICY – SHARE CAPITAL

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

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

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

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

At 31 December 2018, the directors of the company held direct and indirect interests, including family interests, in 57 728 of the company's issued ordinary shares (2017: 47 648). Details of shares held per individual director are listed below. A total of 69 871 (2017: 78 188) deferred shares are allocated to directors in terms of the company's employee share schemes. No material changes occurred between the reporting date and the date of approval of the financial statements.

	Direct		Indirect		
2018	**Beneficial**	**Non-beneficial**	**Beneficial**	**Non-beneficial**	**Total**
Executive directors and prescribed officers					
L Lambrechts	6 637	–	–	–	**6 637**
HD Nel	10 905	–	–	–	**10 905**
Non-executive directors					
B Campbell	8 370	–	–	–	**8 370**
BTPKM Gamedze	4 932	–	–	–	**4 932**
V Khanyile	–	–	1 286	–	**1 286**
IM Kirk	21 831	–	–	–	**21 831**
MLD Marole	–	–	–	–	**–**
NV Mtetwa	–	–	–	–	**–**
JJ Ngulube	2 556	–	–	–	**2 556**
MJ Reyneke	–	–	211	–	**211**
PE Speckmann	1 000	–	–	–	**1 000**
HC Werth	–	–	–	–	**–**
	56 231	**–**	**1 497**	**–**	**57 728**

	Direct		Indirect		
2017	**Beneficial**	**Non-beneficial**	**Beneficial**	**Non-beneficial**	**Total**
Executive directors and prescribed officers					
L Lambrechts	–	–	–	–	**–**
HD Nel	9 271	–	–	–	**9 271**
Non-executive directors					
B Campbell	8 370	–	–	–	**8 370**
BTPKM Gamedze	200	–	–	–	**200**
GG Gelink	–	–	–	–	**–**
IM Kirk	16 663	–	–	–	**16 663**
MLD Marole	–	–	–	–	**–**
NV Mtetwa	–	–	–	–	**–**
Y Ramiah	1 433	–	–	–	**1 433**
MJ Reyneke	–	–	10 711	–	**10 711**
PE Speckmann	1 000	–	–	–	**1 000**
HC Werth	–	–	–	–	**–**
	36 937	**–**	**10 711**	**–**	**47 648**

18 SHARE INCENTIVE SCHEMES

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

DEFERRED SHARE PLAN (DSP)

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

a) After three years – 40%
b) After four years – 70% less any portion that vested earlier
c) After five years – 100% less any portion that vested earlier

A rule change in the DSP and PDSP schemes was approved by the human resources and remuneration committee (HRRC) and implemented in 2017 to address shareholder concerns around vesting. All new share awards from 2017 are subject to the following measurement of performance conditions:

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

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

PERFORMANCE DEFERRED SHARE PLAN (PDSP)

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

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

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

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

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

18 SHARE INCENTIVE SCHEMES (continued)

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

PERFORMANCE DEFERRED SHARE PLAN (PDSP) (continued)

Allocations were made as follows during the year:

	Number of participants 2018	Number of participants 2017	Number of shares 2018	Number of shares 2017
Allocations in respect of:				
Santam DSP	**300**	283	**276 019**	332 332
Santam PDSP	**8**	9	**13 740**	8 985
			289 759	**341 317**
Sanlam DSP	**9**	9	**45 553**	38 280
Sanlam PDSP	**8**	9	**24 406**	14 290
			69 959	**52 570**

The fair value of the grants on grant date, calculated in terms of IFRS 2, amounted to R90 million (2017: R76 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.

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

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

2018	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.	21 September 2016	31 May 2017	R209.78	312
	1 June 2014	31 May 2019	R193.60	78 435
	21 September 2016	31 May 2019	R198.91	13 401
	1 June 2015	31 May 2020	R196.54	176 277
	21 September 2016	31 May 2020	R191.21	14 725
	1 June 2016	31 May 2021	R206.57	328 771
	21 September 2016	31 May 2021	R183.88	16 587
	1 June 2017	31 May 2022	R223.30	301 246
	1 June 2018	31 May 2023	R309.84	287 644
				1 217 398

Movements during the period	Average price	Number of shares
As at 1 January 2018	R203.44	1 344 969
Shares awarded in 2018	R309.84	289 759
Awarded shares lapsed due to resignations	R152.47	(94 011)
Shares issued	R187.29	(323 319)
As at 31 December 2018	**R232.24**	**1 217 398**

ACCOUNTING POLICY – DEFERRED SHARE PLANS

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

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

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

The Staff Trust is one of three components of a structured entity which hosted the Santam BBBEE scheme that unwound during 2015. Refer to note 18.1 for further information on the structured entity. Units were allocated to new black employees who joined the Santam group and to black employees who were promoted since the previous allocation. These units were allocated on a deferred delivery basis over a seven-year period. The fair value used in determining the allocation was based on the unit price on grant date, adjusted for expected employee attrition over the vesting period. The unit price reflected the number of Santam shares held in the Staff Trust. During 2018, units were converted into shares using an equivalent fair value rate. The total share (2017: unit) allocation costs for the Staff Trust amounting to R8 million (2017: R5 million) has been included in the statement of comprehensive income.

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

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

18 SHARE INCENTIVE SCHEMES (continued)

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

2018	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 September 2011	31 August 2018	R132.00	508
	1 September 2012	31 August 2019	R175.00	10 990
	1 January 2013	31 December 2019	R189.90	14 286
	1 September 2013	31 August 2020	R185.32	15 983
	1 December 2013	30 November 2020	R171.91	1 680
	1 September 2014	31 August 2021	R218.90	22 772
	1 December 2014	30 November 2021	R212.68	2 564
	1 July 2015	30 June 2022	R217.00	947
	1 September 2015	31 August 2022	R214.50	789
	1 September 2016	31 August 2023	R220.00	12 543
	1 September 2017	31 August 2024	R259.00	6 564
	1 September 2018	31 August 2025	R303.17	10 392
				100 018

Movements during the period	Average price	Number of units
As at 1 January 2018 (units)	R94.47	326 132
As at 1 January 2018 (shares)	R193.69	160 444
Shares awarded in 2018	R303.17	10 392
Shares reinstated in 2018	R185.32	51
Awarded shares lapsed due to resignations	R198.60	(13 915)
Shares issued	R182.83	(56 954)
As at 31 December 2018	**R214.65**	**100 018**

ACCOUNTING POLICY – THE EMTHUNZINI BLACK ECONOMIC EMPOWERMENT (BEE) SCHEME

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

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

18.1 SHARES GRANTED UNDER THE DEFERRED SHARE PLAN AND PERFORMANCE DEFERRED SHARE PLAN TO EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS

