santam

2018

AUDITED SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2018

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SALIENT FEATURES FOR THE YEAR ENDED 31 DECEMBER 2018

GROUP GROSS WRITTEN PREMIUM GROWTH 11%	**CONVENTIONAL INSURANCE GROSS WRITTEN PREMIUM GROWTH 7%**
CONVENTIONAL INSURANCE NET UNDERWRITING MARGIN 9.2%	**ECONOMIC CAPITAL COVERAGE RATIO 159%**
RETURN ON SHAREHOLDERS' FUNDS 31.8%	**EARNINGS PER SHARE INCREASED 45%**
HEADLINE EARNINGS PER SHARE INCREASED 47%	**FINAL DIVIDEND OF 665 CENTS PER SHARE, UP 8%**

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 cps in 2017 to 2 099 cps in 2018 was 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 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 licenses (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 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 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.

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).

FINANCIAL REVIEW

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 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 Finance 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.

FINANCIAL REVIEW

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 was 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 also 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.

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.

The lower investment return earned on insurance funds resulted in the operating profit after taxation and non-controlling interest to decrease to R690 million (2017: R1 097million) and the comprehensive income recognised to R578 million (2017: R1 282 million). Relative investment market returns and a number of one off items impacted on the Saham Finances earnings for 2018. Adjusting for these one off operational items of R68 million and the impact of investment market volatility of R387 million (2017: negative adjustment of R271 million), the normalised comprehensive income for Saham Finances was R1 033 million (2017: R1 011 million).

Santam will be actively involved in 2019 to grow the Pan-African specialist and reinsurance markets.

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 USD. A 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 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.

FINANCIAL REVIEW

PROSPECTS

Trading conditions remain very competitive in a low-growth South African economic environment, which translates into limited growth of insurable assets for the insurance industry. The South African economy slipped into a recession during the second quarter of 2018, but third-quarter growth of 2.2% ended the recession. The South African Reserve Bank forecasts GDP growth of 1.9% for 2019 (announced in January 2019). It is expected that economic activity will in the near term be constrained by weak consumer spending linked to the 2018 increase in value added tax and by unemployment, which is at near-record levels. Inflation (annual CPI) of 4.5% was reported on 23 January 2019.

Challenging environments and lower growth scenarios are, however, strong drivers for innovation and efficiency. We continue to focus on profitable growth, cementing our leadership position in South Africa and capitalising on the opportunities presented by our emerging markets footprint. Following the further investment in Saham Finance in October 2018, increased focus will be placed on establishing a platform for Santam and Saham Finances to become the leading Pan-African specialist insurance provider, with significant growth potential.

The focus will remain on appropriate underwriting actions to manage the risk associated with weak economic conditions. Santam continues to work with local municipalities to reduce risk and improve resilience.

The group remains focused on optimising efficiency by balancing management costs and underwriting profitability, as well as using technology to improve underwriting results. Technology is playing a major role across the insurance value chain. Santam takes a measured and long-term approach to technological advancements. During 2019, we will further embrace the value of technology to create better experiences for our clients and intermediaries.

The investment market is likely to remain uncertain. The increased exposure to non-rand-denominated business further increases foreign exchange volatility for the group.

The group continues to prioritise and focus on its transformation priorities. These include the promotion of a diverse workforce, intermediary and supplier base; access to insurance products by non-traditional markets; and further impactful investment in communities.

2019 will be the final year of our Vision 2020 strategy. We will therefore use the period to define our new strategy for 2020 and beyond. We must also anticipate and leverage emerging trends related to climate change, urbanisation, new technology and changing client behaviour. It will be a priority in our next strategy cycle to embed our knowledge about these trends and their impact into our core business practices.

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.

DECLARATION OF ORDINARY DIVIDEND (NUMBER 130)

Notice is hereby given that the board has declared a gross final dividend of 665 cents per share (2017: 616.00 cents per share), 532 cents net of dividend withholding taxation, where applicable, per ordinary share for the year ended 31 December 2018 to those members registered on the record date, being Friday, 22 March 2019.

The dividend has been declared from income reserves. A dividend withholding taxation of 20% will be applicable to all shareholders who are not exempt.

