# AUDITED ABRIDGED FINANCIAL REPORT

SANTAM LIMITED
AND ITS SUBSIDIARIES

**AUDITED ABRIDGED FINANCIAL REPORT**
**FOR THE YEAR ENDED 31 DECEMBER 2010**

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**NON-EXECUTIVE DIRECTORS**

B Campbell, MD Dunn, BTPKM Gamedze, DCM Gihwala, VP Khanyile (Chairman), JG le Roux, NM Magau, JP Möller, YG Muthien, P de V Rademeyer, GE Rudman, J van Zyl, BP Vundla

**EXECUTIVE DIRECTORS**

IM Kirk (Chief Executive Officer), MJ Reyneke (Chief Financial Officer)

**SPONSOR**

Investec Bank Limited

**TRANSFER SECRETARIES**

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**COMPANY SECRETARY**

Masood Allie

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**Registration number** 1918/001680/06
**ISIN** ZAE000093779
**JSE share code:** SNT
**NSX share code:** SNM

- **51% increase in headline earnings per share**
- **Significant improvement in underwriting margin from 3.5% to 8.5%**
- **Return on weighted average shareholders' funds of 37%**
- **Strong cash flows generated**
- **Healthy solvency ratio of 45%**
- **Total dividend of 510 cents per share**

# FINANCIAL REVIEW

The Santam group achieved excellent underwriting and investment results in 2010. Overall earnings showed a significant improvement with headline earnings of R1 545 million, 51% higher than 2009. This equates to a headline earnings per share of 1 367 cents compared to 906 cents in 2009. The 37.1% return on weighted average shareholders' funds is particularly pleasing.

The overall net underwriting margin increased substantially from 3.5% in 2009 to 8.5% in 2010. This culminated in a net underwriting result of R1 146 million, 153% higher than the R453 million in the comparative period. Investment income delivered similar results to those of 2009.

Santam decided to maintain appropriate underwriting discipline in tight market conditions and with increased levels of competition in the industry. This resulted in growth of 6% in gross written premium which is considered acceptable given the exceptional turnaround in results of previously underperforming business classes.

Underwriting performance of the crop business came under pressure due to weather-related claims. Margins in all other classes were satisfactory with excellent turnaround in the personal lines motor and property from the negative returns in 2009. Ongoing management intervention paid off for business sourced through the portfolio management business unit. Results from this area showed significant turnaround from a loss-making position in 2009 to an acceptable profit margin.

The turnaround in the property portfolio was mainly due to the lower level of large industrial accident and fire-related claims and the Emerald transaction in late 2009. Of the specialist classes, the liability, engineering and transportation businesses performed particularly well. In general, lower average claim costs and our continuous focus on risk management to improve the quality and diversity of the risk pool impacted underwriting margins positively. The net acquisition cost ratio of 27.4% increased from 26% in 2009 mainly as a result of an increase in the net commission costs and performance bonuses. Santam also increased its spend on strategic initiatives by 19% from 2009.

Investment returns on insurance funds of R396 million reduced from R420 million earned in 2009. These lower returns resulted from lower interest rates despite substantially increased float balances. The group's operating activities generated healthy cash flows of R2.1 billion during the year – 17% higher than the R1.8 billion in 2009.

The combined effect of the insurance activities resulted in a net insurance margin of 11.4% for the year compared to 6.8% in 2009.

The reduction in interest rates adversely affected the yield on cash and money market instruments, but assisted bond returns. Dividend income was still somewhat suppressed. However, equity markets had a strong run towards the end of the year. This followed on a lacklustre performance during the first half of the year and impacted the investment results positively. We continued to employ our strategy of proactively and tactically hedging equity investments.

As an alternative to rebalancing asset classes following the reduction of capital by means of the R5 per share special dividend in September, Santam entered into two derivative fence structures on 3 September 2010 and 5 October 2010 covering R1 billion and R750 million of equities respectively. The first fence has an attachment point of 5311 (SWIX40 index) with downside protection of 9% and an average upside participation of 18%. The second fence has an attachment point of 5589 with downside protection of 9% and average upside participation of 16%. At 31 December 2010, the SWIX40 index closed at 6069. This was 14% above the first attachment point and 9% above the second attachment point. On 31 December 2010, the structures had a negative mark-to-market fair value of R74 million which was fully accounted for. This will effectively be released to income over the remaining duration of the structures if they are maintained to maturity. Both structures expire in three equal tranches over the period from August to November 2011.

Net earnings from associated companies of R69 million increased from R43 million in 2009.

