INSURANCE GOOD AND PROPER

ANNUAL FINANCIAL STATEMENTS 2011

santam

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APPROVAL OF ANNUAL FINANCIAL STATEMENTS

TO THE MEMBERS OF SANTAM LTD

RESPONSIBILITY FOR AND APPROVAL OF THE GROUP ANNUAL FINANCIAL STATEMENTS

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

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

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

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

The financial statements were approved by the board and signed on their behalf by:

V P KHANYILE
Chairman

IM KIRK
Chief Executive Officer

28 February 2012

PREPARATION AND PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The preparation of the audited financial statements was supervised by the financial director of Santam Ltd, MJ Reyneke.

SECRETARIAL CERTIFICATION

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

M ALLIE
Group secretary

28 February 2012

TO THE MEMBERS OF SANTAM LTD

We have audited the consolidated annual financial statements and annual financial statements of Santam Ltd, which comprise the consolidated and separate statements of financial position as at 31 December 2011, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 4 to 9 and pages 11 to 84.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 71 of 2008, as amended and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Santam Ltd as at 31 December 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 71 of 2008, as amended.

PricewaterhouseCoopers Inc

PRICEWATERHOUSECOOPERS INC
Director: C van den Heever
Registered auditor
Cape Town

28 February 2012

DIRECTORS' REPORT

ACTIVITIES

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

OPERATING RESULTS

The Santam group achieved excellent underwriting results in 2011, while also achieving double-digit growth in gross written premiums of 12%. Underwriting results were almost on par with the outstanding results achieved in 2010. However, compared to 2010, investment results were negatively impacted by the low fair value movements on listed equities. This resulted in headline earnings decreasing by 11%. The solvency margin increased to 48% (2010: 45%). A solid 25% return on average shareholders' funds was achieved.

The 2011 net underwriting result of R1 131 million was 1% less than the excellent result achieved in 2010, with an overall net underwriting margin of 7.7% compared to 8.5% in 2010. Margins in most of the significant business classes were satisfactory, with the motor book performing exceptionally well. The underwriting profit realised by the crop business was favourable compared to the loss-making position of 2010. The property book performed well due to a limited impact from large industrial and fire-related claims on our net underwriting account. Improved management practices in the portfolio administration business continued delivering good underwriting results.

Underwriting profits of the liability class was on lower levels in 2011 than the exceptional levels achieved in 2010 due to a few large claim estimate increases during the year. The alternative risk transfer class suffered a loss due to a large single loss on medical cover business that was subsequently cancelled. In general, lower average claims cost and our continuous focus on risk management improved the quality and diversity of the risk pool, impacting underwriting margins positively.

The fundamentals of the insurance industry saw some improvement in 2011. This, together with a concerted effort to drive profitable growth and the successful implementation of strategic growth initiatives such as the diversification of distribution channels and continued improvements to support existing channels, resulted in the achievement of excellent growth of 12% in gross written premium, 10% excluding cell business. Positive growth was achieved across all significant insurance classes.

The net acquisition cost ratio of 28.1% increased from 27.4% in 2010. The increase can be ascribed to the increase in spend on strategic initiatives, including the ongoing investment in MiWay and re-engineering activities. The aim is to manage the acquisition cost ratio down to 26% in the medium to long term but taking cognisance of our business composition and structural changes in the industry.

Investment returns on insurance funds of R388 million decreased from the R395 million earned in 2010, mainly due to lower interest rates.

The combined effect of insurance activities resulted in a net insurance income of R1 519 million or a 10.4% margin, compared to R1 542 million and a margin of 11.4% in 2010.

Performance of the investment portfolio was under pressure due to the volatility of the equity markets resulting in significantly lower income from fair value movements in 2011 compared to 2010. Dividend income was 27% higher than for 2010, while interest income was negatively affected by reduced interest rates. Reported investment results benefited from the fence structures which generated a credit of R80 million for the year. These structures were unwound during July and August at no cost to the company. Santam's investment portfolio performance compared favourably to the benchmarks set in the investment mandates.

The weakening of the rand during 2011 had a positive impact of R90 million on the valuations of the foreign currency assets held by our local operations. Net earnings from associated companies of R85 million increased from R69 million in 2010. This was as a direct result of improved earnings of key associates Credit Guarantee Insurance Corporation of Africa Ltd and NICO Holdings Ltd in Malawi.

At 31 December 2011, the group's international solvency ratio of 48% was higher than the long-term target range of between 35% and 45%. Santam's capital management philosophy is to maximise the return on shareholders' capital within an appropriate risk framework. Given our strong solvency margin and the stabilisation of the investment markets, the board decided to declare a special dividend of 850 cents per share. This will be the fifth special dividend paid by Santam since 2004 and will bring the total special dividend per share declared over this period to R52.00.

On 1 March 2011, Santam acquired 55% of the voting equity in Mirabilis Engineering Underwriting Managers (Pty) Ltd (Mirabilis) by merging its construction and engineering business into Mirabilis. The new merged entity is the leading engineering underwriting manager in the South African market. Following the increase in shareholding in MiWay Group Holdings (Pty) Ltd from 31.25% to 100% in 2010, the deferred purchase consideration on this transaction was settled in cash during 2011.

ORDINARY SHARES ISSUED

The shares in issue remained at 119 346 417 (2010: 119 346 417) shares of no par value (including 6 086 185 (2010: 6 323 126) treasury shares). In accordance with the share incentive scheme, as approved at the annual general meeting on 23 January 1997, no additional share options were awarded under the scheme during the period under review, 4 000 (2010: 19 850) share options lapsed as a result of resignations and 145 500 (2010: 315 800) treasury shares were sold as a result of share options being exercised or released. In terms of the deferred share plan (DSP), implemented in 2007, 417 480 (2010: 572 732) shares were granted to employees on a deferred delivery basis during the year, in 2010 93 685 shares were granted in lieu of the special dividend, 77 765 (2010: 111 717) shares lapsed as a result of resignations and 383 163 (2010: 138 797) treasury shares were sold in terms of the DSP. Full details are set out in note 16 to the annual financial statements.

A subsidiary in the group holds 6 086 185 (2010: 6 323 126) Santam shares. The shares are held as "Treasury shares". The company has the right to reissue these shares at a later date to meet the obligations under the Long-Term Incentive Plans.

CAPITAL STRUCTURE

Debt securities

For details on debt securities, refer to note 18 to the financial statements.

DIVIDENDS

The following dividends were paid and are proposed.

	Group	
	2011	2010
	R million	R million
Interim dividend of 200 cents per share (2010: 185 cents)	**239**	221
A final dividend of 355 cents per share (2010: 325 cents)	**424**	388
	663	609

SPECIAL DIVIDEND

As part of its process to optimise its capital, Santam Ltd declared a special dividend of 850 cents per share. A special dividend of 500 cents per share was paid to shareholders on 22 September 2010.

SUBSIDIARIES

Details of the holding company's interest in subsidiaries are set out in note 44 to the financial statements. The following changes in shareholding took place during the year:

– On 1 March 2011 Santam Ltd acquired 55% of the voting equity interest in Mirabilis Engineering Underwriting Managers (Pty) Ltd.

– During the year the deferred consideration pertaining to the acquisition of MiWay Group Holdings (Pty) Ltd was paid in cash.

ASSOCIATED COMPANIES

Details of the holding company's interest in associated companies are set out in note 44 to the financial statements. The following changes in shareholding took place during the year:

– On 21 January 2011, Swanvest 120 (Pty) Ltd acquired a 30% shareholding in H and L Underwriting Managers (Pty) Ltd.

– Centriq Insurance Holdings Ltd acquired a 45% shareholding in Nautical Underwriting Managers (Pty) Ltd in three tranches.

RELATED PARTIES

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

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

Details of directors' remuneration and their interest in the company's shares appear in the directors' report.

HOLDING COMPANY

Sanlam Ltd, the company's holding company, holds 59.9% of the ordinary share capital.

SEGMENT INFORMATION

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

DIRECTORATE AND COMPANY SECRETARY

Committee memberships	Risk committee	Audit committee	Human resources committee	Sustainability committee	Investment committee
Non-executive directors					
B Campbell	•	•			
MD Dunn	•	•			
MP Fandeso	•	•			
BTPKM Gamedze					
DCM Gihwala	•	•			
VP Khanyile (Chairman)			•		
JG le Roux			•	•	
NM Magau			•	•	
MLD Marole			•	•	
JP Möller	•				•
YG Muthien				•	
P de V Rademeyer	•	•			•
GE Rudman	•				
J van Zyl			•		
BP Vundla				•	
Executive directors					
IM Kirk (Chief Executive Officer)	•				•
Y Ramiah					
MJ Reyneke (Financial director)	•				•

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

JG le Roux – Resigned on 10 June 2011
P de V Rademeyer – Resigned on 30 June 2011
GE Rudman – Resigned on 30 June 2011
DCM Gihwala – Resigned on 1 September 2011
MP Fandeso – Appointed on 10 October 2011
NM Magau – Resigned on 7 November 2011
MLD Marole – Appointed on 13 December 2011
Y Ramiah – Appointed on 13 December 2011

Company secretary

M Allie

Registered office

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

Mr S Bray was in this position until 31 January 2011. Mr M Allie was appointed on 1 February 2011.

DIRECTORS AND PRESCRIBED OFFICERS' EMOLUMENTS AND INTERESTS IN SHARE CAPITAL

Directors' and prescribed officers' emoluments

The group human resources committee considers the remuneration of all executive directors as well as the fees paid to all non-executive directors. Fees payable to directors are recommended by the board to the annual general meeting for approval.

DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

	Salary R000	Performance Bonus* R000	Other benefits R000	Total R000
Executive directors and prescibed officers				
2011				
Paid by the company				
IM Kirk	2 933	5 100	665	8 699
Y Ramiah	1 839	2 000	155	3 994
MJ Reyneke	1 968	3 000	345	5 313
Total	**6 740**	**10 100**	**1 164**	**18 005**
2010				
Paid by the company				
IM Kirk	2 741	5 100	670	8 511
MJ Reyneke	2 008	3 000	318	5 326
Total	**4 749**	**8 100**	**988**	**13 837**

	Directors' fees 2011 R000	Directors' fees 2010 R000
Non-executive directors		
Paid by the company		
B Campbell	313	70
MD Dunn	376	224
MP Fandesco	72	–
BTPKM Gamedze**	251	243
DCM Gihwala	190	258
VP Khanyile	711	451
JG le Roux	174	363
NM Magau	285	363
MLD Marole	–	–
JP Möller**	360	348
YG Muthien**	313	288
P de V Rademeyer	159	333
JP Rowse	–	51
GE Rudman	159	363
DK Smith	–	291
J van Zyl**	313	303
BP Vundla	313	288
	3 986	4 238
Total directors' remuneration	**21 991**	18 075

** Bonus in respect of 2011 paid in 2012 (2010 paid in 2011)*

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

Share options granted to executive directors and prescribed officers

No additional share options were granted to the directors and prescribed officers of the group during the year (2010: Nil). Share options in terms of the Santam Share Incentive Scheme (refer to note 1.20 to the financial statements for more detail) are no longer issued. A revised share incentive scheme, the deferred share plan (DSP), was implemented during 2007, in terms of which shares are granted to employees on a deferred delivery basis over a five-year period (refer to note 15 to the financial statements).