Share code:	SNT
ISIN:	ZAE000093779
Company registration number:	1918/001680/06
Company tax reference number:	9475/144/71/4
Gross cash dividend amount per share:	665 cents
Net dividend amount per share:	532 cents
Issued shares at 28 February 2019:	115 131 417
Declaration date:	28 February 2019
Last day to trade cum dividend:	Monday, 18 March 2019
Shares trade ex-dividend:	Tuesday, 19 March 2019
Record date:	Friday, 22 March 2019
Payment date:	Monday, 25 March 2019

Share certificates may not be dematerialised or rematerialised between Tuesday, 19 March 2019 and Friday, 22 March 2019, both days inclusive.

FINANCIAL REVIEW

In terms of the dividends tax legislation, the dividends tax amount due will be withheld and paid over to the South African Revenue Service (SARS) by a nominee company, stockbroker or Central Security Depository Participant (CSDP) (collectively Regulated Intermediary) on behalf of shareholders. Shareholders should seek their own advice on the tax consequences associated with the dividend and are particularly encouraged to ensure their records are up to date so that the correct withholding tax is applied to their dividend.

APPRECIATION

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

PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

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

L Lambrechts

VP Khanyile
Chairman

L Lambrechts
Chief executive officer

27 February 2019

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SANTAM LTD

OPINION

The summary consolidated financial statements of Santam Ltd, set out on pages 10 to 38, which comprise the summary consolidated statement of financial position as at 31 December 2018, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Santam Ltd for the year ended 31 December 2018.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the JSE Limited's (JSE) requirements for summary financial statements, as set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 27 February 2019. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

DIRECTORS' RESPONSIBILITY FOR THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the JSE's requirements for summary financial statements, set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
Director: Zuhdi Abrahams
Registered auditor
Cape Town

27 February 2019

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Audited at 31 December 2018 R million	Restated Audited at 31 December 2017 R million
ASSETS			
Intangible assets		**885**	841
Property and equipment		**142**	135
Investment in associates and joint ventures		**2 927**	1 789
Strategic investment – unquoted SEM target shares	**2, 6**	**1 323**	1 089
Deferred income tax		**155**	91
Deposit with cell owners		**191**	174
Cell owners' and policyholders' interest		**13**	10
Financial assets at fair value through income	**6**	**22 454**	19 178
Reinsurance assets	**7**	**6 487**	5 824
Deferred acquisition costs		**619**	537
Loans and receivables including insurance receivables	**6**	**6 274**	5 253
Income tax assets		**10**	17
Cash and cash equivalents		**3 618**	4 321
Total assets		**45 098**	39 259
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital		**103**	103
Treasury shares		**(467)**	(470)
Other reserves		**(90)**	(214)
Distributable reserves		**9 311**	7 999
		8 857	7 418
Non-controlling interest		**508**	506
Total equity		**9 365**	7 924
LIABILITIES			
Deferred income tax		**81**	87
Cell owners' and policyholders' interest		**3 343**	3 227
Reinsurance liability relating to cell owners		**191**	174
Financial liabilities at fair value through income			
Debt securities	**6**	**2 072**	2 056
Investment contracts	**6**	**1 528**	1 703
Derivatives	**6**	**4**	–
Financial liabilities at amortised cost			
Repo liability	**6**	**759**	531
Collateral guarantee contracts	**6**	**158**	130
Insurance liabilities	**7**	**20 662**	17 848
Deferred reinsurance acquisition revenue		**487**	326
Provisions for other liabilities and charges		**162**	106
Trade and other payables including insurance payables	**6**	**5 922**	4 953
Current income tax liabilities		**364**	194
Total liabilities		**35 733**	31 335
Total shareholders' equity and liabilities		**45 098**	39 259