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

DSP AND PDSP – DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION

2018	As at 31 December 2017	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2018
Santam shares						
IM Kirk*	5 505	–	(5 505)	R307.52	01/06/13	**–**
	6 577	–	(3 515)	R307.52	01/06/14	**3 062**
	12 082	–	(9 020)			**3 062**
L Lambrechts	29 169	–	(12 156)	R307.52	01/06/15	**17 013**
	1 221	–	–	–	21/09/16	**1 221**
	13 411	–	–	–	01/06/16	**13 411**
	584	–	–	–	21/09/16	**584**
	7 740	–	–	–	01/06/17	**7 740**
	–	10 686	–	–	01/06/18	**10 686**
	52 125	10 686	(12 156)			**50 655**
HD Nel	181	–	(181)	R307.52	01/06/13	**–**
	15	–	(15)	R307.52	21/09/16	**–**
	548	–	(293)	R307.52	01/06/14	**255**
	38	–	–	–	21/09/16	**38**
	6 007	–	(2 503)	R307.52	01/06/15	**3 504**
	252	–	–	–	21/09/16	**252**
	4 694	–	–	–	01/06/16	**4 694**
	205	–	–	–	21/09/16	**205**
	4 356	–	–	–	01/06/17	**4 356**
	–	2 850	–	–	01/06/18	**2 850**
	16 296	2 850	(2 992)			**16 154**
TOTAL	**80 503**	**13 536**	**(24 168)**			**69 871**

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

18 SHARE INCENTIVE SCHEMES (continued)

18.1 SHARES GRANTED UNDER THE DEFERRED SHARE PLAN AND PERFORMANCE DEFERRED SHARE PLAN TO EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS (continued)

DSP AND PDSP – DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION (continued)

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

2018	As at 31 December 2017	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2018
Sanlam shares						
L Lambrechts	12 310	–	–	–	01/06/17	**12 310**
	–	18 982	–	–	01/06/18	**18 982**
	12 310	18 982	–			**31 292**
IM Kirk*	3	–	(3)	R78.02	01/06/12	**–**
	9 630	–	(9 630)	R78.02	01/06/13	**–**
	10 194	–	(5 097)	R78.02	01/06/14	**5 097**
	19 827	–	(14 730)			**5 097**
HD Nel	315	–	(315)	R78.02	01/06/13	**–**
	852	–	(426)	R78.02	01/06/14	**426**
	8 225	–	(3 289)	R78.02	01/06/15	**4 936**
	7 303	–	–	–	01/06/16	**7 303**
	6 929	–	–	–	01/06/17	**6 929**
	–	5 062	–	–	01/06/18	**5 062**
	23 624	5 062	(4 030)			**24 656**
TOTAL	**55 761**	**24 044**	**(18 760)**			**61 045**

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

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

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

19 RESERVES

19.1 OTHER RESERVES

	Translation reserve R million	Contingency reserve R million	Capital contri-bution reserve R million	Hedging reserve R million	Total R million
GROUP					
Balance as at 1 January 2017	(94)	50	9	(6)	**(41)**
Currency translation differences	(3)	–	–	–	**(3)**
Release of translation differences on financial assets held for sale	(175)	–	–	–	**(175)**
Share of associates' currency translation differences	(41)	–	–	–	**(41)**
Reclassification of foreign currency translation reserve on dilution of associate	90	–	–	–	**90**
Release of contingency reserve	–	(50)	–	–	**(50)**
Reserve release reclassified to cost of associate	–	–	–	6	**6**
Balance as at 31 December 2017	**(223)**	**–**	**9**	**–**	**(214)**
Share of associates' currency translation differences	143	–	–	–	**143**
Reclassification of foreign currency translation reserve on dilution of associate	(19)	–	–	–	**(19)**
Reserve release reclassified to cost of associate	–	–	–	(46)	**(46)**
Movement for the year	–	–	–	46	**46**
Balance as at 31 December 2018	**(99)**	**–**	**9**	**–**	**(90)**
COMPANY					
Balance as at 1 January 2017				**6**	**6**
Reserve release reclassified to cost of associate				(6)	**(6)**
Balance as at 31 December 2017				**–**	**–**
Reserve release reclassified to cost of associate				**(46)**	**(46)**
Movement for the year				**46**	**46**
Balance as at 31 December 2018				**–**	**–**

19 RESERVES (continued)

19.1 OTHER RESERVES (continued)

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

The contingency reserve that was maintained for Santam Namibia in terms of NAMFISA regulations is no longer required. The reversal of this provision in 2017 was not recognised in the statement of comprehensive income, but instead was transferred directly in equity.

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

The hedging reserve represented the cumulative foreign currency movements on the cash resources designated for the funding of the additional investment in SAN JV in 2017 and 2018. Refer to notes 5.7 and 7 for more details.

CURRENT YEAR ACCOUNTING POLICY – HEDGING

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

When such hedging opportunities are identified, the group documents the relationship between hedging instrument and the hedged item, as well as its risk management objective and strategy for undertaking the hedge transaction at the inception of the hedging transaction.

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

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

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

PRIOR YEAR ACCOUNTING POLICY – HEDGING

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

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

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

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

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

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk, in this case the foreign currency risk associated with a forecast transaction, and could affect profit or loss. For a forecast transaction, the key criterion for hedge accounting purposes is that the forecast transaction must be "highly probable". In 2017 and 2018, management performed an assessment relating to the acquisition of a further interest in SAN JV and concluded that hedge accounting can be applied. Refer to note 7 for more information on the hedging transactions and management's risk management strategy in relation to foreign currency risk. Refer to note 19.1 for the impact on the financial statements.

19.2 DISTRIBUTABLE RESERVES

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
Share-based payment reserve				
At the beginning of the year	**651**	573	**118**	121
Transfer from retained earnings	**65**	78	**76**	79
Loss on delivery of shares in terms of share scheme	**–**	–	**(103)**	(82)
At the end of the year	**716**	651	**91**	118
Retained earnings	**8 595**	7 348	**7 672**	6 862
Total distributable reserves	**9 311**	7 999	**7 763**	6 980

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

20 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
At the beginning of the year	**106**	71	**39**	38
Charged to statement of comprehensive income:				
– additional provisions	**114**	26	**103**	6
– reversal of provisions	**(17)**	–	**(19)**	–
Used during the year	**(41)**	(21)	**(24)**	(5)
Business combinations	**–**	30	**–**	–
Year ended 31 December	**162**	106	**99**	39

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

ACCOUNTING POLICY – PROVISIONS

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

21 EXPENSES BY NATURE

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
Auditor's remuneration	**28**	29	**13**	12
Audit fees				
– Current year	**24**	25	**12**	11
– Prior year	**2**	3	**–**	–
– Non-audit services	**2**	1	**1**	1
Depreciation	**54**	51	**31**	30
Amortisation of intangible assets	**69**	63	**41**	41
Impairment of intangible assets	**–**	8	**–**	–
Employee benefit expense	**3 106**	2 777	**2 173**	1 892
Operating lease rentals	**466**	411	**390**	337
– Offices	**211**	178	**144**	113
– Computer equipment	**230**	208	**229**	208
– Furniture and mechanical equipment	**7**	7	**–**	–
– Motor vehicles	**18**	18	**17**	16
Research and development costs	**108**	65	**108**	65
Commission expenses	**4 524**	4 218	**4 792**	4 354
Investment-related activities	**67**	67	**24**	38
Provision for impairment of intermediaries (refer to note 4.2)	**159**	–	**159**	–
Other expenses*	**549**	319	**450**	381
Total expenses	**9 130**	8 008	**8 181**	7 150

* Includes allocation of claims handling costs to claims costs.