There were no outstanding share options granted to the directors and prescribed officers of the group in terms of the Santam Share Incentive Scheme at the end of the year (2010: 14 400).

SHARE OPTION SCHEME – DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION

	As at 31 December 2010	Number of share options exercised during year	Gain per share on options exercised R	Option price per share R	Date awarded	As at 31 December 2011
Executive directors						
MJ Reyneke	14 400*	(14 400)	90.37	37.68	10/11/05	–
TOTAL	**14 400**	**(14 400)**				**–**

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

	As at 31 December 2010	Number of shares granted during year	Number of shares exercised during year	Gain per share on options exercised	Date awarded	As at 31 December 2011
Santam shares						
Executive directors and prescribed officers						
IM Kirk	8 688		(3 476)	127.16	01/06/08	5 212
	51 928				01/06/09	51 928
	7 910				01/06/10	7 910
		9 890			01/06/11	9 890
	68 526	9 890	(3 476)			74 940
MJ Reyneke	3 391		(1 696)	127.16	01/06/07	1 695
	2 861		(1 145)	127.16	01/06/08	1 716
	28 209				01/06/09	28 209
	1 130				01/06/10	1 130
		878			01/06/11	878
	35 591	878	(2 841)			33 628
Y Ramiah	21 425				01/06/10	21 425
		1 636			01/06/11	1 636
	21 425	1 636	–			23 061
TOTAL	**125 542**	**12 404**	**(6 317)**			**131 629**
Sanlam shares						
Executive directors and prescribed officers						
IM Kirk	92 736				01/06/09	92 736
	14 375				01/06/10	14 375
		19 536			01/06/11	19 536
	107 111	19 536	–			126 647
MJ Reyneke	5 404		(2 703)	27.25	01/06/07	2 701
	5 014		(2 006)	27.25	01/06/08	3 008
	50 376				01/06/09	50 376
	60 794	–	(4 709)			56 085
Y Ramiah	38 937				01/06/10	38 937
		3 217			01/06/11	3 217
	38 937	3 217	–			42 154
TOTAL	**206 842**	**22 753**	**(4 709)**			**224 886**

OUTPERFORMANCE PLAN (OPP)

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

	Measurement period	Achievement	Reward
IM Kirk	1 January 2010 – 31 December 2014	40%	Final measurement and payment on 1 April 2015

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

	Beneficial holding at 31 December	
	2011 R000	2010 R000
Executive directors and prescribed officers		
IM Kirk	63 169	61 118
Y Ramiah	100	–
MJ Reyneke	101 264	84 023
Non-executive directors		
B Campbell	100	100
MD Dunn	100	100
MP Fandeso	103	–
BTPKM Gamedze	200	200
DCM Gihwala	–	100
VP Khanyile	110	–
JG le Roux	–	180
NM Magau	–	110
MLD Marole*	–	–
JP Möller	108	108
YG Muthien	100	100
P de V Rademeyer	–	450
GE Rudman	–	900
J van Zyl	108	108
BP Vundla	100	100
	165 562	148 224

** Directors with less than 100 shares at year-end will increase their shareholding to 100 shares after the closed period.*

AUDITORS

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

EVENTS AFTER THE REPORTING PERIOD

The Minister of Finance in his budget speech of 22 February 2012 announced that the capital gains tax (CGT) inclusion rate for companies will be increased from 50% to 66.6% (effective CGT rate from 14% to 18.6%). The change in the CGT rate will apply in respect of capital gains during years of assessment commencing on or after 1 March 2012. The increase will have an impact on the taxation of Santam's gains and losses on financial assets, effectively increasing the tax rate.

SPECIAL RESOLUTIONS PASSED

The following special resolutions were passed by Santam Ltd at the annual general meeting on 1 June 2011:

– Authorise the company or any of its subsidiaries to, by way of general approval, acquire ordinary shares issued by the company.
– Approval of directors' remuneration.
– General authority to provide financial assistance to related companies (or inter-related companies or corporations).

REPORT OF THE AUDIT COMMITTEE

The audit committee appointed by the board to hold office until the conclusion of the annual general meeting (AGM) on 31 May 2012, comprises three independent non-executive directors of the company. The members possess the necessary expertise to direct the committee in the execution of its duties.

During August 2011, the Santam board resolved that the financial reporting review committee and statutory audit committee (previously known as the assurance committees) be incorporated into a single committee, the audit committee. Members Messrs P de V Rademeyer and DCM Gihwala resigned from the board and the committee during June and September 2011 respectively and Messrs B Campbell and MP Fandeso were appointed as members in their stead.

The audit committee of Santam acts as such for all subsidiaries of the group. The committee has a charter, approved by the board, dealing, inter alia, with its membership, frequency of meetings and responsibilities. The charter is reviewed annually and was updated during August 2011. The committee has a formal work plan to structure the execution of its responsibilities. The committee reviews reports from the external and internal auditors and the chairman of the committee reports on the findings at board meetings.

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

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

The committee met four times during the year under review, with full attendance by all its members. During the year the audit committee reviewed communication from the external auditors and, after conducting its own review, confirmed the independence of the auditors. The committee also considered and determined the fees and terms of engagement of the external auditors. Furthermore, the nature and extent of all non-audit services provided by PricewaterhouseCoopers and the fees in connection therewith were approved and reviewed by the committee.

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

The audit committee reviewed the 2011 Santam Group Ltd integrated report and annual financial statements and has considered factors and risks that may impact the integrity of the report and has reviewed the disclosure of sustainability issues in the report to ensure that it is reliable and does not conflict with the financial information. The audit committee has not recommended the engagement of an external assurance provider on material sustainability issues to the board as it is of the view that the assurance provided is adequate, given the maturity of the processes in place. The committee has recommended the integrated report and annual financial statements to the board for approval.

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

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

M D DUNN
Chairman of the audit committee

28 February 2012

STATEMENT OF FINANCIAL POSITION

	Notes	Group 2011 R million	Group 2010 R million	Company 2011 R million	Company 2010 R million
ASSETS					
Non-current assets					
Property and equipment	5	80	88	29	40
Intangible assets	6	994	988	–	6
Deferred income tax	17	207	251	–	93
Investments in subsidiaries	7			1 927	1 843
Investments in associates	8	274	211	133	133
Financial assets – at fair value through income					
Equity securities	9	3 856	3 832	3 299	3 178
Debt securities	9	6 160	4 246	4 310	3 815
Derivatives	10	1	–	1	–
Financial assets – at amortised cost					
Cell owners' interest	20	40	12	–	–
Reinsurance assets	11	244	315	259	302
Current assets					
Financial assets – at fair value through income					
Short-term money market instruments	9	1 775	3 685	1 270	1 689
Reinsurance assets	11,22	1 256	952	1 033	847
Deferred acquisition costs	22.2	332	251	276	273
Loans and receivables including insurance receivables	12	1 836	1 735	1 932	1 366
Income tax assets		36	26	–	–
Cash and cash equivalents	13	1 598	1 143	930	641
Total assets		18 689	17 735	15 399	14 226
EQUITY					
Capital and reserves attributable to the company's equity holders					
Share capital	14	107	107	107	107
Treasury shares	14	(635)	(651)	–	–
Other reserves	16	1 492	1 265	1 360	1 270
Distributable reserves	16	5 072	4 405	4 419	3 634
		6 036	5 126	5 886	5 011
Non-controlling interest		105	93		
Total equity		6 141	5 219	5 886	5 011
LIABILITIES					
Non-current liabilities					
Deferred income tax	17	115	269	51	188
Financial liabilities – at fair value through income					
Debt securities	18	964	925	964	925
Derivatives	10	–	1	–	1
Financial liabilities – at amortised cost					
Cell owners' interest	20	643	589	–	–
Insurance liabilities	22	1 404	1 323	1 407	1 294
Provisions for other liabilities and charges	23	1	3	1	3
Current liabilities					
Financial liabilities – at fair value through income					
Debt securities	18	24	24	24	24
Investment contracts	19	104	495	–	–
Derivatives	10	–	74	–	74
Financial liabilities – at amortised cost					
Collateral guarantee contracts	21	114	108	114	108
Insurance liabilities	22	7 071	6 440	5 088	4 700
Deferred reinsurance acquisition revenue	22.2	102	40	110	74
Provisions for other liabilities and charges	23	105	33	34	33
Trade and other payables	24	1 828	1 890	1 671	1 509
Current income tax liabilities	25	73	302	49	282
Total liabilities		12 548	12 516	9 513	9 215
Total shareholders' equity and liabilities		18 689	17 735	15 399	14 226

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Group 2011 R million	Group 2010 R million	Company 2011 R million	Company 2010 R million
Gross written premium		17 707	15 855	15 162	13 957
Less: reinsurance written premium		3 033	2 336	1 569	1 261
Net premium		14 674	13 519	13 593	12 696
Change in unearned premium					
Gross amount		241	(65)	98	8
Reinsurers' share		(219)	34	(120)	(24)
Net insurance premium revenue		14 652	13 550	13 615	12 712
Investment income	25	676	633	741	680
Income from reinsurance contracts ceded		321	236	321	245
Net gain on financial assets and liabilities at fair value through income	26	189	537	260	460
Gain on remeasuring existing interest in associates on transfer to subsidiaries	27	–	215	–	–
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost		–	6	–	–
Net income		15 838	15 177	14 937	14 097
Insurance claims and loss adjustment expenses	28	10 788	9 531	9 320	8 541
Insurance claims and loss adjustment expenses recovered from reinsurers	28	(1 384)	(848)	(634)	(388)
Net insurance benefits and claims		9 404	8 683	8 686	8 153
Expenses for the acquisition of insurance contracts	29	2 324	2 311	2 494	2 209
Expenses for marketing and administration	29	2 114	1 648	1 754	1 625
Expenses for asset management services	29	28	29	23	23
Amortisation and impairment of intangible assets	6,29	68	27	6	7
Expenses		13 938	12 698	12 963	12 017
Results of operating activities		1 900	2 479	1 974	2 080
Finance costs	31	(94)	(120)	(88)	(119)
Net income from associates	8	85	63	28	23
Impairment reversal/(charge) on net investment in associates		–	6	–	–
Profit before tax		1 891	2 428	1 914	1 984
Income tax expense	32	(486)	(639)	(460)	(541)
Profit for the year		1 405	1 789	1 454	1 443
Other comprehensive income					
Currency translation differences		108	(72)	–	–
Total comprehensive income for the year		1 513	1 717	1 454	1 443
Profit attributable to:					
– equity holders of the company		1 376	1 762	1 454	1 443
– non-controlling interest		29	27	–	–
		1 405	1 789	1 454	1 443
Total comprehensive income attributable to:					
– equity holders of the company		1 484	1 690	1 454	1 443
– non-controlling interest		29	27	–	–
		1 513	1 717	1 454	1 443
Earnings attributable to the equity holders	33				
Basic earnings per share (cents)		1 216	1 560		
Diluted earnings per share (cents)		1 202	1 532		
Weighted average number of shares (millions)		113.15	112.96		
Weighted average number of ordinary shares for diluted earnings per share (millions)		114.47	114.99		