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Audited Year ended 31 December 2018 R million	Audited Year ended 31 December 2017 R million	Change
Gross written premium		**33 109**	29 720	11%
Less: reinsurance written premium		**9 041**	8 027	
Net written premium		**24 068**	21 693	11%
Less: change in unearned premium				
Gross amount		**2 019**	648	
Reinsurers' share		**(763)**	(285)	
Net insurance premium revenue		**22 812**	21 330	7%
Interest income on amortised cost instruments	9	**91**	136	
Interest income on fair value through income instruments	9	**2 205**	1 184	
Other investment income	9	**523**	15	
Income from reinsurance contracts ceded		**1 889**	1 794	
Net (losses)/gains on financial assets and liabilities at fair value through income	9	**(1 136)**	427	
Investment income and fair value losses on financial assets held for sale	9	**–**	175	
Other income		**246**	127	
Net income		**26 630**	25 188	6%
Insurance claims and loss adjustment expenses		**18 442**	20 466	
Insurance claims and loss adjustment expenses recovered from reinsurers		**(4 615)**	(6 400)	
Net insurance benefits and claims		**13 827**	14 066	(2%)
Expenses for the acquisition of insurance contracts		**4 524**	4 218	
Expenses for marketing and administration		**4 465**	3 652	
Expenses for investment-related activities		**67**	67	
Amortisation and impairment of intangible assets		**69**	71	
Impairment of loans		**5**	–	
Investment return allocated to cell owners and structured insurance products		**179**	563	
Total expenses		**23 136**	22 637	2%
Results of operating activities		**3 494**	2 551	37%
Finance costs		**(331)**	(295)	
Net income from associates and joint ventures		**291**	110	
Profit on sale of associates	11	**40**	5	
(Loss)/gain on dilution of associate	11	**(88)**	18	
Reclassification of foreign currency translation reserve on dilution of associate	11	**19**	(90)	
Impairment of associates		**(12)**	(3)	
Income tax recovered from cell owners and structured insurance products	10	**106**	–	
Profit before tax		**3 519**	2 296	
Tax expense allocated to shareholders	10	**(884)**	(489)	
Tax expense allocated to cell owners and structured insurance products		**(106)**	–	
Total tax expense		**(990)**	(489)	
Profit for the year		**2 529**	1 807	40%
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		**143**	(41)	
Reclassification of foreign currency translation reserve on dilution of associate		**(19)**	90	
Hedging reserve release		**(46)**	6	
Hedging reserve movement		**46**	–	
Total comprehensive income for the year		**2 653**	1 684	58%
Profit attributable to:				
– equity holders of the company		**2 427**	1 667	46%
– non-controlling interest		**102**	140	
		2 529	1 807	
Total comprehensive income attributable to:				
– equity holders of the company		**2 551**	1 544	65%
– non-controlling interest		**102**	140	
		2 653	1 684	
Earnings attributable to equity shareholders				
Earnings per share (cents)	12			
Basic earnings per share		**2 198**	1 511	45%
Diluted earnings per share		**2 182**	1 496	46%

SUMMARY CONSOLIDATED STATEMENT 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
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**

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Audited Year ended 31 December 2018 R million	Restated[1] Audited Year ended 31 December 2017 R million
Cash flows from operating activities			
Cash generated from operations		**5 461**	3 289
Interest paid		**(322)**	(252)
Income tax paid		**(785)**	(543)
Acquisition of financial assets		**(19 025)**	(18 482)
Proceeds from sale of financial assets		**15 807**	17 229
Net cash from operating activities		**1 136**	1 241
Cash flows from investing activities			
Acquisition of financial assets		**(909)**	(1 840)
Proceeds from sale of financial assets		**1 166**	2 825
Settlement of zero cost collar		**–**	(58)
Acquisition of subsidiaries, net of cash acquired	11	**(86)**	852
Purchases of equipment		**(62)**	(68)
Purchases of intangible assets		**(27)**	(27)
Proceeds from sale of equipment and intangible assets		**3**	3
Acquisition of associates and joint ventures	11	**(923)**	(152)
Capitalisation of associates	11	**(15)**	(23)
Proceeds from sale of associates	11	**168**	23
Net cash (used in)/from investing activities		**(685)**	1 535
Cash flows from financing activities			
Purchase of treasury shares		**(91)**	(76)
Proceeds from issue of unsecured subordinated callable notes		**–**	1 000
Redemption of unsecured subordinated callable notes		**–**	(1 000)
Decrease in investment contract liabilities[2]		**–**	(32)
Decrease in collateral guarantee contracts[2]		**–**	(1)
Dividends paid to company's shareholders		**(1 086)**	(1 003)
Dividends paid to non-controlling interest		**(100)**	(103)
Decrease in cell owners' and policyholders' interest[2]		**–**	(51)
Net cash used in financing activities		**(1 277)**	(1 266)
Net (decrease)/increase in cash and cash equivalents		**(826)**	1 510
Cash and cash equivalents at beginning of year		**4 321**	2 887
Exchange gains/(losses) on cash and cash equivalents		**123**	(76)
Cash and cash equivalents at end of year		**3 618**	4 321

[1] Refer to note 14 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 SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE for summary financial statements, and the requirements of the Companies Act applicable to summary financial statements. The JSE requires summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

2. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except for those referred to below:

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 14.1). 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 the strategic investment 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 14.2).
- 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 14.3)
- A new note, note 16, was added to provide information on cellholder/policyholder vs 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. In the prior period, this tax was disclosed as part of tax expense.
- 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.