ACCOUNTING POLICY – LEASES

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

21.1 EMPLOYEE BENEFIT EXPENSE

	Group		Company	
	2018 R million	2017 R million	2018 R million	2017 R million
Wages, salaries and bonus	**2 548**	2 337	**1 685**	1 528
Social security costs	**171**	148	**166**	143
LTI scheme costs	**120**	132	**69**	73
Pension costs – defined contribution plans	**259**	155	**245**	143
BBBEE cost	**8**	5	**8**	5
	3 106	2 777	**2 173**	1 892

ACCOUNTING POLICY – EMPLOYEE BENEFITS

a) Pension obligations

The group only has defined contribution pension plans. A defined contribution plan is a pension plan under which the group pays a fixed contribution into a separate entity. The group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans the group pays contributions to publicly and privately administered pension insurance plans on a mandatory basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Long-term incentive and retention bonus plan

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

c) Termination benefits

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

d) Performance bonus plans

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

e) Leave pay

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

21.1.1 TRANSACTIONS WITH KEY MANAGEMENT

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

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

	Company	
	2018 R million	2017 R million
Key management compensation paid		
Salaries and other short-term employee benefits paid	**68**	60
Share-based payments and long-term deferred bonus schemes	**24**	21

21.1.2 TRANSACTIONS WITH DIRECTORS AND PRESCRIBED OFFICERS

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

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

Directors' and prescribed officers' emoluments

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

21 EXPENSES BY NATURE (continued)

21.1 EMPLOYEE BENEFIT EXPENSE (continued)

21.1.2 TRANSACTIONS WITH DIRECTORS AND PRESCRIBED OFFICERS (continued)

Directors' and prescribed officers' emoluments (continued)

	Salary R000	Performance bonus[1] R000	Out-performance plan[4] R000	Other benefits and costs[2,3] R000	Total R000
Executive directors and prescribed officers					
2018					
Paid by the company					
L Lambrechts	**5 523**	**6 900**	**–**	**210**	**12 633**
HD Nel	**3 046**	**3 300**	**–**	**268**	**6 614**
	8 569	**10 200**	**–**	**478**	**19 247**
2017					
Paid by the company					
L Lambrechts	5 000	6 300	19 000	201	30 501
HD Nel	2 870	3 000	–	285	6 155
	7 870	9 300	19 000	486	36 656

[1] Bonus in respect of 2018 paid in 2019 (2017 paid in 2018).
[2] Includes retirement funding benefits. During 2018, 210 000 (2017: R201 200) was paid in respect of L Lambrechts and R268 000 (2017: R249 380) was paid in respect of HD Nel.
[3] Adjusted to exclude company costs.
[4] Refer below for details.

	Directors' fees 2018 R000	Directors' fees 2017 R000
Non-executive directors		
Paid by the company		
B Campbell	**768**	682
MP Fandeso	**–**	124
BTPKM Gamedze	**848**	551
GG Gelink	**489**	951
VP Khanyile	**628**	–
IM Kirk[1]	**607**	572
MLD Marole	**746**	628
NV Mtetwa	**724**	590
JJ Ngulube[1]	**276**	–
T Nyoka	**–**	40
MJ Reyneke	**884**	791
Y Ramiah[1]	**–**	420
PE Speckmann[2]	**1 272**	679
HC Werth[1]	**583**	550
	7 825	6 578
Total directors' remuneration	**27 072**	43 234

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

Outperformance plan (OPP)

From time to time, at the discretion of the Santam Ltd HRRC, an OPP is extended to the chief executive officer and to certain senior leaders to reward superior performance over a three to five year measurement period. No reward is delivered under the OPP unless the agreed performance target over the period is exceeded and full reward is made only if stretch performance targets are met. The general principle is that the maximum reward that can be made in terms of any agreed OPP is 200% of annual Total Guaranteed Package (TGP) calculated over the respective three to five year measurement period (e.g. maximum of 6 to 10 times the annual TGP of the final measurement year) if the payments are made in cash. In the event that the OPP is equity-settled, the number of shares is calculated with reference to the TGP at the date that the award is made. Where targets are not achieved OPP shares are forfeited upon final measurement. OPPs are contracted on an individual level and the earning potential per year (cumulated over the total OPP period) may be considerably less than the maximum reward parameters outlined above. The maximum payment that can be made under the senior leaders OPP is 488% of the annual TGP in the financial year calculated over the respective five-year measurement period. No OPP was extended to the CEO in 2018.

22 INCOME TAX EXPENSE

	Group 2018 R million	Group 2017 R million	Company 2018 R million	Company 2017 R million
South African normal taxation				
Current year	**992**	535	**758**	330
– Charge for the year	**980**	533	**757**	329
– Other taxes	**12**	2	**1**	1
Prior year	**(3)**	32	**(3)**	(2)
Recovered from cell owners[1]	**–**	(80)	**–**	–
Foreign taxation – current year	**71**	88	**–**	–
Income taxation for the year	**1 060**	575	**755**	328
Deferred taxation	**(70)**	(86)	**(55)**	(26)
Current year	**(70)**	(34)	**(55)**	(26)
Prior year	**–**	(52)	**–**	–
Deferred taxation for the year	**(70)**	(86)	**(55)**	(26)
Total taxation as per the statement of comprehensive income	**990**	489	**700**	302
Income tax recovered from cell owners and structured insurance products[1]	**(106)**	–	**–**	–
Total tax expense attributable to shareholders	**884**	489	**700**	302
Profit before taxation per statement of comprehensive income	**3 519**	2 296	**2 637**	1 776
Adjustment for income tax recovered from cell owners and structured insurance products[1]	**(106)**	–	**–**	–
Total profit before tax attributable to shareholders	**3 413**	2 296	**2 637**	1 776

[1] As part of the alternative risk transfer business, the Santam group incurs taxation on behalf of cell owners and policyholders of certain structured insurance products which are fully recovered from these parties. With the acquisition of SSI in the 2017 financial year, the tax on cell owners and structured insurance products is more significant. As a result, the tax on cell owners and structured insurance products in the current year has been separately disclosed in the financial statements. In the prior year, this tax was disclosed as part of tax expense.

	Group 2018	Group 2017	Company 2018	Company 2017
Reconciliation of taxation rate (%)				
Normal South African taxation rate	**28.0**	28.0	**28.0**	28.0
Adjusted for				
– Disallowable expenses	**0.1**	0.3	**0.2**	0.2
– Foreign tax differential	**0.8**	0.4	**–**	–
– Exempt income[1]	**(0.8)**	(2.4)	**(1.7)**	(12.6)
– Investment results	**0.1**	(1.1)	**0.1**	(1.4)
– Income from associates and joint ventures	**(1.8)**	(1.5)	**–**	(0.1)
– Exempt foreign currency translation differences	**–**	(1.0)	**–**	–
– Previous years' overprovision	**(0.1)**	(0.8)	**(0.1)**	(0.1)
– Non-current assets held for sale and discontinued operations	**–**	(0.4)	**–**	(0.6)
– Impairment of subsidiaries, associates and joint ventures	**–**	–	**–**	3.6
– Other permanent differences	**(0.8)**	(0.4)	**–**	–
– Other taxes	**0.4**	0.2	**–**	–
Net reduction	**(2.1)**	(6.7)	**(1.5)**	(11.0)
Effective rate (%)	**25.9**	21.3	**26.5**	17.0

[1] Exempt income on a company level consists mainly of dividends received from subsidiaries.