	Attributable to equity holders of the company					
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	Non-controlling interest R million	Total R million
GROUP						
Balance as at 1 January 2010	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**
Profit for the year	–	–	–	1 376	29	**1 405**
Other comprehensive income:						
Currency translation differences	–	–	108	–	–	**108**
Total comprehensive income for the year ended 31 December 2011	–	–	108	1 376	29	**1 513**
Purchase of treasury shares	–	(37)	–	–	–	**(37)**
Sale of treasury shares	–	53	–	–	–	**53**
Loss on sale of treasury shares	–	–	–	(68)	–	**(68)**
Transfer to reserves	–	–	119	(119)	–	**–**
Share-based payments	–	–	–	63	–	**63**
Transfer to share-based payment liability	–	–	–	(30)	–	**(30)**
Dividends paid	–	–	–	(593)	(25)	**(618)**
Net excess received on acquisition of non-controlling interest	–	–	–	38	–	**38**
Interest acquired from non-controlling interest	–	–	–	–	8	**8**
Balance as at 31 December 2011	**107**	**(635)**	**1 492**	**5 072**	**105**	**6 141**
COMPANY						
Balance as at 1 January 2010	107	–	1 202	3 377	–	**4 686**
Profit for the year	–		–	1 443	–	**1 443**
Total comprehensive income for the year ended 31 December 2010	–	–	–	1 443	–	**1 443**
Transfer to reserves	–		68	(68)	–	**–**
Share-based payments	–		–	58	–	**58**
Dividends paid	–		–	(1 176)	–	**(1 176)**
Balance as at 31 December 2010	**107**	**–**	**1 270**	**3 634**	**–**	**5 011**
Profit for the year	–	–	–	1 454	–	**1 454**
Total comprehensive income for the year ended 31 December 2011	–	–	–	1 454	–	**1 454**
Transfer to reserves	–	–	90	(90)	–	**–**
Transfer to share-based payment liability	–	–	–	(5)	–	**(5)**
Share-based payments	–	–	–	53	–	**53**
Dividends paid	–	–	–	(627)	–	**(627)**
Balance as at 31 December 2011	**107**	**–**	**1 360**	**4 419**	**–**	**5 886**

STATEMENT OF CASH FLOWS

	Notes	Group 2011 R million	Group 2010 R million	Company 2011 R million	Company 2010 R million
Cash generated from operations	35	2 522	2 115	1 641	2 045
Interest paid	31	(119)	(95)	(88)	(94)
Income tax paid	36	(813)	(755)	(737)	(616)
Net cash from operating activities		1 590	1 265	816	1 335
Cash flows from investing activities					
Cash generated/(utilised) in investment activities		201	(270)	27	(26)
Acquisition of subsidiary	37	(343)	(357)	–	(263)
Cash acquired through acquisition of subsidiary	37	3	262	–	–
Purchases of equipment		(39)	(26)	(19)	(22)
Purchases of software		(28)	(1)	–	–
Proceeds from sale of equipment		1	–	–	–
Acquisition of associated companies		–	(17)	–	–
Net cash used in investing activities		(205)	(409)	8	(311)
Cash flows from financing activities					
Purchase of treasury shares		(37)	(34)	–	–
Proceeds on sale of treasury shares		4	11	–	–
(Decrease)/increase in investment contract liabilities		(413)	129	–	–
Dividends paid to company's shareholders	39	(593)	(1 113)	(627)	(1 176)
Dividends paid to non-controlling interest	39	(25)	–	–	–
Increase in cell owners' interest		26	42	–	–
Purchase of subsidiary from non-controlling interest	38	–	(90)	–	(90)
Net cash used in financing activities		(1 038)	(1 055)	(627)	(1 266)
Net increase/(decrease) in cash and cash equivalents		347	(199)	197	(242)
Cash and cash equivalents at the beginning of the year		1 143	1 379	641	919
Exchange gains on cash and cash equivalents		108	(37)	92	(36)
Cash and cash equivalents at the end of the year		1 598	1 143	930	641

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as defined by IAS 1 and the interpretations issued by the International Accounting Standards Board (IASB), and are in compliance with the JSE Ltd's Listings Requirements and the Companies Act, 71 of 2008, as amended.

1.2 Basis of presentation

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

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

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

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

a) Standards, amendments and interpretations effective in 2011

The following amendments to published standards are mandatory for the group's accounting periods beginning on or after 1 January 2011:

- IAS 24 (amended) – *Related party disclosures*
  This amendment provides partial relief from the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party. This amendment had no impact on the group.
- Improvements to IFRSs
  This is a collection of amendments to various IFRSs that are the result of conclusions reached by the IASB on proposals made in its annual improvements project. These amendments were considered, but did not have a significant impact on financial statements disclosure for the group.

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

The following new standards, amendments and interpretations to existing standards have been published. Although they are mandatory for accounting periods beginning on or after 1 January 2011 or later periods, the group has not early adopted:

- Amendments to IFRS 1 – *"First-time adoption"* on hyperinflation and fixed dates (effective 1 July 2011)
- Amendments to IFRS 7 – *Financial Instruments: Disclosures – Transfer of financial assets* (effective 1 July 2011)
- IFRS 9 – *Financial Instruments* (effective 1 January 2015)
- IFRS 10 – *Consolidated financial statements* (effective 1 January 2013)
- IFRS 11 – *Joint arrangements* (effective 1 January 2013)
- IFRS 12 – *Disclosures of interests in other entities* (effective 1 January 2013)
- IFRS 13 – *Fair value measurement* (effective 1 January 2013)
- Amendments to IAS 1 – "*Presentation of Financial Statements*", on presentation of items of OCI (effective 1 July 2012)
- Amendment to IAS 12 – *"Income taxes"* on deferred tax (effective 1 January 2012)
- Amendments to IAS 19 – *Employee benefits* (effective 1 January 2013)
- IAS 27 (revised 2011) – *Separate financial statements* (effective 1 January 2013)
- IAS 28 (revised 2011) – *Associates and joint ventures* (effective 1 January 2013)
- Amendments to IAS 32 – *Financial Instruments*: *Presentation* (effective 1 January 2014)

1.3 Consolidation

a) Subsidiaries and business combinations

Subsidiaries are all entities (including special-purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses the existence of control where it does not have more than 50% of the voting power, but is able to govern the financial and operating policies by virtue of de facto control. De facto control may arise in circumstances where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the group. Consolidation is discontinued from the date on which control ceases.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

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

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

b) Changes in ownership interests without change of control

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

c) Disposal of subsidiaries

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

d) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition (see note 1.8).

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

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

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

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

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

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

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

1.4 Segment reporting

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

1.5 Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

c) Group companies

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

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

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

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

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

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

1.6 Property and equipment

a) Property

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

b) Equipment

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

Estimated useful lives are as follows:

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

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

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

1.7 Leases

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

1.8 Intangible assets

a) Goodwill

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

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

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

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

b) Computer software

Computer software is recognised at cost less amortisation and impairment charges. Cost associated with maintaining computer software programmes are recognised as an expense when incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

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

c) Brands, trademarks and trade names

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

d) Key business relationships

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

1.9 Financial assets

1.9.1 Classification

a) Financial assets at fair value through income

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

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

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

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

b) Loans and receivables

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

1.9.2 Recognition and measurement

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

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

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

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

1.9.3 Determination of fair value

The fair values of quoted investments are based on current stock exchange prices at the close of business on the statement of financial position date. If the market for a financial asset is not active or if it is unquoted, the group establishes fair value by using valuation techniques. These include discounted cash flow analysis, recent arm's length transactions, premium/discount to net asset value and price-earnings techniques. The group's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data.

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

1.10 Impairment of assets

a) Financial assets carried at amortised cost

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

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

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

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

b) Impairment of other non-financial assets

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

1.11 Derivative financial instruments

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

1.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.13 Cash and cash equivalents

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

1.14 Share capital

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

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

1.15 Debt securities

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

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

1.16 Insurance and investment contracts – classification

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

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

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

1.17 Insurance contracts

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

a) Short-term insurance

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

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

Recognition and measurement

i) Gross written premiums

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

ii) Provision for unearned premiums

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

iii) Provision for unexpired risk

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

iv) Provision for claims

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

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

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

vi) Deferred acquisition costs (DAC)

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

vii) Reinsurance contracts held

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

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

The reinsurer's share of unearned premiums represents the portion of the current year's reinsurance premiums that relate to risk periods covered by the related reinsurance contracts extending into the following year. The reinsurers' share of unearned premium is calculated using the 365th method.

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

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

viii) Receivables and payables related to insurance contracts

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

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

ix) Salvage reimbursements

Some insurance contracts permit the group to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims. The allowance is the amount that can reasonably be recovered from the disposal of the property.

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

b) Long-term insurance

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

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

c) Cell insurance

The group offers cell captive facilities to clients. A cell captive is a contractual arrangement entered into by the group with a cell owner, whereby the risks and rewards associated with certain insurance activities accrue to the cell. There are currently two distinct types of cell captive arrangements:

- First party – where the risks that are being insured relate to the cell shareholders' own operations or operations within the cell shareholders' group of companies; and
- Third party – where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. The company is the principle to the insurance contract, although the business is underwritten on behalf of the cell shareholder.

First-party cells are classified as special-purpose entities and are regarded as being controlled by the cell owner. For this reason, such cell captive facilities are not consolidated by the company.

In the case of third-party cells, the insurer is still the principal to the insurance transaction, although the business is written on behalf of the cell owner. However, the insurer, in substance reinsures this business to the cell as the cell owner remains responsible for the solvency of the cell. In the event that the cell owner is unable to meet the cell's insurance liabilities, the insurer is still liable in terms of the insurance contract between the insurer and the insured.

The cell owner's interest represents the cell owner's funds held by the insurer and is included under financial liabilities held at amortised cost. The carrying value of amounts due to cells is the consideration received for preference shares plus the accumulated funds in respect of business conducted in the cells less repayments to cells.

1.18 Investment contracts

The group issues investment contracts without fixed terms (unit-linked contracts) and investment contracts with fixed terms (collateral guarantee contracts).

a) Investment contracts without fixed terms

Investment contracts without fixed terms are financial liabilities of which the value is dependent on the fair value of underlying financial assets and are designated at inception as at fair value through income. The group designates these investments to be measured at fair value through income because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases.

The group's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data. The fair value of these financial liabilities is determined by the fair value of the corresponding financial assets for the same date.