The following new IFRSs and/or IFRICs were effective for the first time from 1 January 2018:

- Amendment to IFRS 2 – Classification and measurement of share-based payment transactions
- Amendments to IFRS 4 – Applying IFRS 9 *Financial Instruments* with IFRS 4 I*nsurance Contracts*
- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- Amendment to IAS 40 – *Investment Property*
- Annual improvements 2014-16 cycle
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

STANDARDS EFFECTIVE IN 2018

No material impact on the summary consolidated financial statements was identified.

IFRS 9 *FINANCIAL INSTRUMENTS*

Specifically regarding IFRS 9, the assessment of the impact of implementation included the following:

Classification and measurement – financial assets

- Debt instruments, previously measured as designated at FVPL (fair value through profit and loss), are now measured as mandatorily 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 hold to collect and their cash flows solely represent payments of principle and interest.
- Equity instruments, previously measured at FVPL, are also measured at 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.

2. ACCOUNTING POLICIES (continued)

Classification – financial liabilities

- Debt securities issued by Santam are measured at FVPL under IFRS 9 as these instruments are managed at fair value in terms of the related business model. 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 expected credit loss model to loans and receivables at amortised cost did not result in material additional provisions for impairment.

IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15 *Revenue 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.* Based on management's assessment, 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 the standards that are not yet effective, management expects IFRS 17 and IFRS 16 to have a future impact on the group and company.

IFRS 16 *LEASES*

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. 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. As at the reporting date, the group has non-cancellable operating lease commitments of R1 795 million. However, the group is in the process to determine to what extent these commitments will result in recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

IFRS 17 *INSURANCE CONTRACTS*

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. 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
- Management reporting

The group is currently facilitating a programme to review the impact of the implementation and to ensure a seamless transition.

3. ESTIMATES

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

In preparing these summary consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated annual financial statements for the year ended 31 December 2018. There have been no changes since 31 December 2017.

4. RISK MANAGEMENT

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

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

The summary consolidated financial statements do not include all risk management information and disclosures required in the annual financial statements and should be read in conjunction with the group's annual financial statements for the year ended 31 December 2018.

There have been no material changes to the risk management policies since 31 December 2017.

5. SEGMENT INFORMATION

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

The group conducts mainly insurance and investment activities.

INSURANCE ACTIVITIES:

The group presents its insurance results in the following segments:

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

5. SEGMENT INFORMATION (continued)

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

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (continued)

5.1 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 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 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 SUMMARY CONSOLIDATED 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

5. SEGMENT INFORMATION (continued)

5.2 FOR THE YEAR ENDED 31 DECEMBER 2018

ADDITIONAL INFORMATION ON INSURANCE ACTIVITIES

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

	Gross written premium R million	Underwriting result R million
Accident and health	535	82
Crop	729	54
Engineering	1 335	296
Guarantee	301	(69)
Liability	1 250	(20)
Miscellaneous	8	(1)
Motor	12 801	1 176
Property	10 031	519
Transportation	721	29
Total	**27 711**	**2 066**
Comprising:		
Commercial insurance	15 809	920
Personal insurance	11 902	1 146
Total	**27 711**	**2 066**

ADDITIONAL INFORMATION ON INVESTMENT ACTIVITIES

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

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

For detailed analysis of investment activities, refer to notes 6 and 9.