Based on interaction between SARS and the group, it was deemed prudent to make a provision for an additional tax liability amounting to R267 million. The restatement is in respect of the tax treatment at the time of the disposal of significant investments during 2007 and 2008. As the provision relates to the period up to and including 2008, it was made in the form of a prior year restatement to the opening consolidated statement of financial position of 2009, as set out in note 6.

The group solvency ratio of 45% at 31 December 2010 was at the higher end of the long-term target range of 35% to 45%, and higher than the 42% reported at the end of 2009. Santam's capital management philosophy is to maximise the return on shareholders' capital within an appropriate risk framework. Special dividends are considered taking account of capital levels as informed by the solvency margin targets of 35% to 45% and investment opportunities. At this point in time it is not considered appropriate to declare a further special dividend but it will remain under constant consideration.

The group concluded the acquisition of the remaining 33.33% holding in Centriq Insurance Company (Pty) Ltd on 1 January 2010 following Kagiso Risk Solution's decision to disinvest from the specialist insurer. On 1 January 2010 100% of the voting equity interest in Emerald Risk Transfer (Pty) Ltd was acquired to obtain specialist underwriting skills in the corporate property environment. On 1 September 2010 the group increased its effective shareholding in Indwe Broker Holdings (Pty) Ltd from 37.8% to 100%. The company is being independently managed as an intermediary. On 31 December 2010 the group increased its shareholding in MiWay Group Holdings (Pty) Ltd from 31.3% to 100% when Sanlam Limited opted to restructure its shareholdings in the general insurance cluster in South Africa. MiWay will continue to be managed independently, servicing the direct segment of the market.

Further unit allocations were made to black staff in terms of Santam's broad-based black economic empowerment (BBBEE) scheme.

The board would like to extend its gratitude to Santam's management, staff, brokers and other business partners for their efforts and contributions in the past year, which underpinned a pleasing set of results.

**Prospects**

We expect the economic recovery to continue during 2011 – albeit at a slow pace with a low interest and inflation environment during the first half of the year. We expect to see an increase in interest rates and inflation in the second half of the year. Average GDP for 2011 is expected to be somewhat higher than for 2010. However, we expect premium increases in 2011 will remain subdued and growth will be a challenge – especially during the first half of the year. Upwards pressure on premiums can be expected should underwriting margins normalise towards lower levels during the course of 2011. Santam is positioned to manage increases selectively through our market and risk segmentation approach.

Claim costs are expected to come under pressure from the flooding throughout the country early in 2011, but Santam's diversity of risk and reinsurance protection should ensure that losses are contained. The expected weakening of the rand from current high levels in excess of its purchasing price parity is likely to increase the cost of claims. This is particularly the case with motor claims where the import cost of parts is impacted by the strength of the currency. Therefore underwriting margins are expected to decrease in 2011 reverting back to the normalised range of 4% to 6%.

Our diversified business lines position us well to face these challenges. We will also continue our efforts to optimise profitability across the business with a strong focus on risk management and operating efficiencies.

Interest rates are expected to remain at current levels during the first half of 2011, but could increase during the second half of the year. The net effect is likely to be a lower return on insurance funds than in 2010. The fundamentals of the market are in place for another year of investment performance. However, it is unlikely that we will experience a repeat of the stellar returns experienced in the second half of the 2010 financial year in the bond and equity markets. Investment performance is anticipated to show returns in the mid teens.

**Declaration of dividend (Number 114)**
Notice is hereby given that the board has declared a final dividend of 325 cents per share (2009: 300 cents). Shareholders are advised that the last day to trade “cum dividend” will be Thursday, 17 March 2011. The shares will trade “ex dividend” from the commencement of business on Friday, 18 March 2011. The record date will be Friday 25 March 2011, and the payment date will be Monday, 28 March 2011. Certificated shareholders may not dematerialise or rematerialise their shares between18 March 2011, and 25 March 2011, both dates inclusive.

**Auditors’ report**
The company’s external auditors, PricewaterhouseCoopers Inc, have audited the abridged financial report and the annual consolidated financial statements for the year ended 31 December 2010. Copies of their unqualified audit reports are available on request at the company’s registered office.