The fair value movement on the financial liabilities without fixed terms is recognised in the statement of comprehensive income.

b) Investment contracts with fixed terms

Investment contracts with fixed terms are recognised at amortised cost. In this case, the liability is initially recognised at its fair value less transaction costs that are incremental and directly attributable to the issue of the contract. Subsequent measurement of these contracts uses the effective-interest method. This method requires the determination of an interest rate that discounts the estimated future cash payments over the expected life of the contract to the net carrying value recognised on the statement of financial position. Any adjustments due to the re-estimation of the carrying value, based on the annual computing of the present value of estimated future cash flows, are immediately recognised in the statement of comprehensive income.

1.19 Taxation

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

a) Current tax

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

b) Deferred tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor the taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle the balances on a net basis.

c) Secondary tax on companies (STC)

Secondary tax on companies that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend. Where there is an unutilised secondary tax credit it is carried forward and applied to the secondary tax liability when this arises. A deferred tax asset is recognised on any unutilised secondary tax credits at year-end.

1.20 Employee benefits

a) Pension obligations

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

b) Other post-employment obligations

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

c) Share incentive scheme

Although options are no longer granted in terms of the share incentive scheme, the scheme will continue to run out. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions, for example profitability and premium income growth targets. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) when the options are exercised.

Reductions in the exercise prices are treated as modifications. The share-based payment cost that is expensed is not amended for modifications unless the fair value of the options changed to the extent that the employees are in a more beneficial position than before.

d) Long-term incentive and retention bonus plan

In terms of the long-term incentive and retention bonus plan, employees were paid retention bonuses. The beneficiaries under the plan, which included executive directors, executive management (Exco), senior and middle management employed on a full-time basis, were subject to retention periods and amounts to be repaid should the employee be in breach of the retention period. The costs associated with the long-term incentive and retention bonus plan are recognised in the statement of comprehensive income over the retention period.

The plan also has a share purchase alternative option for Exco only. In terms of this plan, Exco members receive an interest-bearing loan with the intention to purchase shares in Santam and/or Sanlam. The loans are repayable in four years' time and are included under loans and receivables in the statement of financial position.

e) Deferred share plan (DSP)

In 2007, the DSP replaced the long-term inventive plan. In terms of the DSP, Santam undertakes to deliver a fixed number of shares to selected employees on predetermined dates in the future, on condition that the employee is still in the employment of Santam on those dates. Vesting occurs in three tranches over a period of five years from the grant date.

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

f) Termination benefits

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

g) Performance bonus plans

The group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments as well as growth targets. The group recognises an accrual where contractually obliged or where there is a past practice that has created a constructive obligation.

1.21 Provisions

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

1.22 Leave pay

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

1.23 Trade and other payables

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

1.24 Other revenue recognition

Interest income

Interest income from cash and cash equivalents is recognised using the effective-interest method.

1.25 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the board of directors approves the dividend.

1.26 Solvency margin

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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

a) Insurance liabilities

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

Insurance liabilities include the provisions for unearned premiums, outstanding claims and incurred but not reported (IBNR) claims.

Process to determine significant assumptions

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

i) Unearned premium provision

Unearned premiums represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the reporting date.

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

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

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

ii) Unexpired risk provision

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

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

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

iii) Outstanding claims

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

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

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

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

iv) Claims incurred but not reported (IBNR)

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

Where possible the group adopts multiple techniques to estimate the required level of provisions. This assists in developing a greater understanding of the trends inherent in the data being projected.

Stochastic chain-ladder methodology

Santam uses a stochastic chain-ladder methodology to estimate the ultimate cost of claims. This process is performed separately for each line of business.

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

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

The claims provisions are subject to close scrutiny both within the group's business units and at a company level. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. The results of these reviews are considered when establishing the appropriate levels of provisions for the outstanding claims and unexpired periods of risk.

The IBNR reserve is held so as to be at least sufficient at the 75th percentile of the ultimate cost distribution.

In the southern African operations, excluding alternative risk business, a 5% upward adjustment in the level of sufficiency of the IBNR reserve would result in an additional charge of approximately R28 million (2010: R23 million) while a 5% downward adjustment in the level of sufficiency would result in a release of reserves in the statement of comprehensive income of approximately R25 million (2010: R22 million) (before taxation).

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

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

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

The establishment of insurance liabilities is an inherently uncertain process and as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims can vary substantially from the initial estimates, particularly for the group's long tail lines of business. The group seeks to provide appropriate levels of claims provisions taking the known facts and experience into account.

b) Impairment of goodwill

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

c) Provision for doubtful debt

Management considers each debtor at the reporting date to determine whether its debt to the company is recoverable, or whether its recovery is doubtful. Each debtor is assessed individually and provision made for those where indications exist that recovery is uncertain or where clear evidence exists that the outstanding amount will not be recovered.

d) Share-based payments

Share-based payment charges arise from the issue of share options and awards to employees. These share options and awards are classified as equity-settled share-based payments, and as such the charge is determined on date of grant on an option pricing model basis using a number of assumptions. In determining the share-based payment charge, a number of assumptions are used, which include expected volatility, expected dividend yield, the discount rate and the expected forfeit and lapse rate. In accordance with the principles of valuing equity-settled share-based payments, only a change in the actual experience of forfeit compared to the estimated forfeit rate assumption will impact the charge in the statement of comprehensive income. All other assumptions are determined at grant date and are not amended (refer note 15).

e) Business combinations

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

i) Brand and trade names

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

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

If a useful life range of two to four years were applied the asset value would have been RNil (2010: R11.5 million) lower and if a range of four to six years were applied, the asset would have been RNil (2010: R11.5 million) higher.

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

ii) Key business relationships

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

The useful life of a key business relationship is estimated based on the cancellation experience of the existing business and the useful life of client relationships of other players in the market. For the key business relationships recognised at 31 December 2011 a useful life range of three to six years and an average cancellation rate of between 14% and 33% were assumed.

If a useful life range of two to five years were applied the asset value would have been R5 million (2010: R13.8 million) lower and if a range of four to seven years were applied, the asset would have been R2.6 million (2010: R10.2 million) higher.

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

f) Fair value of financial assets that are not listed or quoted

The fair value of financial assets and liabilities that are not listed or quoted in an active market are determined using valuation techniques. The assumptions used in these valuation techniques are described as part of the fair value hierarchy analysis included in note 3.3.

g) Deferred income tax assets

Deferred income tax assets are recognised to the extent that management estimates that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

3. RISK AND CAPITAL MANAGEMENT

3.1 Risk management framework

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

The following key elements of Santam's risk management framework are discussed in the governance section of the report:

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

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

	Group		Company	
	2011	2010	**2011**	2010
Financial and insurance assets	**R million**	R million	**R million**	R million
Quoted equity securities	**3 442**	3 498	**3 285**	3 166
Unquoted equity securities	**414**	334	**14**	12
Total equity securities	**3 856**	3 832	**3 299**	3 178
Quoted debt securities	**3 520**	3 388	**2 884**	2 971
Unquoted debt securities	**2 640**	858	**1 426**	844
Total debt securities	**6 160**	4 246	**4 310**	3 815
Derivatives	**1**		**1**	
Short-term money market instruments	**1 775**	3 685	**1 270**	1 689
Receivables due from contract holders	**1 147**	1 025	**911**	764
Reinsurance receivables	**222**	300	**95**	177
Other loans and receivables	**467**	410	**926**	425
Total loans and receivables including insurance receivables	**1 836**	1 735	**1 932**	1 366
Reinsurance assets	**1 500**	1 267	**1 292**	1 149
Deferred acquisition costs	**332**	251	**276**	273
Cash and cash equivalents	**1 598**	1 143	**930**	641
Total financial and insurance assets	**17 058**	16 159	**13 310**	12 111

	Group		Company	
	2011	2010	**2011**	2010
Financial and insurance liabilities	**R million**	R million	**R million**	R million
Debt securities	**988**	949	**988**	949
Investment contracts	**104**	495	**–**	–
Derivatives	**–**	75	**–**	75
Net cell owners' interest	**603**	577	**–**	–
Collateral guarantee contracts	**114**	108	**114**	108
Insurance liabilities	**8 475**	7 763	**6 495**	5 994
Deferred reinsurance acquisition revenue	**102**	40	**110**	74
Trade and other payables	**1 828**	1 890	**1 671**	1 509
Total financial and insurance liabilities	**12 214**	11 897	**9 378**	8 709

3.2 Regulatory impact on risk and risk assessments

The group's insurance operations are subject to regulatory requirements that prescribe the type, quality and concentrations of investments, and the level of assets to be maintained in local currency to meet insurance liabilities.

The group monitors specific risks on a regular basis through the group risk monitoring framework. Business units are required to disclose to the group risk function all material risks, along with information on likelihood and severity of risks, and the mitigating actions taken or planned. This enables the group to assess its overall risk exposure and to develop a group-wide risk map, identifying any concentration of risk that may exist, and to define which risks and what level of risk the group is prepared to accept. The risk map is reviewed quarterly, and business units are required to escalate material changes intra-quarter.

3.3 Fair value estimation

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

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

31 December 2011

GROUP Financial assets	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	3 360	–	–	3360
Unitised funds	–	80	–	80
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	414	414
Total equity securities	**3 362**	**80**	**414**	**3 856**
Debt securities				
Quoted				
Government and public bonds	1 575	182	–	1 757
Unitised funds	–	392	–	392
Money market instruments > 1 year	–	1 371	–	1 371
Unquoted				
Government and public bonds	–	167	–	167
Money market instruments > 1 year	–	2 197	–	2 197
Redeemable preference shares	–	–	276	276
Total debt securities	**1 575**	**4 309**	**276**	**6 160**
Derivatives				
Interest rate swaps	–	–	1	1
Total derivatives	**–**	**–**	**1**	**1**
Short-term money market instruments	**–**	**1 775**	**–**	**1 775**
	4 937	**6 164**	**691**	**11 792**

GROUP Financial liabilities	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Debt securities	**988**	**–**	**–**	**988**
Investment contracts	**–**	**104**	**–**	**104**
	988	**104**	**–**	**1 092**

COMPANY Financial assets	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	3 274	–	–	3274
Unitised funds	–	9	–	9
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	14	14
Total equity securities	**3 276**	**9**	**14**	**3 299**
Debt securities				
Quoted				
Government and public bonds	1 378	118	–	1 496
Unitised funds	–	392	–	392
Money market instruments > 1 year	–	996	–	996
Unquoted				
Government and public bonds	–	167	–	167
Money market instruments > 1 year	–	987	–	987
Redeemable preference shares	–	–	272	272
Total debt securities	**1 378**	**2 660**	**272**	**4 310**
Derivatives				
Interest rate swaps	–	–	1	1
Total derivatives	**–**	**–**	**1**	**1**
Short-term money market instruments	**–**	**1 270**	**–**	**1 270**
	4 654	**3 939**	**287**	**8 880**

COMPANY Financial liabilities	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Debt securities	988	–	–	988
	988	**–**	**–**	**988**