5. SEGMENT INFORMATION (continued)

5.2 FOR THE YEAR ENDED 31 DECEMBER 2017

ADDITIONAL INFORMATION ON INSURANCE ACTIVITIES

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

	Gross written premium R million	Underwriting result R million
Accident and health	482	58
Crop	829	114
Engineering	1 290	296
Guarantee	182	(18)
Liability	1 227	85
Miscellaneous	4	2
Motor	12 125	860
Property	9 000	(165)
Transportation	714	28
Total	**25 853**	**1 260**
Comprising:		
Commercial insurance	14 589	513
Personal insurance	11 264	747
Total	**25 853**	**1 260**

ADDITIONAL INFORMATION ON INVESTMENT ACTIVITIES

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

	R million
Investment income	557
Net gains on financial assets and liabilities at fair value through income	85
Income from associates including profit on sale	47
Investment-related revenue	**689**
Expenses for investment-related activities	(67)
Finance costs	(295)
Net total investment-related transactions	**327**

For detailed analysis of investment activities, refer to notes 6 and 9.

5. SEGMENT INFORMATION (continued)

5.2 FOR THE YEAR ENDED 31 DECEMBER 2018

ADDITIONAL INFORMATION ON SANTAM'S SHARE OF SEM

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

	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] Santam's share of SAN JV's non-controlling interest and tax of R47 million resulted in net results of R49 million.
[3] Santam held an effective interest of 7% until 9 October 2018, after which the effective interest increased to 10%. Refer to note 11.

FOR THE YEAR ENDED 31 DECEMBER 2017

ADDITIONAL INFORMATION ON SANTAM'S SHARE OF SEM

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

	SEM R million	SAN JV (Saham Finances)[3] 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)	236	197	**433**
Net underwriting result	**(108)**	**(4)**	**(112)**
Investment return on insurance funds	234	122	**356**
Net insurance result/operating result before non-controlling interest and tax[2]	**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] Santam's share of SAN JV's non-controlling interest and tax of R30 million resulted in net results of R32 million.
[3] Santam held an effective interest of 7.5%, until 10 May 2017, after which the effective interest decreased to 7%.

5. SEGMENT INFORMATION (continued)

5.3 GEOGRAPHICAL ANALYSIS

	Gross written premium		Non-current assets	
	31 December 2018 R million	31 December 2017 R million	31 December 2018 R million	31 December 2017 R million
South Africa	**29 742**	26 520	**1 109**	1 125
Rest of Africa[1]	**3 684**	3 810	**3 109**	1 967
Southeast Asia, India and Middle East	**1 969**	1 549	**1 059**	886
Other	**261**	223	**–**	–
	35 656	**32 102**	**5 277**	**3 978**
Reconciling items[2]	**(2 547)**	(2 382)	**–**	–
Group total	**33 109**	**29 720**	**5 277**	**3 978**

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

5.4 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**

5. SEGMENT INFORMATION (continued)

5.4 ANALYSIS OF SAN JV (SAHAM)'S RESULTS (continued)

Analysis of SAN JV's (Saham)'s gross written premium (100%)

	Life insurance		General insurance		Reinsurance		Total	
	31 December 2018 R million	31 December 2017 R million	31 December 2018 R million	31 December 2017 R million	31 December 2018 R million	31 December 2017 R million	31 December 2018 R million	31 December 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 (Saham)'s underwriting results (100%)

	Life insurance		General insurance		Reinsurance		Total	
	31 December 2018 R million	31 December 2017 R million	31 December 2018 R million	31 December 2017 R million	31 December 2018 R million	31 December 2017 R million	31 December 2018 R million	31 December 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**

6. FINANCIAL ASSETS AND LIABILITIES

	Audited at 31 December 2018 R million	Audited at 31 December 2017 R million
The group's financial assets are summarised below by measurement category.		
Financial assets		
Strategic investment – unquoted SEM target shares	**1 323**	1 089
Financial assets at fair value through income (restated, please refer to note 14)	**22 454**	19 178
Loans and receivables	**6 274**	5 253
Receivables arising from insurance and reinsurance contracts	**5 168**	4 279
Loans and receivables excluding insurance receivables	**1 106**	974
	30 051	25 520
Expected to be realised after 12 months	**17 400**	18 085
Expected to be realised within 12 months	**12 651**	7 435
Financial liabilities		
Financial liabilities at fair value through income	**3 604**	3 759
Financial liabilities at amortised cost (restated, please refer to note 14)	**917**	661
Trade and other payables	**5 921**	4 953
	10 442	9 373
Expected to be realised after 12 months	**3 508**	3 614
Expected to be realised within 12 months	**6 934**	5 759

Financial instruments measured at fair value on a recurring basis

The table below analyses financial instruments, carried at fair value through income, by valuation method. There were no significant changes in the valuation methods applied since 31 December 2017. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Input other than quoted prices included within level 1 that is observable for the asset or liability, either directly (that is, by prices) or indirectly (that is, derived from prices). The fair value of level 2 instruments are determined as follows:
  - 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 of 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 data (that is, unobservable input).