On behalf of the board

**VP Khanyile**
*Chairman*

**IM Kirk**
*Chief Executive*

1 March 2011

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | Audited At 31 Dec 2010 R million | Restated Audited At 31 Dec 2009 R million |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | | **88** | 47 |
| Intangible assets | | **988** | 143 |
| Deferred income tax | | **251** | 88 |
| Investments in associates | | **211** | 198 |
| Financial assets – at fair value through income | | | |
| Equity securities | 4 | **3 832** | 3 191 |
| Debt securities | 4 | **4 246** | 3 146 |
| Financial assets – at amortised cost | | | |
| Cell owners' interest | | **12** | – |
| Reinsurance assets | | **315** | 382 |
| **Current assets** | | | |
| Financial assets – at fair value through income | | | |
| Short-term money market instruments | 4 | **3 685** | 4 554 |
| Reinsurance assets | | **952** | 1 429 |
| Deferred acquisition costs | | **251** | 259 |
| Loans and receivables including insurance receivables | 4 | **1 735** | 2 262 |
| Income tax assets | | **26** | 4 |
| Cash and cash equivalents | | **1 143** | 1 379 |
| **Total assets** | | **17 735** | 17 082 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the company's equity holders** | | | |
| Share capital | | **107** | 107 |
| Treasury shares | | **(651)** | (660) |
| Other reserves | | **1 265** | 1 268 |
| Distributable reserves | 6 | **4 405** | 3 813 |
| | | **5 126** | 4 528 |
| **Non-controlling interest** | | **93** | 144 |
| **Total equity** | | **5 219** | 4 672 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax | | **269** | 129 |
| Financial liabilities – at fair value through income | | | |
| Debt securities | 5 | **925** | 839 |
| Derivatives | 4 | **1** | 9 |
| Financial liabilities – at amortised cost | | | |
| Cell owners' interest | | **589** | 535 |
| Insurance liabilities | | **1 323** | 1 332 |
| Provisions for other liabilities and charges | | **3** | 5 |
| **Current liabilities** | | | |
| Financial liabilities – at fair value through income | | | |
| Debt securities | 5 | **24** | 24 |
| Investment contracts | | **495** | 333 |
| Derivatives | 4 | **74** | 108 |
| Financial liabilities – at amortised cost | | | |
| Collateral guarantee contracts | | **108** | 101 |
| Insurance liabilities | | **6 440** | 6 931 |
| Deferred reinsurance acquisition revenue | | **40** | 53 |
| Provisions for other liabilities and charges | | **33** | 27 |
| Trade and other payables | | **1 890** | 1 570 |
| Current income tax liabilities | 6 | **302** | 414 |
| **Total liabilities** | | **12 516** | 12 410 |
| **Total shareholders' equity and liabilities** | | **17 735** | 17 082 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | Audited Year ended 31 Dec 2010 R million | Audited Year ended 31 Dec 2009 R million | Change % |
|---|---|---|---|---|
| Gross written premium | | **15 855** | 15 026 | 6% |
| Less: Reinsurance premium | | **2 336** | 2 132 | |
| **Net premium** | | **13 519** | 12 894 | 5% |
| Change in unearned premium | | | | |
| Gross amount | | **(65)** | (108) | |
| Reinsurers' share | | **34** | 106 | |
| **Net insurance premium revenue** | | **13 550** | 12 896 | 5% |
| Investment income | 7 | **633** | 707 | (10%) |
| Income from reinsurance contracts ceded | | **236** | 209 | |
| Net gains on financial assets and liabilities at fair value through income | | **537** | 479 | |
| Gain on remeasuring existing interest in associates on transfer to subsidiaries | | **215** | – | |
| Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost | | **6** | – | |
| **Net income** | | **15 177** | 14 291 | 6% |
| Insurance claims and loss adjustment expenses | | **9 531** | 10 241 | |
| Insurance claims and loss adjustment expenses recovered from reinsurers | | **(848)** | (1 141) | |
| **Net insurance benefits and claims** | | **8 683** | 9 100 | (5%) |
| Expenses for the acquisition of insurance contracts | | **2 311** | 2 127 | |
| Expenses for marketing and administration | | **1 648** | 1 425 | |
| Expenses for asset management services rendered | | **29** | 25 | |
| Amortisation and impairment of intangible assets | | **27** | 25 | |
| **Expenses** | | **12 698** | 12 702 | |
| **Results of operating activities** | | **2 479** | 1 589 | 56% |
| Finance costs | | **(120)** | (114) | |
| Share of profit of associates | | **63** | 49 | |
| Impairment reversal/(charge) on net investment in associate | | **6** | (6) | |
| **Profit before tax** | | **2 428** | 1 518 | 60% |
| Income tax expense | 8 | **(639)** | (402) | |
| **Profit for the year** | | **1 789** | 1 116 | 60% |
| **Other comprehensive income** | | | | |
| Currency translation differences | | **(72)** | (80) | |
| **Total comprehensive income for the year** | | **1 717** | 1 036 | |
| **Profit attributable to:** | | | | |