31 December 2010

GROUP Financial assets	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	3 460	–	–	3 460
Unitised funds	–	36	–	36
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	334	334
Total equity securities	**3 462**	**36**	**334**	**3 832**
Debt securities				
Quoted				
Government and public bonds	1 816	–	–	1 816
Unitised funds	–	398	–	398
Money market instruments > 1 year	–	1 174	–	1 174
Unquoted				
Government and public bonds	–	195	–	195
Money market instruments > 1 year	–	354	–	354
Redeemable preference shares	–	–	309	309
Total debt securities	**1 816**	**2 122**	**309**	**4 246**
Short-term money market instruments	**–**	**3 685**	**–**	**3 685**
	5 278	**5 843**	**643**	**11 764**

GROUP Financial liabilities	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Debt securities	949	–	–	949
Investment contracts	–	495	–	495
Derivatives				
Interest rate swaps	–	–	1	1
Fence	–	–	74	74
Total derivatives	**–**	**–**	**75**	**75**
	949	**495**	**75**	**1 519**

COMPANY Financial assets	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	3 155	–	–	3 155
Unitised funds	–	9	–	9
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	12	12
Total equity securities	**3 157**	**9**	**12**	**3 178**
Debt securities				
Quoted				
Government and public bonds	1 558	–	–	1 558
Money market instruments > 1 year	–	1 038	–	1 038
Unquoted				
Government and public bonds	–	195	–	195
Money market instruments > 1 year	–	354	–	354
Redeemable preference shares	–	–	295	295
Total debt securities	**1 558**	**1 962**	**295**	**3 815**
Short-term money market instruments	**–**	**1 689**	**–**	**1 689**
	4 715	**3 660**	**307**	**8 682**

COMPANY Financial liabilities	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Debt securities	949	–	–	949
Derivatives				
Interest rate swaps	–	–	1	1
Fence	–	–	74	74
Total derivatives	**–**	**–**	**75**	**75**
	949	**–**	**75**	**1 024**

Level 1

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

Level 2

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

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

Level 3

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

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

- Unquoted equity instruments
  - Fair value is determined based on valuation techniques where the input is determined by management, e.g. multiples of net asset value, and is not readily available in the market or where market observable input is significantly adjusted. Valuations are generally based on price/earnings multiples ranging between 2 and 10 with discounts applied between 10% and 80% based on the profit history of the company. A 10% decrease or increase in the valuation multiple would decrease or increase the market value by R3.1 million (2010: R1.5 million). A 1% increase in the discount rate would result in a RNil (2010: R4.6 million) decrease in the fair value of these instruments, but a 1% decrease in the discount rate would result in a RNil (2010: R4.8 million) increase in the fair value, resulting in similar decreases and increases in investment income.

- Unquoted redeemable preference shares
  - Instruments with limited duration and low credit risk are valued at nominal values
  - Other instruments are valued based on variable rate instruments available in the market with similar maturity dates or by using discounted cash flow calculations using the R153 and R206 risk-free rate (depending on the instrument's maturity date) as the discount rate. As at 31 December 2011 there were no such instruments. At 31 December 2010 a 1% increase in the discount rate would have resulted in a R1.1 million decrease in the fair value of these instruments, but a 1% decrease in the discount rate would have resulted in a R1.1 million increase in the fair value, resulting in similar decreases and increases in investment income.
- Derivatives
  - The interest rate swaps are valued using Sanlam Investment Managers' (SIM) swap curve to separately discount (i.e. calculate the present value) the future flows of the fixed and floating leg. The market value of the swap is the sum of these two present values. A 1% increase in the discount rate would result in a R4.5 million (2010: R4.5 million) decrease in the fair value of these instruments, but a 1% decrease in the discount rate would result in a R4.8 million (2010: R4.8 million) increase in the fair value, resulting in similar decreases and increases in investment income.
  - The fence derivative structure was valued on SIM's Murex valuation system applying Black-Schöles pricing methodologies on all the vanilla type instruments, and Sanlam's proprietary models for all exotic instruments. These proprietary models were based on Black-Schöles assumptions. Black-Schöles uses the following inputs:
    - Risk-free rate
    - Volatilities
    - Dividend yields
    - Spot prices (the Top 40 index)
    - Term of the structure

    The risk-free curve is constructed using treasury bills in the short end and government bonds in the medium and long term. The risk-free rate is extracted off the curve. The volatility is fixed as at trade date as supplied by the counterparty bank. The dividend yields are based on forecasts available from Reuters.

    The two fence structures entered into in September 2010 and October 2010 for the purpose of protecting R1 billion and R750 million of Santam's equity portfolio respectively were both unwound during July 2011 and August 2011 and a profit of R5 million was realised over the term of the contracts.

The following table presents the changes in level 3 instruments

31 December 2011 GROUP	Equity securities Unquoted R million	Debt securities Unquoted Redeemable preference shares R million	Derivatives R million	Total R million
Opening balance	334	309	(75)	**568**
Acquisitions	2	5	–	**7**
Interest and dividends capitalised	–	–	–	**–**
Disposals	–	(38)	(4)	**(42)**
Exchange rate differences	65	–	–	**65**
Gains/(losses) recognised in profit or loss	13	–	80	**93**
Closing balance	**414**	**276**	**1**	**691**
COMPANY				
Opening balance	12	295	(75)	**232**
Acquisitions	–	–	–	**–**
Interest and dividends capitalised	–	–	–	**–**
Disposals	–	(23)	(4)	**(27)**
Exchange rate differences	–	–	–	**–**
Gains/(losses) recognised in profit or loss	2	–	80	**82**
Closing balance	**14**	**272**	**1**	**287**

31 December 2010 GROUP	Equity securities Unquoted R million	Debt securities Unquoted Redeemable preference shares R million	Derivatives R million	Total R million
Opening balance	319	396	(117)	598
Acquisitions	1	–	–	1
Interest and dividends capitalised	–	68	–	68
Disposals	(2)	(154)	–	(156)
Exchange rate differences	(42)	–	–	(42)
Gains/(losses) recognised in profit or loss	58	(1)	42	99
Closing balance	334	309	(75)	568
COMPANY				
Opening balance	14	392	(117)	288
Acquisitions	–	–	–	–
Interest and dividends capitalised	–	58	–	58
Disposals	(2)	(154)	–	(156)
Exchange rate differences	–	–	–	–
Gains/(losses) recognised in profit or loss	–	(1)	42	41
Closing balance	12	295	(75)	231

3.4 Market risk

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

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

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

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

3.4.1 Price risk

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

The group's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling methods. The group's holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by management and statutory requirements. The group's largest investment in any one company comprises 8.3% (2010: 7.4%) of the total listed equities and 1.5% (2010: 1.5%) of the total assets. The company's largest investment in any one company comprises 8.3% (2010: 7.5%) of the total listed equities and 1.7% (2010: 1.7%) of the total assets.

The company had two fence structures in place (which were entered into during 2010) for a portion of the year aiming to protect the first 9% loss from market levels at the time of entering into the structures on R1 billion and R750 million of the company's equity portfolio respectively. These structures were unwound during July and August 2011 at a profit of R5 million to the company.

At 31 December 2011, the group's listed equities were recorded at their fair value of R3 442 million (2010: R3 498 million). These figures include linked policy investments to the value of R10 million (2010: R252 million). The group is not exposed to significant price risk in respect of these investments. A 10% decline in each individual share price would have the net effect of decreasing profit before taxation by R344 million (2010: R350 million), before taking into account the effect of the derivative. A 10% increase in each individual share price would have the net effect of increasing profit before taxation by R344 million (2010: R350 million), before taking into account the effect of the derivative. The company's listed equities were recorded at their fair value of R3 285 million (2010: R3 166 million). A 10% decline in each individual share price would have the net effect of decreasing profit before taxation by R329 million (2010: R317 million), before taking into account the effect of the derivative. A 10% increase in each individual share price would have the net effect of increasing profit before taxation by R329 million (2010: R317 million), before taking into account the effect of the derivative (refer note 3.3 for effect of derivative).

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

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

3.4.2 Interest rate risk

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

Interest rate risk is also managed using derivative instruments, such as swaps, to provide a degree of hedging against unfavourable market movements in interest rates. At 31 December 2011, the group had an interest rate swap agreement to partially mitigate the effects of potential adverse interest rate movements on financial assets underlying the unsecured subordinated callable notes.

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing.

An increase or decrease of 1% in the respective interest rates would result in the following changes in the fair values of these financial instruments:

	2011		2010	
GROUP Financial assets	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
Quoted debt securities	(70.6)	70.6	(85.5)	85.5
Unquoted debt securities	(5.7)	5.7	(7.7)	7.7
Short-term money market instruments	(1.5)	1.5	(3.7)	3.7
Total interest-bearing securities	(77.8)	77.8	(96.8)	96.9

An increase or decrease of 1% in the interest rates relating to interest-bearing securities would result in a decrease in income before taxation of R9.8 million (2010: R43.4 million) or an increase in income before taxation of R9.8 million (2010: R43.4 million) respectively.

	2011		2010	
GROUP Financial liabilities	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
Debt securities – quoted	41.8	(41.8)	44.8	(44.8)
Derivative instruments	(4.5)	4.8	(4.5)	4.8
Total interest-bearing securities	37.3	(37.0)	40.3	(40.1)

An increase or decrease of 1% in the interest rates relating to debt securities and derivative instruments would result in an increase in income before taxation of R37.3 million (2010: R40.3 million) or a decrease in income before taxation of R37.0 million (2010: R40.1 million) respectively.

COMPANY Financial assets	2011 1% increase R million	2011 1% decrease R million	2010 1% increase R million	2010 1% decrease R million
Quoted debt securities	(63.1)	63.1	(75.7)	75.8
Unquoted debt securities	(4.7)	4.7	(7.5)	7.5
Short-term money market instruments	(0.5)	0.5	(1.2)	1.2
Total interest-bearing securities	(68.3)	68.3	(84.5)	84.6

An increase or decrease of 1% in the interest rates relating to interest-bearing securities would result in a decrease in income before taxation of R26.4 million (2010: R49.8 million) or an increase in income before taxation of R26.4 million (2010: R49.9 million) respectively.

COMPANY Financial liabilities	2011 1% increase R million	2011 1% decrease R million	2010 1% increase R million	2010 1% decrease R million
Debt securities – quoted	41.8	(41.8)	44.8	(44.8)
Derivative instruments	(4.5)	4.8	(4.5)	4.8
Total interest-bearing securities	37.3	(37.0)	40.3	(40.1)

An increase or decrease of 1% in the interest rates relating to debt securities and derivative instruments would result in an increase in income before taxation of R37.3 million (2010: R40.3 million) or a decrease in income before taxation of R37.0 million (2010: R40.1 million) respectively.