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

6. FINANCIAL ASSETS AND LIABILITIES (continued)

Audited at 31 December 2018	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Financial assets at fair value through income				
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 more than one year	–	3 344	–	**3 344**
Unquoted				
Government and other bonds	–	292	–	**292**
Money market instruments more than one year	–	5 025	–	**5 025**
Redeemable preference shares	–	70	61	**131**
Total debt securities	**–**	**13 851**	**61**	**13 912**
Unitised investments				
Quoted				
Underlying equity securities	–	615	–	**615**
Underlying debt securities	–	2 501	–	**2 501**
Total unitised investments	**–**	**3 116**	**–**	**3 116**
Derivative instruments				
Interest rate swaps[1]	–	–	–	**–**
Foreign currency collar	–	25	–	**25**
Total derivative instruments	**–**	**25**	**–**	**25**
Short-term money market instruments	–	2 928	–	**2 928**
Total financial assets at fair value through income	**2 378**	**19 948**	**1 451**	**23 777**

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

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Financial liabilities at fair value through income				
Debt securities	–	2 072	–	**2 072**
Investment contracts	–	1 528	–	**1 528**
Derivative instruments				
Exchange traded futures	–	4	–	**4**
Total derivative instruments	–	4	–	**4**
Total financial liabilities at fair value through income	**–**	**3 604**	**–**	**3 604**

6. FINANCIAL ASSETS AND LIABILITIES (continued)

Audited at 31 December 2017	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Financial assets at fair value through income				
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 14)	–	4 307	–	4 307
Collateralised securities	–	541	–	541
Money market instruments more than one year	–	4 094	–	4 094
Unquoted				
Government and other bonds	–	184	–	184
Money market instruments more than one year	–	3 367	–	3 367
Redeemable preference shares	–	157	25	182
Total debt securities	**–**	**12 650**	**25**	**12 675**
Unitised investments				
Quoted				
Underlying equity securities	–	1 765	–	1 765
Underlying debt securities	–	369	–	369
Total unitised investments	**–**	**2 134**	**–**	**2 134**
Derivative instruments				
Exchange traded futures	–	8	–	8
Interest rate swaps[1]	–	–	–	–
Total derivative instruments	**–**	**8**	**–**	**8**
Short-term money market instruments	–	2 174	–	2 174
Total financial assets at fair value through income	**2 088**	**17 011**	**1 168**	**20 267**

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

Financial liabilities at fair value through income				
Debt securities	–	2 056	–	2 056
Investment contracts	–	1 703	–	1 703
Total financial liabilities at fair value through income	**–**	**3 759**	**–**	**3 759**

The following table presents the changes in level 3 instruments:

	Equity securities R million	Debt securities R million	Derivatives R million	Total R million
31 December 2018				
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**
31 December 2017				
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**

6. FINANCIAL ASSETS AND LIABILITIES (continued)

The unquoted equity instruments recognised as level 3 instruments consist mainly of the participation target shares issued by Sanlam Emerging Markets (Pty) Ltd (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.

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 fair value of the SEM target shares is determined using predominantly discounted cash flow (DCF) models, with the remainder valued at or within close proximity of the latest available net asset value of the underlying company. The most significant 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.

At 31 December 2018, the group had exchange traded futures with an exposure value of R459 million (Dec 2017: R235 million). The group also had interest rate derivative assets as part of the international bond portfolio with a gross exposure asset and liability at 31 December 2018 of R38 million (Dec 2017: R33 million) and R38 million (Dec 2017: R33 million) respectively.

During 2007, the company issued unsecured subordinated callable notes to the value of R1 billion in two tranches. The fixed effective rate for the R600 million issue was 8.6% and 9.6% for the second tranche of R400 million, representing the R203 companion bond plus an appropriate credit spread at the time of the issues. The fixed coupon rate, based on the nominal value of the issues, amounts to 8.25% and for both tranches the optional redemption date 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 have an optional redemption date of 12 April 2023 with a final maturity date of 12 April 2028.