| – equity holders of the company | | **1 762** | 1 082 | |
| – non-controlling interest | | **27** | 34 | |
| | | **1 789** | 1 116 | |
| **Total comprehensive income attributable to:** | | | | |
| – equity holders of the company | | **1 690** | 1 002 | |
| – non-controlling interest | | **27** | 34 | |
| | | **1 717** | 1 036 | |
| **Earnings attributable to equity shareholders** | | | | |
| **Earnings per share (cents)** | 12 | | | |
| Basic earnings per share | | **1 560** | 959 | 63% |
| Diluted earnings per share | | **1 532** | 942 | 63% |
| **Weighted average number of shares – millions** | | **112.96** | 112.80 | |
| **Weighted average number of ordinary shares for diluted earnings per share – millions** | | **114.99** | 114.87 | |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the company | | | | Non-controlling interest | Total |
|---|---|---|---|---|---|---|
| | Share capital R million | Treasury shares R million | Other reserves R million | Distributable reserves R million | R million | R million |
| **Restated balance as at 1 January 2009** | 107 | (680) | 1 251 | 3 319 | 138 | **4 135** |
| Balance as at 1 January 2009 | 107 | (680) | 1 251 | 3 586 | 138 | **4 402** |
| Restatement | – | – | – | (267) | – | **(267)** |
| Profit for the year | – | – | – | 1 082 | 34 | **1 116** |
| Other comprehensive income: | | | | | | |
| Currency translation differences | – | – | (80) | – | – | **(80)** |
| **Total comprehensive income for the year ended 31 December 2009** | – | – | (80) | 1 082 | 34 | **1 036** |
| Purchase of treasury shares | – | (53) | – | – | – | **(53)** |
| Sale of treasury shares | – | 73 | – | – | – | **73** |
| Loss on sale of treasury shares | – | – | – | (53) | – | **(53)** |
| Transfer to reserves | – | – | 97 | (97) | – | **–** |
| Share-based payments | – | – | – | 47 | – | **47** |
| Dividends paid | – | – | – | (485) | (28) | **(513)** |
| **Restated balance as at 31 December 2009** | **107** | **(660)** | **1 268** | **3 813** | **144** | **4 672** |
| Profit for the year | – | – | – | 1 762 | 27 | **1 789** |
| Other comprehensive income: | | | | | | |
| Currency translation differences | – | – | (72) | – | – | **(72)** |
| **Total comprehensive income for the year ended 31 December 2010** | – | – | (72) | 1 762 | 27 | **1 717** |
| Purchase of treasury shares | – | (34) | – | – | – | **(34)** |
| Sale of treasury shares | – | 43 | – | – | – | **43** |
| Loss on sale of treasury shares | – | – | – | (34) | – | **(34)** |
| Transfer to reserves | – | – | 69 | (69) | – | **–** |
| Share-based payments | – | – | – | 58 | – | **58** |
| Dividends paid | – | – | – | (1 113) | – | **(1 113)** |
| Excess paid on acquisition of non-controlling interest | – | – | – | (12) | – | **(12)** |
| Interest acquired from non-controlling interest | – | – | – | – | (78) | **(78)** |
| **Balance as at 31 December 2010** | **107** | **(651)** | **1 265** | **4 405** | **93** | **5 219** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | **Audited Year ended 31 Dec 2010 R million** | Audited Year ended 31 Dec 2009 R million |
|---|---|---|---|
| Cash generated from operations | | **2 115** | 1 839 |
| Interest paid | | **(95)** | (114) |
| Income tax paid | | **(755)** | (115) |
| **Net cash from operating activities** | | **1 265** | 1 610 |
| | | | |
| **Cash flows from investing activities** | | | |
| Cash utilised in investment activities | | **(270)** | (1 477) |
| Acquisition of subsidiary | 9 | **(357)** | (11) |
| Cash acquired/(sold) through acquisition/sale of subsidiary | 9 | **262** | (23) |
| Purchases of equipment | | **(26)** | (37) |
| Purchases of software | | **(1)** | – |
| Proceeds from sale of equipment | | **–** | 1 |
| Acquisition of associated companies | | **(17)** | (7) |
| Proceeds from sale of associated companies | | **–** | 33 |
| Acquisition of book of business | | **–** | (2) |
| Proceeds from sale of business operations | | **–** | 56 |
| **Net cash from investing activities** | | **(409)** | (1 467) |
| | | | |
| **Cash flows from financing activities** | | | |
| Purchase of treasury shares | | **(34)** | (53) |
| Proceeds on sale of treasury shares | | **11** | 20 |
| Increase/(decrease) in investment contract liabilities | | **129** | (101) |
| Dividends paid to company's shareholders | | **(1 113)** | (485) |
| Dividends paid to non-controlling interest | | **–** | (28) |
| Increase in cell owners' interest | | **42** | 87 |
| Purchase of subsidiary from non-controlling interest | 10 | **(90)** | – |
| **Net cash used in financing activities** | | **(1 055)** | (560) |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(199)** | (417) |
| Cash and cash equivalents at beginning of year | | **1 379** | 1 938 |
| Exchange losses on cash and cash equivalents | | **(37)** | (142) |
| **Cash and cash equivalents at end of year** | | **1 143** | 1 379 |