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

3.4.3 Foreign currency risk

The group's exposure to currency risk is mainly in respect of foreign investments made in line with the long-term strategy approved by the board for seeking desirable international diversification of investments to expand its income stream. The company has investments in foreign subsidiaries whose net assets are exposed to currency translation risk, primarily to the British pound. In addition, the southern African operations have foreign exchange exposure in respect of net monetary assets denominated in foreign currency, predominantly US dollar and the British pound.

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

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

31 December 2011 GROUP	Euro € million	United States dollar $ million	British pound £ million	Total exposure R million
Cash, deposits and similar securities	0.64	68.09	6.23	641
Reinsurance assets	–	0.87	–	7
Deferred acquisition costs	–	0.18	–	1
Trade and other receivables	0.13	4.82	0.26	47
Insurance liabilities	–	(2.29)	–	(20)
Deferred reinsurance acquisition revenue	–	(0.09)	–	(1)
Trade and other payables	–	(0.55)	(12.82)	(165)
Foreign currency exposure	0.77	71.03	(6.33)	510
COMPANY				
Cash, deposits and similar securities	0.64	57.06	6.23	551
Reinsurance assets	–	0.87	–	7
Deferred acquisition costs	–	0.18	–	1
Trade and other receivables	0.13	4.82	0.26	47
Insurance liabilities	–	(2.29)	–	(20)
Deferred reinsurance acquisition revenue	–	(0.09)	–	(1)
Trade and other payables	–	(0.55)	(12.82)	(165)
Foreign currency exposure	0.77	60.00	(6.33)	420
Exchange rates:				
Closing rate	10.4822	8.0730	12.5471	
Average rate	10.0576	7.2203	11.5862	

31 December 2010 GROUP	Euro € million	United States dollar $ million	British pound £ million	Total exposure R million
Cash, deposits and similar securities	0.35	56.91	5.18	437
Reinsurance assets	–	1.93	–	13
Deferred acquisition costs	–	0.58	–	5
Trade and other receivables	–	0.87	–	5
Insurance liabilities	(0.02)	(5.99)	–	(43)
Deferred reinsurance acquisition revenue	–	(0.37)	–	(2)
Trade and other payables	–	(0.56)	(12.82)	(135)
Foreign currency exposure	**0.33**	**53.37**	**(7.64)**	**280**
COMPANY				
Cash, deposits and similar securities	0.35	42.91	5.18	340
Reinsurance assets	–	1.93	–	13
Deferred acquisition costs	–	0.58	–	5
Trade and other receivables	–	0.87	–	5
Insurance liabilities	(0.02)	(4.99)	–	(36)
Deferred reinsurance acquisition revenue	–	(0.37)	–	(2)
Trade and other payables	–	(0.56)	(12.82)	(135)
Foreign currency exposure	**0.33**	**40.37**	**(7.64)**	**190**
Exchange rates:				
Closing rate	8.8810	6.6162	10.3627	
Average rate	9.6753	7.3035	11.2858	

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

GROUP	10% increase in rand/GBP R million	10% decrease in rand/GBP R million	10% increase in rand/USD R million	10% decrease in rand/USD R million
Impact on net assets at 31 December 2011	(7.94)	7.94	57.34	(57.34)
Impact on net assets at 31 December 2010	(7.92)	7.92	35.32	(35.32)
COMPANY				
Impact on net assets at 31 December 2011	(7.94)	7.94	48.44	(48.44)
Impact on net assets at 31 December 2010	(7.92)	7.22	26.71	(26.71)

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

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

3.4.4 Derivatives risk

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

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

3.5 Credit risk

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

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

Santam determines counterparty credit quality by reference to ratings from independent ratings agencies such as Standard & Poor's or, where such ratings are not available, by internal analysis. Internal ratings were used for assets amounting to R406 million (2010: R1 746 million) in the group and for assets amounting to R335 million (2010: R1 549 million) in the company. Santam seeks to avoid concentration of credit risk to groups of counterparties, to business sectors, product types, and geographical segments.

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

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

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

31 December 2011	Credit rating									
GROUP	AAA R million	AA+ R million	AA R million	AA- R million	A+ R million	A R million	A- R million	BBB R million	Not rated R million	Carrying value R million
Debt securities – quoted	335	336	709	1 012	321	186	5	616	–	3 520
Debt securities – unquoted	284	196	1 128	580	431	6	15	–	–	2 640
Total	**619**	**532**	**1 837**	**1 592**	**752**	**192**	**20**	**616**	**–**	**6 160**
Short-term money market instruments	**135**	**250**	**605**	**395**	**204**	**10**	**50**	**86**	**40**	**1 775**
Receivables due from contract holders/intermediaries	–	18	16	–	18	–	–	–	1 095	1 147
Reinsurance receivables	–	3	–	41	5	3	10	81	79	222
Other loans and receivables	52	15	18	13	9	2	–	7	351	467
Derivatives	–	–	1	–	–	–	–	–	–	1
Total	**52**	**36**	**35**	**54**	**32**	**5**	**10**	**88**	**1 525**	**1 837**
Cash and cash equivalents	**196**	**1 053**	**194**	**27**	**89**	**33**	**5**	**–**	**1**	**1 598**
COMPANY										
Debt securities – quoted	201	330	603	895	257	160	–	438	–	2 884
Debt securities – unquoted	5	196	569	389	252	–	15	–	–	1 426
Total	**206**	**526**	**1 172**	**1 284**	**509**	**160**	**15**	**438**	**–**	**4 310**
Short-term money market instruments	**88**	**250**	**488**	**276**	**86**	**–**	**–**	**82**	**–**	**1270**
Receivables due from contract holders/intermediaries	–	18	16	–	17	–	–	–	860	911
Reinsurance receivables	–	2	–	5	–	–	–	81	7	95
Other loans and receivables	2	7	18	12	8	2	–	5	872	926
Derivatives	–	–	1	–	–	–	–	–	–	1
Total	**2**	**27**	**35**	**17**	**25**	**2**	**–**	**86**	**1 739**	**1 933**
Cash and cash equivalents	**–**	**747**	**113**	**20**	**50**	**–**	**–**	**–**	**–**	**930**
31 December 2010										
GROUP										
Debt securities – quoted	1 372	106	463	942	246	193	–	62	2	3 388
Debt securities – unquoted	70	–	313	288	145	–	30	–	14	858
Total	**1 442**	**106**	**776**	**1 230**	**391**	**193**	**30**	**62**	**16**	**4 247**
Short-term money market instruments	**991**	**87**	**1 261**	**464**	**677**	**4**	**10**	**91**	**100**	**3 685**
Receivables due from contract holders/intermediaries	21	–	18	–	16	–	–	–	970	1 025
Reinsurance receivables	11	70	1	26	22	14	23	79	53	300
Other loans and receivables	23	1	14	17	29	4	–	1	321	410
Total	**55**	**71**	**33**	**43**	**67**	**18**	**23**	**80**	**1 344**	**1 735**
Cash and cash equivalents	**691**	**66**	**2**	**161**	**152**	**40**	**24**	**8**	**–**	**1 143**

	Credit rating									
	AAA	AA+	AA	AA-	A+	A	A-	BBB	Not rated	Carrying value
	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
COMPANY										
Debt securities – quoted	1 087	98	417	917	228	186	–	38	–	2 971
Debt securities – unquoted	70	–	313	287	144	–	30	–	–	844
Total	**1 157**	**98**	**730**	**1 204**	**372**	**186**	**30**	**38**	**–**	**3 815**
Short-term money market instruments	**477**	**16**	**747**	**140**	**309**	**–**	**–**	**–**	**–**	**1 689**
Receivables due from contract holders/intermediaries	21	–	18	–	16	–	–	–	709	764
Reinsurance receivables	11	16	1	20	18	14	19	54	24	177
Other loans and receivables	21	1	14	11	8	4	–	1	365	425
Total	**53**	**17**	**33**	**31**	**42**	**18**	**19**	**55**	**1 098**	**1 366**
Cash and cash equivalents	**500**	**–**	**–**	**94**	**7**	**40**	**–**	**–**	**–**	**641**

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

Receivables that are due from contract holders and intermediaries emanating from the southern African business amounted to R1 147 million (2010: R1 025 million). The group is protected by guarantees provided by the Intermediary Guarantee Facility for the non-payment of premiums collected by intermediaries and through direct control over certain bank accounts used by intermediaries. The protected portion of receivables due from contract holders and intermediaries amounts to 58.6% (2010: 37.2%). For the company, this amounts to 66.2% (2010: 40.5%). Debtors falling into the 'Not rated' category are managed by the internal credit control departments on a daily basis to ensure recoverability of amounts.

The group's financial instruments, except for amounts owed by reinsurers, do not represent a concentration of credit risk, because the group deals with a variety of major banks and its accounts receivable is spread among a number of major companies and intermediary parties, customers and geographic areas.

Reinsurance credit exposures

Reinsurance is used to manage insurance risk. However, this does not discharge the group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the group remains liable for the payment to the policyholder. The group has some exposure to concentration risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The creditworthiness of reinsurers is considered annually by reviewing their financial strength prior to finalisation of any contract. The group's largest reinsurance counterparty is Lloyds (2010: Lloyds). This exposure is monitored on a regular basis with the forecast to completion monitored for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for the group will arise. BBB-rated reinsurance receivables of R81 million (2010: R79 million) relate to reinsurance intermediaries for the group. In the company BBB-rated reinsurance receivables of R81 million (2010: R54 million) relate to reinsurance intermediaries. The reinsurance receivable balances, disclosed as not rated on a group level, relate to cell owners (2011: R35 million, 2010: R31 million) and reinsurance intermediaries.

Cell owners' interest

In the event that claims incurred by the cell captive exceed the related assets, the group will be exposed to the credit risk of the related cell owners until the solvency requirements of the cell captives have been met by the cell owner.

Cell owners' credit risk is evaluated before new cell arrangements are established. Solvency levels of cells are assessed on a regular basis.