During June 2017, the company issued additional unsecured subordinated callable floating rate notes to the value of R1 billion in anticipation of the redemption of the R1 billion subordinated debt issued in 2007. 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 maturity. The callable notes are therefore measured at fair value to minimise undue volatility in the statement of comprehensive income. The fair value of the fixed rate notes is calculated using the yield provided by 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.

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.

On 10 September 2018 Santam entered into a foreign currency collar against the US dollar. As at 31 December, the instrument's valuation amounted to R24.8 million. The collar expired in two equal tranches on 4 January 2019 and 7 January 2019 and realised a total profit of R36.5 million.

7. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	Audited at 31 December 2018 R million	Audited at 31 December 2017 R million
Gross insurance liabilities		
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
– claims incurred but not reported	**2 868**	2 310
– unearned premiums	**9 256**	7 128
Total gross insurance liabilities	**20 662**	17 848
Expected to be settled after 12 months	**2 339**	1 789
Expected to be settled within 12 months	**18 323**	16 059
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
– claims incurred but not reported	**667**	496
– unearned premiums	**1 658**	1 377
Total reinsurers' share of insurance liabilities	**6 487**	5 824
Expected to be realised after 12 months	**505**	202
Expected to be realised within 12 months	**5 982**	5 622
Net insurance liabilities		
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
– claims incurred but not reported	**2 201**	1 814
– unearned premiums	**7 598**	5 751
Total net insurance liabilities	**14 175**	12 024

8. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale relates 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 9).

	Audited at 31 December 2018 R million	Audited at 31 December 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	**–**	–

9. INVESTMENT INCOME AND NET (LOSSES)/GAINS ON FINANCIAL ASSETS AND LIABILITIES

	Audited Year ended 31 December 2018 R million	Audited Year ended 31 December 2017 R million
Investment income	**2 819**	1 335
Interest income derived from:	**2 296**	1 320
Financial assets measured at amortised cost	**91**	136
Financial assets mandatorily measured at fair value through income	**2 205**	1 184
Other investment income	**523**	15
Dividend income	**147**	131
Foreign exchange differences	**376**	(116)
Net (losses)/gains on financial assets and liabilities at fair value through income		
Net fair value (losses)/gains on financial assets mandatorily at fair value through income	**(1 171)**	370
Net realised gains on financial assets excluding derivative instruments	**377**	121
Net fair value (losses)/gains on financial assets excluding derivative instruments	**(1 571)**	283
Net realised/fair value gains/(losses) on derivative instruments	**23**	(34)
Net fair value gains/(losses) on financial liabilities designated as at fair value through income	**35**	57
Net fair value (losses)/gains on debt securities	**(16)**	19
Net realised losses on debt securities	**–**	(45)
Net realised gains on investment contracts	**51**	83
Investment income and net losses on financial assets held for sale[1]	**–**	175
Foreign exchange differences	**–**	175
	1 683	1 937

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

10. INCOME TAX

	2018	2017
Normal taxation		
Current year	**980**	535
Prior year	**(3)**	32
Recovered from cell owners[1]	**–**	(80)
Other taxes	**12**	–
Foreign taxation – current year	**71**	88
Total income taxation for the year	**1 060**	575
Deferred taxation		
Current year	**(70)**	(34)
Prior year	**–**	(52)
Total deferred taxation for the year	**(70)**	(86)
Total taxation as per statement of comprehensive income	**990**	489
Income tax recovered from cell owners and structured insurance products[1]	**(106)**	–
Total tax expense attributable to shareholders	**884**	489
Profit before taxation per statement of comprehensive income	**3 519**	2 296
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

[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.

10. INCOME TAX (continued)

	Audited Year ended 31 December 2018 R million	Audited Year ended 31 December 2017 R million
Reconciliation of taxation rate (%)		
Normal South African taxation rate	**28.0**	28.0
Adjusted for:		
Disallowable expenses	**0.1**	0.3
Foreign tax differential	**0.8**	0.4
Exempt income	**(0.8)**	(2.4)
Investment results	**0.1**	(1.1)
Income from associates and joint ventures	**(1.8)**	(1.5)
Exempt foreign currency translation	**–**	(1.0)
Previous years' overprovision	**(0.1)**	(0.8)
Non-current assets held for sale and discontinued operations	**–**	(0.4)
Other permanent differences	**(0.8)**	(0.4)
Other taxes	**0.4**	0.2
Net reduction	**(2.1)**	(6.7)
Effective rate attributable to shareholders (%)	**25.9**	**21.3**