# NOTES TO THE ABRIDGED FINANCIAL REPORT

**1. Basis of presentation**

This abridged consolidated financial information for the year ended 31 December 2010 has been prepared in accordance with IAS 34 – *Interim Financial Reporting* and in compliance with the Listing Requirements of the JSE Limited. The abridged consolidated financial information does not include all of the information required by IFRS for full annual financial statements.

**2. Accounting policies**

The principal accounting policies used in preparing the audited results for the year ended 31 December 2010 are consistent with those applied in the annual financial statements for the year ended 31 December 2009 in terms of IFRS, as described in those annual financial statements.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- IFRS 3 (revised) – *Business Combinations*
  The new standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs will be expensed.

**3. Segment information**

The Executive committee (Exco) reviews the group's internal reporting in order to assess performance and allocate resources. The operating segments identified are representative of the internal structure of the group.

Exco reviews the two core activities of the group, i.e. insurance activities and investment activities on a monthly basis. Insurance activities are all insurance underwriting activities undertaken by the group and comprise commercial insurance, personal insurance and alternative risks. Insurance activities are also further analysed by insurance class. Investment activities are all investment-related activities undertaken by the group.

Exco considers the performance of insurance activities based on gross written premium as a measure of growth while underwriting result and net insurance result are measures of profitability.

Investment activities are measured based on net investment income and income from associated companies.

Other information provided to Exco is measured in a manner consistent with that in the financial statements.

### 3.1 For the year ended 31 December 2010

| Business activity | Insurance activities R million | Investment activities R million | Total R million |
|---|---|---|---|
| **Revenue** | 15 855 | 937 | **16 792** |
| Gross written premium | 15 855 | | **15 855** |
| Net written premium | 13 519 | | **13 519** |
| Net earned premium | 13 550 | | **13 550** |
| Claims incurred | 8 683 | | **8 683** |
| Net commission | 2 075 | | **2 075** |
| Management expenses | 1 631 | 15 | **1 646** |
| **Underwriting result** | 1 161 | (15) | **1 146** |
| Investment return on insurance funds | 396 | | **396** |
| **Net insurance result** | 1 557 | (15) | **1 542** |
| Investment income net of management fee and finance costs | | 840 | **840** |
| Income from associates net of impairment | | 69 | **69** |
| Amortisation of intangible assets | (23) | | **(23)** |
| **Income before taxation** | 1 534 | 894 | **2 428** |
| | | | |
| **Total assets** | 9 446 | 8 289 | **17 735** |
| **Total liabilities** | 11 492 | 1 024 | **12 516** |

| Insurance class | Gross written premium R million | Underwriting result R million | Total assets R million | Total liabilities R million |
|---|---|---|---|---|
| Accident and health | 264 | 7 | 14 | 131 |
| Alternative risk | 1 751 | 13 | 266 | 1 769 |
| Crop | 429 | (85) | 204 | 379 |
| Engineering | 595 | 156 | 95 | 256 |
| Guarantee | 21 | 6 | 6 | 29 |
| Liability | 1 103 | 315 | 422 | 1 900 |
| Miscellaneous | 22 | 6 | 1 | 12 |
| Motor | 6 684 | 371 | 2 | 1 538 |
| Property | 4 615 | 269 | 498 | 1 608 |
| Transportation | 371 | 103 | 53 | 225 |
| Unallocated | – | (15) | 16 174 | 4 669 |
| **Total** | **15 855** | **1 146** | **17 735** | **12 516** |
| | | | | |
| **Comprising:** | | | | |
| Commercial insurance | 8 054 | 886 | 1 158 | 4 817 |
| Personal insurance | 6 050 | 262 | 137 | 1 261 |
| Alternative risk | 1 751 | 13 | 266 | 1 769 |
| Unallocated | – | (15) | 16 174 | 4 669 |
| **Total** | **15 855** | **1 146** | **17 735** | **12 516** |