ACCOUNTING POLICY – INCOME TAX

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

a) Current tax

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

b) Withholding tax on dividends

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

23 DEFERRED INCOME TAX

	Group 2018 R million	Group 2017 R million	Company 2018 R million	Company 2017 R million
The amounts are as follows:				
Deferred tax assets	**(155)**	(91)	**(45)**	–
Deferred tax liabilities	**81**	87	**–**	14
Total net deferred income tax account	**(74)**	(4)	**(45)**	14
Deferred tax is made up as follows:				
Unrealised appreciation of investments	**167**	155	**170**	155
Provisions and accruals	**(230)**	(198)	**(139)**	(116)
Tax losses carried forward	**(3)**	(18)	**–**	–
Other differences	**(8)**	57	**(76)**	(25)
	(74)	(4)	**(45)**	14
Movement of deferred tax				
Balance as at 1 January	**(4)**	(3)	**14**	42
Charge to the statement of comprehensive income	**(70)**	(86)	**(55)**	(26)
Unrealised depreciation of investments	**12**	(41)	**15**	(32)
Provisions and accruals	**(30)**	(9)	**(23)**	1
Tax losses carried forward	**14**	42	**–**	–
Other differences	**(66)**	(78)	**(47)**	5
Business combinations	**(1)**	86	**–**	–
Tax credited directly to equity	**1**	(1)	**(4)**	(2)
Balance as at 31 December	**(74)**	(4)	**(45)**	14

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 28% (2017: 28%) in South Africa and the official tax rates in the foreign subsidiaries where applicable.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The group has unrecognised tax losses of R17.6 million (2017: R13.0 million).

ACCOUNTING POLICY – DEFERRED INCOME TAX

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

24 EARNINGS PER SHARE

24.1 BASIC EARNINGS PER SHARE

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

	Group	
	2018	**2017**
Basic earnings per share		
Profit attributable to the company's equity holders (R million)	**2 427**	1 667
Weighted average number of ordinary shares in issue (millions)	**110.41**	110.30
Earnings per share (cents)	**2 198**	1 511

24.2 DILUTED EARNINGS PER SHARE

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

	2018	2017
Diluted earnings per share		
Profit attributable to the company's equity holders (R million)	**2 427**	1 667
Weighted average number of ordinary shares in issue (millions)	**110.41**	110.30
Adjusted for share options	**0.82**	1.13
Weighted average number of ordinary shares for diluted earnings per share	**111.23**	111.43
Diluted basic earnings per share (cents)	**2 182**	1 496

24.3 HEADLINE EARNINGS PER SHARE

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

	2018	2017
Headline earnings per share		
Profit attributable to the company's equity holders (R million)	**2 427**	1 667
Impairment of goodwill and other intangible assets	**–**	8
Impairment of associates and joint ventures	**12**	3
Reclassification of foreign currency translation reserve on dilution of associate	**(19)**	90
Loss/(gain) on dilution of associate	**88**	(18)
Profit on sale of associates	**(40)**	(5)
Tax charge on profit on sale of associates	**13**	2
Share of associates' profit on deemed disposal of associate	**(164)**	–
Foreign currency translation reserve reclassified to profit and loss	**–**	(175)
Headline earnings (R million)	**2 317**	1 572
Weighted average number of ordinary shares in issue (millions)	**110.41**	110.30
Headline earnings per share (cents)	**2 099**	1 425

24.4 DILUTED HEADLINE EARNINGS PER SHARE

	2018	2017
Headline earnings (R million)	**2 317**	1 572
Weighted average number of ordinary shares for diluted earnings per share (millions)	**111.23**	111.43
Diluted headline earnings per share (cents)	**2 084**	1 411

25 DIVIDENDS PER SHARE

	2018	2017
Ordinary dividend per share		
Interim of 363 cents per share (2017: 336)	**418**	387
Proposed final of 665 cents per share (2017: 616)	**766**	709
	1 184	1 096

ACCOUNTING POLICY – DIVIDEND DISTRIBUTION

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

26 CASH GENERATED FROM OPERATIONS

	Group 2018 R million	Group 2017 R million	Company 2018 R million	Company 2017 R million
Profit before tax	**3 519**	2 296	**2 637**	1 776
Adjustments for:				
Non-cash items	**38**	473	**155**	378
– Profit on sale of associates	**(40)**	(5)	**(11)**	–
– Reclassification of foreign currency translation reserve on dilution of associate	**(19)**	90	**–**	–
– Loss/(gain) on dilution of associate	**88**	(18)	**–**	–
– Foreign currency translation reserve reclassified to profit and loss	**–**	(175)	**–**	–
– Share-based payment costs	**65**	77	**76**	77
– Amortisation of intangible assets	**69**	63	**41**	41
– Impairment of goodwill and other intangible assets	**–**	8	**–**	–
– Depreciation	**54**	51	**31**	30
– Impairment on net investments and loans in associated companies	**12**	3	**–**	–
– Income from associates and joint ventures	**(291)**	(110)	**–**	–
– Profit on sale of property, plant and equipment	**(1)**	–	**(1)**	–
– Impairment of subsidiary	**–**	–	**–**	230
– Impairment of loans	**5**	–	**–**	–
– Cell owners' and policyholders' interest and investment contracts, and collateral guarantee contracts	**96**	489	**19**	–
Repo liability cash movement	**(219)**	–	**–**	–
Investment income, realised and fair value gains	**(1 683)**	(1 762)	**(1 293)**	(1 569)
Finance costs	**331**	295	**265**	286
Income tax recovered from cell owners and structured insurance products	**(106)**	–	**–**	–
Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)	**1 914**	529	**561**	(261)
Reinsurance assets	**(591)**	(912)	**(395)**	(1 321)
Deferred acquisition costs	**(57)**	(57)	**(50)**	(55)
Loans and receivables including insurance receivables	**(866)**	(977)	**(122)**	(1 251)
Insurance liabilities	**2 493**	1 870	**507**	1 829
Deferred reinsurance acquisition revenue	**162**	45	**77**	43
Provisions for other liabilities and charges	**75**	(15)	**60**	1
Cell owners' and policyholders' interest, investment contracts and collateral guarantees	**–**	(40)	**–**	–
Trade and other payables including insurance payables	**698**	615	**484**	493
Investment income received in cash	**1 667**	1 458	**965**	965
Dividends received	**119**	130	**111**	188
Dividends received from associates	**6**	5	**–**	–
Interest received	**1 528**	1 318	**821**	769
Foreign exchange differences	**–**	–	**52**	–
Movement in provision for investment income	**14**	5	**(19)**	8
Cash generated from operations	**5 461**	3 289	**3 290**	1 575

27 INCOME TAX PAID

	Group 2018 R million	Group 2017 R million	Company 2018 R million	Company 2017 R million
Amounts charged to profit or loss	**(884)**	(489)	**(700)**	(302)
Income tax credited directly to equity	**(8)**	(2)	**(8)**	(2)
Movement in deferred taxation	**(70)**	(86)	**(59)**	(28)
Movement in taxation liability	**177**	34	**161**	32
	(785)	(543)	**(606)**	(300)

28 RELATED-PARTY TRANSACTIONS – SANLAM GROUP

MAJOR SHAREHOLDERS

Sanlam Ltd (incorporated in South Africa) is the ultimate holding company with a 61.5% (2017: 61.5%) shareholding in Santam Ltd. The balance of the shareholders (38.5% (2017: 38.5%)) do not have significant influence and thus no other shareholder is treated as a related party. The shares are widely held by public, non-public, individual and corporate shareholders (refer to Analysis of shareholders in Appendix 130 for details).