11. CORPORATE TRANSACTIONS

2018

Acquisitions

SAN JV (RF) (Pty) Ltd

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. Santam's interest in SAN JV therefore diluted to 10% (previously 15%) due to limited participation in this transaction. As part of this transaction, 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. As a result of the dilution, R19 million of the foreign currency translation reserve relating to SAN JV was released to profit or loss. A loss on dilution of R88 million 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 Group

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, 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**

11. CORPORATE TRANSACTIONS (continued)

2018

Disposals

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

During December 2018, the group sold its 49% shareholding in Professional Provident Society Short-term Insurance Company Ltd for R114 million. The net profit realised was R40 million and capital gains tax of R3 million was recognised.

Western Group Holdings Ltd

On 31 October 2018, Santam restructured its investment in the 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. An immaterial profit was recognised on the disposal. Santam Ltd recognised capital gains tax of R10 million.

2017

Acquisitions

Santam Structured Insurance (Pty) Ltd

During March 2017, the Santam group 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.

	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, please refer to note 14)	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, please refer to note 14)	(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 (RF) (Pty) Ltd (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 (PST)

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.

12. EARNINGS PER SHARE

	Audited Year ended 31 December 2018	Audited Year ended 31 December 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 (million)	**110.41**	110.30
Earnings per share (cents)	**2 198**	1 511
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 (million)	**110.41**	110.30
Adjusted for share options	**0.82**	1.13
Weighted average number of ordinary shares for diluted earnings per share (million)	**111.23**	111.43
Diluted basic earnings per share (cents)	**2 182**	1 496
Headline earnings per share		
Profit attributable to the company's equity holders (R million)	**2 427**	1 667
Adjusted for:		
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 (million)	**110.41**	110.30
Headline earnings per share (cents)	**2 099**	1 425
Diluted headline earnings per share		
Headline earnings (R million)	**2 317**	1 572
Weighted average number of ordinary shares for diluted headline earnings per share (million)	**111.23**	111.43
Diluted headline earnings per share (cents)	**2 084**	1 411

13. DIVIDEND PER SHARE

Dividend per share (cents)	**1 028**	952

14. CHANGES IN PRESENTATION AND RESTATEMENTS

14.1 CURRENT/NON-CURRENT SPLIT OF AMOUNTS RECOGNISED ON 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. 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 investments in unquoted SEM target shares now separately disclosed. The "within 12 months"/"after 12 months" split is disclosed in each note to the financial statements, where it is of relevance.

14.2 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.

14. CHANGES IN PRESENTATION AND RESTATEMENTS (continued)

14.2 RESTATEMENT OF THE STATEMENT OF CASH FLOWS (continued)

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
Net cash 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 investing 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)

14.3 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 (R531 million) as well as repurchase liability. As SSI only became part of the group on 1 March 2017, there was 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
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

15. 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.

16. 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 relates mainly to alternative risk transfer insurance business written on the insurance licences of Centriq and SSI.

16.1 ANALYSIS OF POLICYHOLDER/SHAREHOLDER STATEMENT OF FINANCIAL POSITION

	Group total 2018 R million	Shareholder 2018 R million	Policyholder/ cellholder 2018 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

16. ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS (continued)

16.1 ANALYSIS OF POLICYHOLDER/SHAREHOLDER STATEMENT OF FINANCIAL POSITION (continued)

	Group 2017 R million	Shareholder 2017 R million	Policyholder/ cellholder 2017 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

16. ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS (continued)

16.2 ANALYSIS OF POLICYHOLDER/SHAREHOLDER STATEMENT OF COMPREHENSIVE INCOME

	Group 2018 R million	Shareholder 2018 R million	Policyholder/ cellholder 2018 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)	(30)	(1 106)
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	–

16. ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS (continued)

16.2 ANALYSIS OF POLICYHOLDER/SHAREHOLDER STATEMENT OF COMPREHENSIVE INCOME (continued)

	Group 2017 R million	Shareholder 2017 R million	Policyholder/ cellholder 2017 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	–

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)

COMPANY SECRETARY

M Allie

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