### 3.2 For the year ended 31 December 2009 (restated)

| Business activity | Insurance activities R million | Investment activities R million | Total R million |
|---|---|---|---|
| **Revenue** | 15 026 | 695 | **15 721** |
| Gross written premium | 15 026 | | **15 026** |
| Net written premium | 12 894 | | **12 894** |
| Net earned premium | 12 896 | | **12 896** |
| Claims incurred | 9 100 | | **9 100** |
| Net commission | 1 918 | | **1 918** |
| Management expenses | 1 412 | 13 | **1 425** |
| **Underwriting result** | 466 | (13) | **453** |
| Investment return on insurance funds | 420 | | **420** |
| **Net insurance result** | 886 | (13) | **873** |
| Investment income net of management fee and finance costs | | 627 | **627** |
| Income from associates net of impairment | | 43 | **43** |
| Amortisation of intangible assets | (25) | | **(25)** |
| **Income before taxation** | 861 | 657 | **1 518** |
| | | | |
| **Total assets** | 10 547 | 6 535 | **17 082** |
| **Total liabilities** | 11 538 | 872 | **12 410** |

| Insurance class | Gross written premium R million | Underwriting result R million | Total assets R million | Total liabilities R million |
|---|---|---|---|---|
| Accident and health | 382 | 3 | 25 | 147 |
| Alternative risk | 1 638 | 16 | 306 | 1 740 |
| Crop | 472 | 83 | 140 | 302 |
| Engineering | 562 | 127 | 107 | 308 |
| Guarantee | 16 | 6 | 12 | 27 |
| Liability | 1 126 | 517 | 488 | 1 941 |
| Miscellaneous | 19 | (4) | 5 | 17 |
| Motor | 6 147 | (29) | 33 | 1 487 |
| Property | 4 266 | (321) | 890 | 2 082 |
| Transportation | 398 | 68 | 64 | 265 |
| Unallocated | – | (13) | 15 012 | 4 094 |
| **Total** | **15 026** | **453** | **17 082** | **12 410** |
| | | | | |
| **Comprising:** | | | | |
| Commercial insurance | 7 489 | 657 | 1 692 | 5 341 |
| Personal insurance | 5 899 | (207) | 72 | 1 235 |
| Alternative risk | 1 638 | 16 | 306 | 1 740 |
| Unallocated | – | (13) | 15 012 | 4 094 |
| **Total** | **15 026** | **453** | **17 082** | **12 410** |

| | | Audited At 31 Dec 2010 R million | Audited At 31 Dec 2009 R million |
|---|---|---|---|
| **4.** | **Financial assets** | | |
| | The group's financial assets net of derivatives are summarised below by measurement category | | |
| | Financial assets at fair value through income | **11 688** | 10 774 |
| | Loans and receivables | **1 735** | 2 262 |
| | **Total financial assets** | **13 423** | 13 036 |
| | **Financial assets at fair value through income** | | |
| | Equity securities | | |
| | – quoted | **3 498** | 2 872 |
| | – unquoted | **334** | 319 |
| | | **3 832** | 3 191 |
| | Derivatives (net) | **(75)** | (117) |
| | Debt securities | | |
| | – quoted | | |
| | government and other bonds | **1 839** | 1 639 |
| | long-term money market instruments | **1 174** | 756 |
| | redeemable preference shares | **375** | – |
| | – unquoted | | |
| | government and other bonds | **195** | – |
| | long-term money market instruments | **354** | – |
| | redeemable preference shares | **309** | 751 |
| | | **4 246** | 3 146 |
| | Short-term money market instruments | **3 685** | 4 554 |
| | **Total financial assets at fair value through income** | **11 688** | 10 774 |
| **5.** | **Debt securities – at fair value through income** | | |
| | At the beginning of the year | **839** | 972 |
| | Fair value adjustment | **86** | (133) |
| | | **925** | 839 |
| | Accrued interest | **24** | 24 |
| | | **949** | 863 |

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

Per conditions set by the Regulator, 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 net profit.

## 6. Prior year restatement

Following queries from SARS and pursuant to the complete restructuring of the investment portfolio in 2007 and 2008, an additional provision of R267 million has been raised for income tax relating to the underprovisioning for taxation on the net realised gains on traded investments during said period.