TRANSACTIONS WITH THE SANLAM GROUP

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

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

	2018 R million	2017 R million
a) Insurance contracts and other services		
– Sanlam Ltd and related parties (for insurance premiums)	**11**	10
– Sanlam Ltd and related parties (for investment management services)	**(38)**	(35)
– Sanlam Ltd and related parties (for IT infrastructure costs)	**(253)**	(235)
– Sanlam Ltd and related parties (for administration services)	**(12)**	(11)
– Sanlam Ltd (for insurance services)	**(4)**	(5)
b) Investment income and net realised/unrealised gains received from:		
– Sanlam Ltd and related parties	**288**	139
c) Dividends paid		
– to Sanlam Group	**(664)**	(614)
d) Year-end balances with related parties		
Sanlam Group: SEM		
– target shares acquired (refer note 5.1)	**1 323**	1 089
– target shares issued (refer note 11)	**(321)**	(322)
Sanlam Alternative Income Fund		
– investment	**207**	74
Sanlam Active Income Fund		
– investment	**–**	75
Sanlam Property Fund		
– investment	**127**	82
Sanlam Capital Markets		
– cash and money market instruments	**82**	48
Sanlam Ltd		
– shares	**21**	23
Sanlam Life Insurance Ltd		
– trade payable	**(11)**	(7)

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

EMOLUMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

	Salary R000	Performance bonus* R000	Other benefits R000	Total R000
2018				
IM Kirk	**8 910**	**10 000**	**210**	**19 120**
HC Werth	**5 178**	**4 500**	**210**	**9 888**
	14 088	**14 500**	**420**	**29 008**
2017				
Y Ramiah**	3 421	2 600	218	6 239
IM Kirk	8 407	11 100	201	19 708
H Werth	4 757	3 500	208	8 465
	16 585	17 200	627	34 412

* Performance bonus in respect of 2017 paid in 2018 (2016 paid in 2017).

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

28 RELATED-PARTY TRANSACTIONS – SANLAM GROUP (continued)

SANLAM SHARES

Deferred share plan

	Balance 31 December 2017	Awarded in 2018	Shares vested	Balance 31 December 2018
Y Ramiah	67 941	**–**	**(67 941)**	**–**
L Lambrechts*	20 282	**–**	**(13 809)**	**6 473**
IM Kirk	131 539	**48 792**	**(28 384)**	**151 947**
HC Werth	93 212	**24 616**	**(22 917)**	**94 911**
Total	312 974	**73 408**	**(133 051)**	**253 331**

	Balance 31 December 2016	Awarded in 2017	Shares vested	Balance 31 December 2017
Y Ramiah	67 286	17 566	(16 911)	67 941
L Lambrechts*,#	47 887	–	(27 605)	20 282
IM Kirk#	100 187	31 352	–	131 539
HC Werth	93 646	26 897	(27 331)	93 212
Total	**309 006**	**75 815**	**(71 847)**	**312 974**

* Shares were received prior to 1 January 2015 and will vest in due course. No new shares will be awarded.
\# 2017 opening balance, awards and vestings restated to exclude movements already included in note 18.2.

Performance deferred share plan

	Balance 31 December 2017	Awarded in 2018	Shares vested	Balance 31 December 2018
Y Ramiah	46 914	**–**	**(46 914)**	**–**
L Lambrechts*	12 358	**–**	**(8 218)**	**4 140**
IM Kirk#	217 857	**89 488**	**(58 771)**	**248 574**
HC Werth	91 399	**33 640**	**(15 732)**	**109 307**
Total	368 528	**123 128**	**(129 635)**	**362 021**

	Balance 31 December 2016	Awarded in 2017	Shares vested	Balance 31 December 2017
Y Ramiah	47 255	12 664	(13 005)	46 914
L Lambrechts*,#	30 131	–	(17 773)	12 358
IM Kirk	177 464	40 393	–	217 857
HC Werth	61 226	46 461	(16 288)	91 399
Total	316 076	99 518	(47 066)	368 528

Restricted share plan

	Balance 31 December 2017	Awarded in 2018	Share vested	Balance 31 December 2018
Y Ramiah	55 478	**–**	**(55 478)**	**–**
L Lambrechts*	28 810	**–**	**(17 544)**	**11 266**
IM Kirk	–	**24 719**	**–**	**24 719**
HC Werth	187 982	**21 346**	**(127 511)**	**81 817**
Total	272 270	**46 065**	**(200 533)**	**117 802**

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

* Shares were received prior to 1 January 2015 and will vest in due course. No new shares will be awarded.
\# 2017 opening balance, awards and vestings restated to exclude movements already included in note 18.2.

29 CONTINGENCIES AND UNCERTAINTIES

CONTRACTS WITH THIRD PARTIES

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

LITIGATION, DISPUTES AND INVESTIGATIONS

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

30 COMMITMENTS

OPERATING LEASE COMMITMENTS – WHERE GROUP COMPANY IS THE LESSEE

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

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

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

	Up to 1 year R million	Between 1 to 5 years R million	More than 5 years R million	Total R million
GROUP				
2018				
Motor vehicles	**14**	**24**	**–**	**38**
Office equipment	**1**	**7**	**–**	**8**
Offices	**127**	**460**	**404**	**991**
Computer equipment	**235**	**523**	**–**	**758**
	377	**1 014**	**404**	**1 795**
2017				
Motor vehicles	14	19	–	33
Office equipment	1	8	–	9
Offices	125	480	534	1 139
Computer equipment	186	398	–	584
	326	905	534	1 765
COMPANY				
2018				
Motor vehicles	**14**	**22**	**–**	**36**
Offices	**85**	**335**	**404**	**824**
Computer equipment	**235**	**523**	**–**	**758**
	334	**880**	**404**	**1 618**
2017				
Motor vehicles	13	18	–	31
Offices	88	369	534	991
Computer equipment	186	398	–	584
	287	**785**	**534**	**1 606**

31 EVENTS AFTER THE REPORTING PERIOD

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

32 CHANGES IN PRESENTATION

32.1 CURRENT/NON-CURRENT SPLIT OF AMOUNTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

Items on the statement of financial position have been reordered to reflect in the order of the least liquid to most liquid for assets and liabilities, as allowed under IAS 1 *Presentation of Financial Statements* paragraph 60 to 63 in order to enable comparison to other industry participants. To adhere to the requirements of IAS 1, three statements of financial position have been presented for this change in accounting policy. Doing away with the current/non-current distinction resulted in the aggregation of some line items, but in total, no changes were made to the amounts previously presented, except for the strategic investment in unquoted SEM target shares that are now disclosed separately. The "within 12 months"/"after 12 months" split is disclosed in each note to the financial statements, where it is of relevance.