Impairment history

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

At 31 December 2011

GROUP	Neither past due nor impaired R million	Financial assets that are past due but not impaired: 0 – 3 months R million	3 – 6 months R million	6 months – 1 year R million	Greater than 1 year R million	Financial assets that have been impaired R million	Impair-ment R million	Carrying value R million
Debt securities – quoted	3 520	–	–	–	–	–	–	3 520
Debt securities – unquoted	2 636	–	–	–	4	–	–	2 640
Total	**6 156**	**–**	**–**	**–**	**4**	**–**	**–**	**6 160**
Short-term money market instruments	**1 775**	**–**	**–**	**–**	**–**	**–**	**–**	**1 775**
Receivables due from contract holders/intermediaries	1 117	25	2	–	3	–	–	1 147
Reinsurance receivables	86	47	72	11	6	9	(9)	222
Other loans and receivables	423	15	29	–	–	108	(108)	467
Derivatives	1	–	–	–	–	–	–	1
Total	**1 627**	**87**	**103**	**11**	**9**	**117**	**(117)**	**1 837**
Cash and cash equivalents	**1 598**	**–**	**–**	**–**	**–**	**–**	**–**	**1 598**
COMPANY								
Debt securities – quoted	2 884	–	–	–	–	–	–	2 884
Debt securities – unquoted	1 426	–	–	–	–	–	–	1 426
Total	**4 310**	**–**	**–**	**–**	**–**	**–**	**–**	**4 310**
Short-term money market instruments	**1 270**	**–**	**–**	**–**	**–**	**–**	**–**	**1 270**
Receivables due from contract holders/intermediaries	911	–	–	–	–	–	–	911
Reinsurance receivables	–	21	55	10	9	9	(9)	95
Other loans and receivables	926	–	–	–	–	94	(94)	926
Derivatives	1	–	–	–	–	–	–	1
Total	**1 838**	**21**	**55**	**10**	**9**	**103**	**(103)**	**1 933**
Cash and cash equivalents	**930**	**–**	**–**	**–**	**–**	**–**	**–**	**930**

At 31 December 2010

GROUP	Neither past due nor impaired R million	Financial assets that are past due but not impaired: 0 – 3 months R million	3 – 6 months R million	6 months – 1 year R million	Greater than 1 year R million	Financial assets that have been impaired R million	Impair-ment R million	Carrying value R million
Debt securities – quoted	3 388	–	–	–	–	–	–	3 388
Debt securities – unquoted	856	–	–	–	–	–	–	858
Total	**4 246**	**–**	**–**	**–**	**–**	**–**	**–**	**4 246**
Short-term money market instruments	**3 685**	**–**	**–**	**–**	**–**	**–**	**–**	**3 685**
Receivables due from contract holders/intermediaries	977	37	10	–	–	–	–	1 024
Reinsurance receivables	186	56	40	19	1	4	(4)	300
Other loans and receivables	405	5	–	–	–	56	(56)	410
Total	**1 568**	**97**	**50**	**19**	**2**	**58**	**(60)**	**1 734**
Cash and cash equivalents	**1 143**	**–**	**–**	**–**	**–**	**–**	**–**	**1 143**
COMPANY								
Debt securities – quoted	2 971	–	–	–	–	–	–	2 971
Debt securities – unquoted	844	–	–	–	–	–	–	844
Total	**3 815**	**–**	**–**	**–**	**–**	**–**	**–**	**3 815**
Short-term money market instruments	**1 689**	**–**	**–**	**–**	**–**	**–**	**–**	**1 689**
Receivables due from contract holders/intermediaries	764	–	–	–	–	–	–	764
Reinsurance receivables	140	–	18	18	1	4	(4)	177
Other loans and receivables	425	–	–	–	–	92	(92)	425
Total	**1 329**	**–**	**18**	**18**	**1**	**96**	**(96)**	**1 366**
Cash and cash equivalents	**641**	**–**	**–**	**–**	**–**	**–**	**–**	**641**

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

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

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

3.6 Insurance risk

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

Terms and conditions of insurance contracts

Engineering – Provides cover for risks relating to:

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

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

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

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

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

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

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

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

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

Insurance risk in the group arises from:

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

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

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

Pricing

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

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

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

Loss history	2011	2010	2009	2008	2007	2006	2005
Net claims paid and provided %*	64.2	64.1	70.6	68.4	68.2	68.6	65.3

** Expressed as a percentage of net earned premiums*

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

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

The group underwrites insurance contracts in southern Africa.

Reserving

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

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

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

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

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

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

Accumulation risk

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

Reinsurance

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

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

- Individual excess-of-loss cover for property, liability and engineering risks, which provides protection to limit losses to the range of R25 million to R50 million per risk, excluding reinstatement premiums due as a result of the claim against the cover
- Catastrophe cover to the extent of 1.6% of the total exposure of the significant geographical areas, amounting to protection of up to R6.5 billion per event in excess of an attachment point or R50 million.

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

3.7 Liquidity risk

Liquidity risk is the risk that the business will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk arises when there is mismatching between the maturities of liabilities and assets.

The group is exposed to daily calls on its available cash resources from claims. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The board sets limits on the minimum proportion of maturing funds available to meet such calls.

The group actively manages its cash resources, split between short term and long term to ensure sufficient cash is at hand to settle insurance liabilities, based on monthly cash flow projections. The group has significant liquid resources to cover its obligations.

Insurance liabilities are presented on an undiscounted contractual cash flow basis.

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

31 December 2011

GROUP Financial assets	< 1 year R million	1 to 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
Debt securities – quoted	429	1 997	1 094	–	3 520
Debt securities – unquoted	130	2 510	–	–	2 640
Total	**559**	**4 507**	**1 094**	**–**	**6 160**
Short-term money market instruments	**1 775**	**–**	**–**	**–**	**1 775**
Receivables due from contract holders/intermediaries	1 147	–	–	–	1 147
Reinsurance receivables	222	–	–	–	222
Other loans and receivables	414	48	–	5	467
Reinsurance assets (incl DAC)	1 477	316	39	–	1 832
Derivatives	–	–	1	–	1
Total	**3 260**	**364**	**40**	**5**	**3 669**
Cash and cash equivalents	**1 597**	**1**	**–**	**–**	**1 598**

GROUP Financial liabilities	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
Debt securities	83	330	1 058	1 471
Investment contracts	56	48	–	1-4
Cell owners' interest	60	543	–	603
Collateral guarantee contracts	114	–	–	114
Insurance liabilities (incl Reinsurance DAC)	6 953	1 437	187	8 577
Trade and other payables	1 800	28	–	1 828
Total	**9 066**	**2 386**	**1 245**	**12 697**

COMPANY Financial assets	< 1 year R million	1 to 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
Debt securities – quoted	413	1 556	915	–	2 884
Debt securities – unquoted	130	1 296	–	–	1 426
Total	**543**	**2 852**	**915**	**–**	**4 310**
Short-term money market instruments	**1 270**	**–**	**–**	**–**	**1 270**
Receivables due from contract holders/intermediaries	911	–	–	–	911
Reinsurance receivables	95	–	–	–	95
Other loans and receivables	926	–	–	–	926
Reinsurance assets (incl DAC)	1 273	259	36	–	1 568
Derivatives	–	–	1	–	1
Total	**3 205**	**259**	**37**	**–**	**3 501**
Cash and cash equivalents	**930**	**–**	**–**	**–**	**930**

COMPANY Financial liabilities	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
Debt securities	83	330	1 058	1 471
Collateral guarantee contracts	114	–	–	114
Insurance liabilities (incl Reinsurance DAC)	5 122	1 302	181	6 605
Trade and other payables	1 671	–	–	1 671
Total	**6 990**	**1 632**	**1 239**	**9 861**

31 December 2010

GROUP Financial assets	< 1 year R million	1 to 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
Debt securities – quoted	476	1 709	1 203	–	3 388
Debt securities – unquoted	74	758	27	–	858
Total	**550**	**2 467**	**1 230**	**–**	**4 246**
Short-term money market instruments	**3 685**	**–**	**–**	**–**	**3 685**
Receivables due from contract holders/intermediaries	1 025	–	–	–	1 025
Reinsurance receivables	300	–	–	–	300
Other loans and receivables	394	17	–	–	410
Reinsurance assets (incl DAC)	1 302	211	4	–	1 518
Total	**3 021**	**228**	**4**	**–**	**3 253**
Cash and cash equivalents	**1 143**	**–**	**–**	**–**	**1 143**

GROUP Financial liabilities	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
Debt securities	83	330	1 141	1 554
Investment contracts	453	42	–	495
Derivatives	74	–	1	75
Cell owners' interest	51	526	–	577
Collateral guarantee contracts	108	–	–	108
Insurance liabilities (incl DAC)	6 447	1 370	28	7 845
Trade and other payables	1 890	–	–	1 890
Total	**9 105**	**2 269**	**1 170**	**12 544**

COMPANY Financial assets	< 1 year R million	1 – 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
Debt securities – quoted	450	1 507	1 015	–	2 971
Debt securities – unquoted	59	758	27	–	844
Total	**509**	**2 265**	**1 041**	**–**	**3 815**
Short-term money market instruments	**1 689**	**–**	**–**	**–**	**1 689**
Receivables due from contract holders/intermediaries	764	–	–	–	764
Reinsurance receivables	177	–	–	–	177
Other loans and receivables	425	–	–	–	425
Reinsurance assets (incl DAC)	1 133	282	7	–	1 422
Total	**2 499**	**282**	**7**	**–**	**2 788**
Cash and cash equivalents	**641**	**–**	**–**	**–**	**641**

COMPANY Financial liabilities	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
Debt securities	83	330	1 141	1 554
Derivatives	74	–	1	75
Collateral guarantee contracts	108	–	–	108
Insurance liabilities (incl Reinsurance DAC)	4 837	1 204	27	6 068
Trade and other payables	1 509	–	–	1 509
Total	**6 611**	**1 534**	**1 169**	**9 314**

3.8 Operational risk

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

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

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

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

3.9 Legal risk

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

3.10 Capital risk management

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

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

3.10.1 Quantification of risk

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

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

The model incorporates the following areas of risk:

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

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

Market risk

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

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

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

Underwriting risk

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

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

Reserve risk

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

Santam holds its technical reserves at a minimum of the 75th percentile level of sufficiency in accordance with regulatory guidelines and global best practice. An additional capital amount is held to bring the reserve sufficiency up to the 99.5th percentile at a company level.

Credit risk

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

The solvency capital required for credit risk is calculated by multiplying the aggregate exposure to a reinsurer by a probability of default based on its international credit rating.

Operational and other risks

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

Internal capital requirements

The results of the internal model indicate that Santam requires solvency capital in the range of 20% to 25% of net written premium which is just below the current regulatory solvency level of 25% of net written premium.

3.10.2 Target capital

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

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

Santam's solvency margin has historically been well above the statutory limit of 25%. The statutory solvency margin is based on the individual company's capital, excluding intangible assets, prepaid expenses and non-approved reinsurance assets and liabilities (refer note 44).

3.10.3 Source of capital

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

FSB approval was obtained for the debt issue, and Santam obtained regulatory "equity credit" for the fair value of the full R1 billion debt in issue (refer note 18).

3.10.4 Capital allocation

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

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

3.10.5 Risk appetite

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

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

It is within this risk appetite framework that Santam has selected its asset allocation and reinsurance programme which are among the most important determinants of risk and hence capital requirements within the organisation.

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

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

4. SEGMENT INFORMATION

Segments have been identified by business activity, i.e. insurance activities and investment activities, as these activities mainly affect the group's risks and returns. No geographical segmentation is disclosed as southern Africa is regarded as one reportable segment for management purposes.

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

The group's internal reporting is reviewed in order to assess performance and allocate resources. The operating segments identified are representative of the internal structure of the group.

Two core activities of the group, i.e. insurance activities, and investment activities, are reviewed 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.

The performance of insurance activities is considered based on gross written premium as a measure of growth as well as underwriting result and net insurance result as a measure of profitability.