As a consequence the net current income tax liability of R143 million and net current income tax asset of R35 million that were previously recognised in the statement of financial position of 2009 and 2008 respectively were adjusted with the additional provision. The distributable reserves of R3 586 million and R4 080 million recognised in the statement of financial position of 2009 and 2008 respectively were also adjusted with the additional provision.

| | Audited 2010 R million | Restated Audited 2009 R million | Restated Audited 2008 R million |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | **9 943** | 7 195 | 6 973 |
| Current assets | **7 792** | 9 887 | 9 411 |
| **Total assets** | **17 735** | 17 082 | 16 384 |
| | | | |
| **EQUITY** | | | |
| **Capital and reserves attributable to the company's equity holders** | | | |
| Share capital | **107** | 107 | 107 |
| Treasury shares | **(651)** | (660) | (680) |
| Other reserves | **1 265** | 1 268 | 1 251 |
| Distributable reserves | **4 405** | 3 813 | 3 319 |
| | **5 126** | 4 528 | 3 997 |
| **Non-controlling interest** | **93** | 144 | 138 |
| **Total equity** | **5 219** | 4 672 | 4 135 |
| | | | |
| **LIABILITIES** | | | |
| **Non-current liabilities** | **3 110** | 2 849 | 3 734 |
| **Current liabilities** | | | |
| Financial liabilities – at fair value through income | **593** | 465 | 275 |
| Financial liabilities – at amortised cost | **108** | 101 | – |
| Insurance liabilities | **6 440** | 6 931 | 6 088 |
| Deferred reinsurance acquisition revenue | **40** | 53 | 82 |
| Provisions for other liabilities and charges | **33** | 27 | 25 |
| Trade and other payables | **1 890** | 1 570 | 1 804 |
| Current income tax liabilities | **302** | 414 | 241 |
| **Total liabilities** | **12 516** | 12 410 | 12 249 |
| **Total shareholders' equity and liabilities** | **17 735** | 17 082 | 16 384 |

| | Audited At 31 Dec 2010 R million | Audited At 31 Dec 2009 R million |
|---|---|---|
| **7. Investment income** | | |
| Dividend income | **118** | 198 |
| Interest income | **535** | 612 |
| Foreign exchange differences | **(20)** | (103) |
| | **633** | 707 |
| **8. Income tax** | | |
| South African normal taxation | | |
| Current year | **580** | 240 |
| Charge for the year | **472** | 213 |
| STC | **108** | 27 |
| Prior year | **(10)** | 25 |
| Foreign taxation | **33** | 27 |
| Income taxation for the year | **603** | 292 |
| Deferred taxation | **36** | 110 |
| Current year | **37** | 96 |
| STC | **(1)** | 14 |
| | **639** | 402 |
| **Reconciliation of taxation rate (%)** | | |
| Normal South African taxation rate | **28.0** | 28.0 |
| Adjusted for | | |
| – Exempt income | **(1.6)** | (4.1) |
| – Investment results | **(5.1)** | (2.6) |
| – STC | **4.4** | 2.7 |
| – Other | **0.6** | 2.5 |
| Net reduction | **(1.7)** | (1.5) |
| **Effective rate (%)** | **26.3** | 26.5 |

## 9. Business combinations

### 9.1 Acquisition/Increases in shareholding

**a) Emerald Risk Transfer (Pty) Ltd**

On 1 January 2010, Swanvest 120 (Pty) Ltd acquired 100% of the voting equity interest in Emerald Risk Transfer (Pty) Ltd to obtain specialist underwriting skills in the corporate property environment. The company was sold by its main shareholder, Supergroup, as part of their strategy to dispose of non-core businesses.

**b) Indwe Broker Holdings (Pty) Ltd**

Effective 1 September 2010, the Santam Group increased its shareholding in Indwe Broker Holdings (Pty) Ltd from 37.8% to 100% by exercising its right to purchase shares on offer from other shareholders. While Santam is not actively pursuing the opportunity to buy brokerages, we responded to a business opportunity to protect our interest. Pamodzi Investment Holdings (Pty) Ltd and Thebe Investment Corporation (Pty) Ltd decided to dispose of their shares in order to pursue other investment opportunities. The company is being independently managed as an intermediary.