32.2 RESTATEMENT OF THE STATEMENT OF CASH FLOWS

As part of management's consideration of the impact of IFRS 9 on the classification and measurement of financial assets, the way in which the investment portfolios are managed and how actively they are traded was assessed. As a result of this assessment, it was concluded that it is more appropriate to classify the cash flows relating to the investment portfolios as part of operating activities rather than investing activities. The acquisition of and proceeds from sales relating to strategic investments, equity portfolios and portfolios backing subordinated debt will remain as part of investing activities as these portfolios are not considered part of the operations of the business. Comparative numbers have been restated.

The table below shows the impact of the change:

	Previously reported 31 December 2017 R million	Restatement 31 December 2017 R million	Restated 31 December 2017 R million
GROUP			
Net cash (used in)/from operating activities			
– Acquisition of financial assets	–	(18 482)	(18 482)
– Proceeds from sale of financial assets	–	17 229	17 229
Net cash (used in)/from investment activities			
– Acquisition of financial assets	(20 322)	18 482	(1 840)
– Proceeds from sale of financial assets	20 054	(17 229)	2 825
Net impact	(268)	–	(268)
COMPANY			
Net cash (used in)/from operating activities			
– Acquisition of financial assets	–	(12 709)	(12 709)
– Proceeds from sale of financial assets	–	12 036	12 036
Net cash (used in)/from investment activities			
– Acquisition of financial assets	(14 549)	12 709	(1 840)
– Proceeds from sale of financial assets	14 861	(12 036)	2 825
Net impact	312	–	312

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

32.3 RESTATEMENT OF REPO LIABILITY

The SSI group entered into a repurchase agreement in August 2016. In prior years the underlying financial assets (bonds) were derecognised and only a liability or asset to the extent of any differential between the value of the bonds, and the repurchase liability, was recognised. On reconsideration of the transaction, it was determined that the risks and rewards relating to the bond assets had not sufficiently transferred. The 31 December 2017 comparatives have been restated to recognise the underlying financial assets as well as repurchase liability. As SSI only became part of the group on 1 March 2017, there is no impact on the 1 January 2017 opening balances presented. It had no impact on the statement of comprehensive income or earnings per share.

	Previously reported 31 December 2017 R million	Restatement 31 December 2017 R million	Restated 31 December 2017 R million
GROUP			
Financial assets at fair value through income	18 647	531	19 178
Financial liabilities at amortised cost			
– Repo liability	–	(531)	(531)
Net impact	**18 647**	**–**	**18 647**

33 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

a) STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE 2018

The following amendments to published standards are mandatory for the group's accounting periods beginning on or after 1 January 2018:

Number	Effective date	Executive summary
Amendment to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*	Annual periods beginning on or after 1 January 2018 (published June 2016)	This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
Amendments to IFRS 4 – applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*	Annual periods beginning on or after 1 January 2018 (published September 2016)	These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will: – give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and – give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.
IFRS 9 *Financial Instruments*	Annual periods beginning on or after 1 January 2018 (published July 2014)	This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39.
IFRS 15 *Revenue from Contracts with Customers*	Annual periods beginning on or after 1 January 2018 (published May 2014)	This is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer.
Amendment to IAS 40 *Transfers of Investment Property*	Annual periods beginning on or after 1 January 2018 (published December 2016)	These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	Annual periods beginning on or after 1 January 2018 (published December 2016)	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.
Annual improvements 2014–2016	Annual periods beginning on or after 1 January 2018 (published December 2016)	These amendments impact two standards: – IFRS 1 *First-time Adoption of IFRS*, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10. – IAS 28 *Investments in Associates and Joint Ventures* regarding measuring an associate or joint venture at fair value. IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The board clarified that this election should be made separately for each associate or joint venture at initial recognition.

33 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

a) STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE 2018 (continued)

There was no material impact on the annual financial statements identified. Specifically regarding IFRS 9, the assessment of the impact of implementation included the following:

CLASSIFICATION AND MEASUREMENT – FINANCIAL ASSETS

- Debt instruments, previously measured at FVPL (fair value through profit and loss), are also measured at FVPL under IFRS 9. A key input in the assessment of the classification of debt instruments held was the business model applied to manage the financial assets. Financial assets that are held to sell and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVPL because they are neither held to collect contractual cash flows nor held to collect contractual cash flows and to sell.
- Loans and receivables, previously measured at amortised cost, continue to be measured at amortised cost under IFRS 9 as the business model is held to collect and their cash flows represent solely payments of principal and interest.
- Equity instruments, previously measured at FVPL, are also measured as FVPL under IFRS 9. Management has not taken the irrevocable election to present changes through FVOCI (fair value through other comprehensive income) for equities not held for trading.

CLASSIFICATION – FINANCIAL LIABILITIES

- Debt securities issued by Santam are measured at FVPL under IFRS 9 as these instruments are managed and its performance evaluated on a fair value basis in accordance with the group's investment strategy, and information about liabilities is provided internally on that basis. The amount of changes in fair value attributable to changes in own credit risk of these liabilities were considered immaterial.
- Investment contract liabilities predominantly consist of unit-linked contracts where the value of the liability is directly derived from the performance of the related assets. Based on the principle of eliminating an accounting mismatch in the financial statements, investment contracts are designated to be measured at FVPL.

HEDGE ACCOUNTING

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

IMPAIRMENT OF FINANCIAL ASSETS

The majority of financial assets in the Santam group are measured at FVPL. All insurance and reinsurance receivables are recognised and measured in terms of IFRS 4 *Insurance Contracts* and the group has not amended its policies for the measurement of IFRS 4. The insurance and reinsurance receivables are therefore excluded from the scope of IFRS 9's expected credit loss (ECL) impairment. The most significant class of financial asset subject to an ECL impairment is loans and receivables. Applying the ECL model to loans and receivables at amortised costs did not result in material additional provisions for impairment.

b) INTERPRETATION AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP

	Effective date
Number	
IFRS 16 *Leases*	1 January 2019
IFRS 17 *Insurance Contracts*	1 January 2022
Amendments to IAS 28 *Investments in Associates and Joint Ventures* – Long-term interest in associates and joint ventures	1 January 2019
Annual improvements 2015–2017 cycle	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019

c) DISCUSSION OF IMPACT OF INITIAL APPLICATION OF CHANGES TO STANDARDS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP

IFRS 16 *LEASES*

IFRS 16 *Leases* was issued by the IASB in January 2016 and replaces IAS 17 *Leases* for reporting periods beginning on or after 1 January 2019. IFRS 16 has one model for lessees which will result in almost all leases being included in the statement of financial position. Under the new standard, an asset (the right to use the leased item) and the liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

As lessee: The standard will affect primarily the accounting of the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of R1 795 million. However, the group has not yet determined to what extent these commitments will result in recognition of an asset and a liability for future payments and how this affect the group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value assets and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

As lessee, the group can either apply the standard using a:
- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The group plans to apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to the leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The group is assessing the potential impact of using these practical expedients.