**c) MiWay Group Holdings (Pty) Ltd**
On 31 December 2010, Swanvest 120 (Pty) Ltd increased it shareholding in MiWay Group Holdings (Pty) Ltd from 31.25% to 100%. Santam acquired Sanlam's controlling interest in the company, while, at the same time, Sanlam consolidated its short-term insurance interests into one single investment in Santam Ltd. It is strategically important that Santam makes proper inroads into the emerging direct short-term insurance market to retain its leadership position in the industry. MiWay will continue to be managed independently, servicing the direct segment of the market.

| **Details of the assets and liabilities acquired at fair value are as follows:** | **(a) Emerald Risk Transfer (Pty) Ltd** | **(b) Indwe Broker Holdings (Pty) Ltd** | **(c) MiWay Group Holdings (Pty) Ltd** | **Total** |
|---|---|---|---|---|
| Deferred taxation | 3 | (27) | 85 | **61** |
| Property and equipment | 4 | 25 | 12 | **41** |
| Intangible assets | 5 | 119 | 72 | **196** |
| Investments | – | – | 9 | **9** |
| Reinsurance assets | 3 | – | – | **3** |
| Loans and receivables | 68 | 15 | 128 | **211** |
| Short-term money market instruments | – | – | 18 | **18** |
| Cash and cash equivalents | 95 | 141 | 26 | **262** |
| Insurance liabilities | (7) | – | (2) | **(9)** |
| Trade and other payables | (69) | (180) | (229) | **(478)** |
| Taxation | (2) | 4 | – | **2** |
| **Net asset value acquired** | 100 | 97 | 119 | **316** |
| Goodwill | – | 356 | 319 | **675** |
| Excess of acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost | (6) | – | – | **(6)** |
| Investment in associated share previously acquired | – | (190) | (91) | **(281)** |
| Deferred purchase consideration* | – | – | (347) | **(347)** |
| **Purchase consideration paid** | 94 | 263 | – | **357** |

*Amount is variable and will be impacted by returns achieved over the next three years.

| | | **Audited At 31 Dec 2010 R million** | Audited At 31 Dec 2009 R million |
|---|---|---|---|
| **9.2** | **Disposals** | | |
| | Net asset value sold | **–** | (3) |
| | Onerous contract as result of disposal | **–** | (5) |
| | Proceeds on sale | **–** | 56 |
| | Profit on sale of subsidiary | **–** | 54 |

Comparative information on acquisitions and disposals relate to several smaller transactions reported on in detail in prior periods.

**10. Transactions with non-controlling parties**
On 1 January 2010, Santam Ltd acquired the non-controlling interest of 33.3% in Centriq Holdings (Pty) Ltd.

| | | |
|---|---|---|
| Non-controlling interest acquired | **78** | – |
| Excess paid on acquisition of non-controlling interest | **12** | – |
| Purchase consideration paid | **90** | – |

| | | Audited Year ended 31 Dec 2010 | Audited Year ended 31 Dec 2009 |
|---|---|---|---|
| **11.** | **Earnings per share** | | |
| | **Basic earnings per share** | | |
| | Profit attributable to the company's equity holders (R million) | **1 762** | 1 082 |
| | Weighted average number of ordinary shares in issue (million) | **112.96** | 112.80 |
| | Earnings per share (cents) | **1 560** | 959 |
| | **Diluted earnings per share** | | |
| | Profit attributable to the company's equity holders (R million) | **1 762** | 1 082 |
| | Weighted average number of ordinary shares in issue (million) | **112.96** | 112.80 |
| | Adjusted for share options | **2.03** | 2.07 |
| | Weighted average number of ordinary shares for diluted earnings per share (million) | **114.99** | 114.87 |
| | Diluted basic earnings per share (cents) | **1 532** | 942 |
| | **Headline earnings per share** | | |
| | Profit attributable to the company's equity holders (R million) | **1 762** | 1 082 |
| | Adjusted for: | | |
| | Impairment (reversal)/charge on net investment of associates | **(6)** | 6 |
| | Impairment of goodwill | **10** | – |
| | Gain on remeasuring existing interest in associates on transfer to subsidiaries | **(215)** | – |
| | Profit on sale of subsidiaries and associates | **–** | (76) |
| | Excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost | **(6)** | – |
| | Tax charge | **–** | 10 |
| | Headline earnings (R million) | **1 545** | 1 022 |
| | Weighted average number of ordinary shares in issue (million) | **112.96** | 112.80 |
| | Headline earnings per share (cents) | **1 367** | 906 |
| | **Diluted headline earnings per share** | | |
| | Headline earnings (R million) | **1 545** | 1 022 |
| | Weighted average number of ordinary shares for diluted earnings per share (million) | **114.99** | 114.87 |
| | Diluted headline earnings per share (cents) | **1 343** | 889 |
| **12.** | **Dividends per share** | | |
| | Ordinary dividend per share (cents) | **510** | 466 |
| | Special dividend per share (cents) | **500** | – |