The group is not required to make any adjustments for any leases in which it is a lessor except potentially where it is an intermediate lessor in a sub-lease.

IFRS 17 *INSURANCE CONTRACTS*

The IASB issued IFRS 17 *Insurance Contracts* in May 2017 and will be effective for annual periods beginning on or after 1 January 2022 (subject to IASB due process). The standard needs to be applied retrospectively. The previous IFRS standard on insurance contracts, IFRS 4, was an interim standard that allowed entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements and variations of those requirements. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct and reinsurance), regardless of the type of entity that issue these contracts.

In contrast to the requirements of IFRS 4, IFRS 17 provides a comprehensive model (general model) for the measurement of insurance contracts, supplemented by the variable fee approach for contracts with direct participation features and the premium allocation approach applicable mainly for short-duration contracts.

The standard requires an entity to identify portfolios of insurance contracts and to group them into the following groups at initial recognition:
- Contracts that are onerous
- Contracts that have no significant possibility of becoming onerous subsequently
- The remaining contracts in the portfolio

The main features of the general model for insurance contracts are that the groups identified:
- be measured at the present value of future cash flows incorporating an explicit risk adjustment and remeasured every reporting period (the fulfilment cash flows); and
- a contractual service margin that is equal and opposite to any day-one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts is recognised in profit or loss over the service period (coverage period).

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage (fulfilment cash flows related to future service and the contractual service margin) and the liability for incurred claims (fulfilment cash flows related to past service).

Where the requirements are met to measure a group of insurance contracts using the premium allocation approach, the liability for remaining coverage corresponds to premiums received at initial recognition less acquisition costs. However, the general model remains applicable for the measurement of incurred claims.

Insurance revenue and insurance service expenses are recognised in the statement of comprehensive income based on the concept of services provided during the period. The standard also recognises losses earlier on contracts that are expected to be onerous. The standard requires that the amounts recognised in the statement of comprehensive income to be disaggregated into:
- an insurance service result, comprising insurance revenue and insurance service expenses; and
- insurance finance income or expenses.

The implementation of IFRS 17 will have different financial and operational implications for each entity that adopts the standard. It is, however, expected that fundamental changes will be required in the following areas:
- Liability measurement
- Data requirements
- Operations and the underlying systems
- Internal and external financial reporting. In particular, the financial statements will provide more information about an insurer's sources of profitability and the composition of its insurance liabilities

34 ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS

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

34.1 ANALYSIS OF POLICYHOLDER/SHAREHOLDER STATEMENT OF FINANCIAL POSITION

2018	Group total R million	Shareholder R million	Policyholder/ cellholder R million
ASSETS			
Intangible assets	885	885	–
Property and equipment	142	142	–
Investment in associates and joint ventures	2 927	2 927	–
Strategic investment – unquoted SEM target shares	1 323	1 323	–
Deferred income tax	155	152	3
Deposit with cell owner	191	–	191
Cell owners' and policyholders' interest	13	–	13
Financial assets at fair value through income	22 454	12 567	9 887
Reinsurance assets	6 487	6 032	455
Deferred acquisition costs	619	580	39
Loans and receivables including insurance receivables	6 274	4 407	1 867
Current income tax assets	10	10	–
Cash and cash equivalents	3 618	2 573	1 045
Total assets	**45 098**	**31 598**	**13 500**
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital	103	103	–
Treasury shares	(467)	(467)	–
Other reserves	(90)	(90)	–
Distributable reserves	9 311	9 311	–
	8 857	8 857	–
Non-controlling interest	508	508	–
Total equity	**9 365**	**9 365**	**–**
LIABILITIES			
Deferred income tax	81	87	(6)
Cell owners' and policyholders' interest	3 343	–	3 343
Reinsurance liability relating to cell owners	191	–	191
Financial liabilities at fair value through income			
Debt securities	2 072	2 072	–
Investment contracts	1 528	–	1 528
Derivatives	4	4	–
Financial liabilities at amortised cost			
Repo liability	759	–	759
Collateral guarantee contracts	158	–	158
Insurance liabilities	20 662	14 041	6 621
Deferred reinsurance acquisition revenue	487	389	98
Provisions for other liabilities and charges	162	162	–
Trade and other payables including insurance payables	5 922	5 155	767
Current income tax liabilities	364	323	41
Total liabilities	**35 733**	**22 233**	**13 500**
Total shareholders' equity and liabilities	**45 098**	**31 598**	**13 500**

2017	Group total R million	Shareholder R million	Policyholder/ cellholder R million
ASSETS			
Intangible assets	841	841	–
Property and equipment	135	135	–
Investment in associates and joint ventures	1 789	1 789	–
Strategic investment – unquoted SEM target shares	1 089	1 089	–
Deferred income tax	91	80	11
Deposit with cell owner	174	–	174
Cell owners' and policyholders' interest	10	–	10
Financial assets at fair value through income	19 178	10 518	8 660
Reinsurance assets	5 824	5 489	335
Deferred acquisition costs	537	509	28
Loans and receivables including insurance receivables	5 253	4 007	1 246
Current income tax assets	17	17	–
Cash and cash equivalents	4 321	3 374	947
Total assets	39 259	27 848	11 411
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital	103	103	–
Treasury shares	(470)	(470)	–
Other reserves	(214)	(214)	–
Distributable reserves	7 999	7 999	–
	7 418	7 418	–
Non-controlling interest	506	506	–
Total equity	7 924	7 924	–
LIABILITIES			
Deferred income tax	87	93	(6)
Cell owners' and policyholders' interest	3 227	–	3 227
Reinsurance liability relating to cell owners	174	–	174
Financial liabilities at fair value through income			
Debt securities	2 056	2 056	–
Investment contracts	1 703	–	1 703
Financial liabilities at amortised cost			
Repo liability	531	–	531
Collateral guarantee contracts	130	–	130
Insurance liabilities	17 848	13 105	4 743
Deferred reinsurance acquisition revenue	326	300	26
Provisions for other liabilities and charges	106	106	–
Trade and other payables including insurance payables	4 953	4 079	874
Current income tax liabilities	194	185	9
Total liabilities	31 335	19 924	11 411
Total shareholders' equity and liabilities	39 259	27 848	11 411

34 ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS (continued)

34.2 ANALYSIS OF POLICYHOLDER/SHAREHOLDER STATEMENT OF COMPREHENSIVE INCOME

2018	Group total R million	Shareholder R million	Policyholder/ cellholder R million
Gross written premium	33 109	28 149	4 960
Less: reinsurance written premium	9 041	5 614	3 427
Net written premium	24 068	22 535	1 533
Less: change in unearned premium			
Gross amount	2 019	208	1 811
Reinsurers' share	(763)	(195)	(568)
Net insurance premium revenue	22 812	22 522	290
Interest income on amortised cost instruments	91	91	–
Interest income on fair value through income instruments	2 205	970	1 235
Other investment income	523	432	91
Income from reinsurance contracts ceded	1 889	1 493	396
Net losses on financial assets and liabilities at fair value through income	(1 136)	(54)	(1 082)
Other income	246	246	–
Net income	26 630	25 724	906
Insurance claims and loss adjustment expenses	18 442	16 883	1 559
Insurance claims and loss adjustment expenses recovered from reinsurers	(4 615)	(3 348)	(1 267)
Net insurance benefits and claims	13 827	13 535	292
Expenses for the acquisition of insurance contracts	4 524	4 155	369
Expenses for marketing and administration	4 465	4 440	25
Expenses for investment-related activities	67	67	–
Amortisation and impairment of intangible assets	69	69	–
Impairment of loans	5	5	–
Investment return allocated to cell owners and structured insurance products	179	–	179
Expenses	23 136	22 271	865
Results of operating activities	3 494	3 453	41
Finance costs	(331)	(290)	(41)
Net income from associates and joint ventures	291	291	–
Profit on sale of associates	40	40	–
Loss on dilution of associate	(88)	(88)	–
Reclassification of foreign currency translation reserve on dilution of associate	19	19	–
Impairment of associate	(12)	(12)	–
Income tax recovered from cell owners and structured insurance products	106	–	106
Profit before tax	3 519	3 413	106
Income tax expense	(990)	(884)	(106)
Profit for the year	2 529	2 529	–

2017	Group total R million	Shareholder R million	Policyholder/ cellholder R million
Gross written premium	29 720	26 404	3 316
Less: reinsurance written premium	8 027	5 363	2 664
Net written premium	21 693	21 041	652
Less: change in unearned premium			
Gross amount	648	170	478
Reinsurers' share	(285)	(161)	(124)
Net insurance premium revenue	21 330	21 032	298
Interest income on amortised cost instruments	136	136	–
Interest income on fair value through income instruments	1 184	840	344
Other investment income	15	(14)	29
Income from reinsurance contracts ceded	1 794	1 591	203
Net gains on financial assets and liabilities at fair value through income	427	237	190
Investment income and fair value losses on financial assets held for sale	175	175	–
Other income	127	127	–
Net income	25 188	24 124	1 064
Insurance claims and loss adjustment expenses	20 466	18 677	1 789
Insurance claims and loss adjustment expenses recovered from reinsurers	(6 400)	(4 882)	(1 518)
Net insurance benefits and claims	14 066	13 795	271
Expenses for the acquisition of insurance contracts	4 218	4 017	201
Expenses for marketing and administration	3 652	3 623	29
Expenses for investment-related activities	67	67	–
Amortisation and impairment of intangible assets	71	71	–
Investment return allocated to cell owners and structured insurance products	563	–	563
Expenses	22 637	21 573	1 064
Results of operating activities	2 551	2 551	–
Finance costs	(295)	(295)	–
Net income from associates and joint ventures	110	110	–
Profit on sale of associates	5	5	–
Gain on dilution of associate	18	18	–
Reclassification of foreign currency translation reserve on dilution of associate	(90)	(90)	–
Impairment of associate	(3)	(3)	–
Profit before tax	2 296	2 296	–
Income tax expense	(489)	(489)	–
Profit for the year	1 807	1 807	–

ANALYSIS OF SHAREHOLDERS

	Number of shareholders	% of total shareholders	Number of shares	% interest
Analysis of shareholders				
1 – 100 shares	1 427	20.94	83 779	0.07
101 – 1 000 shares	3 397	49.85	1 413 040	1.23
1 001 – 50 000 shares	1 885	27.66	10 925 571	9.49
50 001 – 100 000 shares	55	0.81	3 787 867	3.29
100 001 – 10 000 000 shares	50	0.73	31 091 184	27.00
More than 10 000 000 shares	1	0.01	67 829 976	58.92
Total	**6 815**	**100.00**	**115 131 417**	**100.00**
Type of shareholder				
Individuals	4 426	64.94	3 898 824	3.39
Companies	666	9.77	87 223 145	75.75
Growth funds/unit trusts	296	4.34	11 740 743	10.20
Nominee companies or trusts	1 181	17.34	3 383 133	2.94
Pension and retirement funds	246	3.61	8 885 572	7.72
Total	**6 815**	**100.00**	**115 131 417**	**100.00**

	Shareholders in South Africa		Shareholders other than in South Africa		Total shareholders	
	Nominal number	% interest	Nominal number	% interest	Nominal number	% interest
Shareholder spread						
Public shareholders	5 787	26.04	1 012	100.00	6 799	30.81
Directors	9	0.05	–	–	9	0.05
Guardian National Insurance Ltd[1]	1	4.04	–	–	1	3.78
Trustees of employees' share scheme[1]	3	1.34	–	–	3	1.25
Holdings of 5% or more	3	68.53	–	–	3	64.11
Sanlam Ltd[2]	2	63.01	–	–	2	58.94
Government Employees Pension Fund	1	5.52	–	–	1	5.17
Total	**5 803**	**100.00**	**1 012**	**100.00**	**6 815**	**100.00**

[1] Owners of treasury shares.
[2] Total of 61.5%, net of treasury shares.

The analysis includes the shares held as treasury shares.

ANALYSIS OF BONDHOLDERS

	Number of debt security holders	% of total debt security holders	Number of units	% interest
Analysis of debt security holders				
1 – 50 000 units	1	0.40	30 000	0.00
50 001 – 100 000 units	11	4.44	1 100 000	0.06
100 001 – 1 000 000 units	77	31.05	40 229 659	2.01
1 000 001 – 10 000 000 units	119	47.98	516 409 081	25.82
More than 10 000 000 units	40	16.13	1 442 231 260	72.11
Total	**248**	**100.00**	**2 000 000 000**	**100.00**
Type of debt security holder				
Banks	4	1.61	5 825 000	0.29
Intermediaries	1	0.40	4 000 000	0.20
Endowment funds	2	0.81	250 000	0.01
Insurance companies	14	5.65	60 763 000	3.03
Investment companies	7	2.82	42 040 715	2.10
Medical aid schemes	19	7.66	117 504 000	5.88
Mutual funds	138	55.65	1 255 904 278	62.80
Pension funds	60	24.19	475 525 747	23.78
Private companies	2	0.81	29 637 260	1.48
Public companies	1	0.40	8 550 000	0.43
Total	**248**	**100.00**	**2 000 000 000**	**100.00**

	Nominal number	% interest
Debt security holder spread		
Government Employees Pension Fund	250 000 000	12.50
Nedgroup Investments Flexible Income Fund	230 000 000	11.50
Investec Cautious Managed Fund	135 100 000	6.76
Ashburton Stable Income Fund	100 000 000	5.00
Other	1 284 900 000	64.24
Total	**2 000 000 000**	**100.00**

ADMINISTRATION

NON-EXECUTIVE DIRECTORS
B Campbell, BTPKM Gamedze, VP Khanyile (chairman), IM Kirk, MLD Marole, NV Mtetwa, JJ Ngulube, MJ Reyneke, PE Speckmann, HC Werth

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

SPONSOR
Investec Bank Ltd

TRANSFER SECRETARIES
Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue, Rosebank 2196
PO Box 61051, Marshalltown 2107
Tel: 011 370 5000
Fax: 011 688 7721
www.computershare.com

COMPANY SECRETARY
M Allie

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

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

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

GREYMATTER & FINCH # 12820

INSURANCE GOOD
AND PROPER
SANTAM.CO.ZA