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

Business activity	Insurance activities R million	Investment activities R million	Total R million
2011			
Revenue	17 707	468	**18 175**
Gross written premium	17 707		**17 707**
Net written premium	14 674		**14 674**
Net earned premium	14 652		**14 652**
Claims incurred	9 404		**9 404**
Net commission	2 003		**2 003**
Management expenses	2 103	11	**2 114**
Underwriting result	1 142	(11)	**1 131**
Investment return on insurance funds	388		**388**
Net insurance result	1 530	(11)	**1 519**
Investment income net of management fee*		355	**355**
Income from associates net of impairment		85	**85**
Amortisation and impairment of intangible assets	(68)		**(68)**
Income before taxation	1 462	429	**1 891**
Total assets	8 398	10 291	**18 689**
Total liabilities	11 560	988	**12 548**

** Interest income of R48 million and finance costs of R94 million are included.*

2010			
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*		840	**840**
Income from associates		69	**69**
Amortisation of intangible asset	(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**

** Interest income of R139 million and finance costs of R120 million are included.*

Insurance activities

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

Insurance class	Gross written premium R million	Underwriting result R million	Total assets* R million	Total liabilities* R million
2011				
Accident and health	286	45	31	137
Alternative risk	1 924	(5)	354	1 941
Crop	575	12	234	386
Engineering	736	120	167	382
Guarantee	17	9	6	20
Liability	1 157	142	341	1 950
Miscellaneous	16	1	1	13
Motor	7 621	471	48	1 608
Property	4 981	256	612	1 930
Transportation	394	91	39	212
Unallocated	–	(11)	16 855	3 969
Total	17 707	1 131	18 689	12 548
Comprising:				
Commercial insurance	8 844	940	1 425	5 403
Personal insurance	6 939	207	55	1 236
Alternative risk	1 924	(5)	354	1 941
Unallocated	–	(11)	16 855	3 969
Total	17 707	1 131	18 689	12 548

Insurance class	Gross written premium R million	Underwriting result R million	Total assets* R million	Total liabilities* R million
2010				
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

** Only reinsurance assets and insurance liabilities, including deferred acquisition costs, have been allocated to insurance classes. The balance of assets and liabilities are disclosed for segment purposes under unallocated.*

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and other assets R million	Total R million
5. PROPERTY AND EQUIPMENT				
GROUP				
At 1 January 2010				
Cost or valuation	1	130	72	**203**
Accumulated depreciation	–	(106)	(50)	**(156)**
Net book amount	1	24	22	**47**
Year ended 31 December 2010				
Opening net book amount	1	24	22	**47**
Acquisition of subsidiaries	1	22	18	**41**
Additions	–	20	6	**26**
Depreciation charge	–	(18)	(8)	**(26)**
Closing net book amount	2	48	38	**88**
At 31 December 2010				
Cost or valuation	2	111	126	**239**
Accumulated depreciation	–	(63)	(88)	**(151)**
Net book amount	2	48	38	**88**
Year ended 31 December 2011				
Opening net book amount	2	48	38	**88**
Additions	–	26	13	**39**
Disposals	–	–	(9)	**(9)**
Depreciation charge	–	(27)	(11)	**(38)**
Closing net book amount	2	47	31	**80**
At 31 December 2011				
Cost or valuation	2	137	105	**244**
Accumulated depreciation	–	(90)	(74)	**(164)**
Net book amount	2	47	31	**80**
COMPANY				
At 1 January 2010				
Cost or valuation	1	118	61	**180**
Accumulated depreciation	–	(97)	(44)	**(141)**
Net book amount	1	21	17	**39**
Year ended 31 December 2010				
Opening net book amount	1	21	17	**39**
Additions	–	17	5	**22**
Depreciation charge	–	(15)	(6)	**(21)**
Closing net book amount	1	23	16	**40**
At 31 December 2010				
Cost or valuation	1	56	62	**119**
Accumulated depreciation	–	(33)	(46)	**(79)**
Net book amount	1	23	16	**40**
Year ended 31 December 2011				
Opening net book amount	1	23	16	**40**
Additions	–	16	3	**19**
Disposals	–	–	(9)	**(9)**
Depreciation charge	–	(16)	(5)	**(21)**
Closing net book amount	1	23	5	**29**
At 31 December 2011				
Cost or valuation	1	68	29	**98**
Accumulated depreciation	–	(45)	(24)	**(69)**
Net book amount	1	23	5	**29**

Depreciation expense has been included in expenses for marketing and administration in the statement of comprehensive income (refer note 29).

	Goodwill R million	Computer software R million	Value of business acquired R million	Brand, trademark and tradenames R million	Key business relationships R million	Total R million
6. INTANGIBLE ASSETS						
GROUP						
At 1 January 2010						
Cost	125	51	7	–	–	183
Translation difference	7	–	–			7
Impairment/Accumulated amortisation	(6)	(34)	(7)	–	–	(47)
Net book amount	126	17	–	–	–	143
Year ended 31 December 2010						
Opening net book amount	126	17	–	–	–	143
Acquisition of subsidiaries (refer note 37)	675	30	–	39	127	871
Acquisitions	–	1	–	–	–	1
Impairment	(10)	–	–	–	–	(10)
Amortisation	–	(10)	–	(1)	(6)	(17)
Closing net book amount	791	38	–	38	121	988
At 31 December 2010						
Cost	801	82	7	39	127	1 056
Impairment/Accumulated amortisation	(10)	(44)	(7)	(1)	(6)	(68)
Net book amount	791	38	–	38	121	988
Year ended 31 December 2011						
Opening net book amount	791	38	–	38	121	988
Acquisition of subsidiaries (refer note 37)	28	–	–	–	18	46
Acquisitions	–	28	–	–	–	28
Amortisation	–	(27)	–	(12)	(29)	(68)
Closing net book amount	819	39	–	26	110	994
At 31 December 2011						
Cost	829	110	7	39	145	1 130
Impairment/Accumulated amortisation	(10)	(71)	(7)	(13)	(35)	(136)
Net book amount	819	39	–	26	110	994
COMPANY						
At 1 January 2010						
Cost	–	39	2	–	–	41
Accumulated amortisation	–	(26)	(2)	–	–	(28)
Net book amount	–	13	–	–	–	13
Year ended 31 December 2010						
Opening net book amount	–	13	–	–	–	13
Amortisation	–	(7)	–	–	–	(7)
Closing net book amount	–	6	–	–	–	6
At 31 December 2010						
Cost	–	39	–	–	–	39
Accumulated amortisation	–	(33)	–	–	–	(33)
Net book amount	–	6	–	–	–	6
Year ended 31 December 2011						
Opening net book amount	–	6	–	–	–	6
Amortisation	–	(6)	–	–	–	(6)
Closing net book amount	–	–	–	–	–	–
At 31 December 2011						
Cost	–	39	–	–	–	39
Accumulated amortisation	–	(39)	–	–	–	(39)
Net book amount	–	–	–	–	–	–

Impairment tests of goodwill

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

	Group 2011 R million	2010 R million
Agri Risk Specialists (Pty) Ltd	19	19
Centriq Insurance Holdings Ltd	1	1
Indwe Broker Holdings (Pty) Ltd	356	356
Isure Services (Pty) Ltd	5	5
Mirabilis Engineering Underwriting Managers (Pty) Ltd	28	–
MiWay Group Holdings (Pty) Ltd	319	319
Stalker Hutchison Admiral (Pty) Ltd	91	91
	819	791

When testing for impairment, the recoverable amount of a CGU is determined based on discounted cash flow projections. The cash flow projections are based on budgets approved by management. Goodwill balances were assessed at year-end and no impairments were deemed necessary. The nature of goodwill mainly relates to employee skill and industry knowledge.

7. INVESTMENT IN SUBSIDIARIES

	Company 2011 R million	2010 R million
At the beginning of the year	1 843	1 503
Additional investment	84	340
Unlisted shares at cost price less amounts written off	1 927	1 843
Directors' valuation	3 227	3 175

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

Details of investments are set out in note 44.

8. INVESTMENT IN ASSOCIATES

	Group 2011 R million	2010 R million
GROUP		
At the beginning of the year	211	198
Acquisitions	–	17
Share of results after tax*	91	79
Share of results before tax	125	111
Share of tax	(34)	(32)
Dividends received from associated companies	(28)	(23)
Transfer to investment in subsidiaries	–	(66)
Impairment	–	6
At the end of the year	274	211
Fair value/Directors' valuation	392	315

Details of investments are set out in note 44.

** The share of results after tax include equity losses of R6 million (2010: R16 million) recognised against loans to associates.*

	Company	
	2011 R million	2010 R million
COMPANY		
At the beginning of the year	133	133
	133	133
Fair value/Directors' valuation	361	297
Dividend income received from associates	28	23
Total income from associates	28	23

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

2011	Assets R million	Liabilities R million	Revenues R million	After tax profit/(loss) R million
NICO Holdings Ltd	4 162	2 384	615	59
Credit Guarantee Insurance Corporation of Africa Ltd	1 142	654	784	182
Paladin Underwriting Managers (Pty) Ltd	144	130	163	2
Fame and Fortune Trading 152 (Pty) Ltd	21	22	28	(11)
Censeo (Pty) Ltd	20	12	80	8
Beyonda Group (Pty) Ltd	17	12	31	2
Other	5	10	12	(1)
Total	5 511	3 224	1 713	241
2010				
NICO Holdings Ltd	3 105	1 715	595	71
Credit Guarantee Insurance Corporation of Africa Ltd	1 013	652	779	128
Paladin Underwriting Managers (Pty) Ltd	150	137	158	2
Beyonda Group (Pty) Ltd	15	10	27	2
Other	37	38	4	–
Total	4 320	2 552	1 563	203

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME (EXCLUDING DERIVATIVES

The group's financial assets are summarised below by measurement category.

	Group		Company	
	2011 R million	2010 R million	2011 R million	2010 R million
Equity securities				
– quoted	3 442	3 498	3 285	3 166
– unquoted	414	334	14	12
	3 856	3 832	3 299	3 178
Debt securities				
– quoted				
government and other bonds	1 757	1 839	1 496	1 558
money market instruments (long-term instruments)	1 371	1 174	996	1 038
redeemable preference shares	392	375	392	375
– unquoted				
government and other bonds	167	195	167	195
money market instruments (long-term instruments)	2 197	354	987	354
redeemable preference shares	276	309	272	295
	6 160	4 246	4 310	3 815
Short-term money market instruments	1 775	3 685	1 270	1 689
Financial assets at fair value through income	11 791	11 763	8 879	8 682

Financial assets amounting to R44 million was pledged as collateral for the zero cost fence as at 31 December 2010.

The details of investments are set out on page 161.

	Group		Company	
	2011 R million	2010 R million	**2011 R million**	2010 R million
10. DERIVATIVES				
Financial assets – at fair value through income				
Over the counter				
Interest rate swaps	**1**	–	**1**	–
	1	–	**1**	–
Financial liability – at fair value through income				
Over the counter				
Interest rate swaps	**–**	1	**–**	1
Zero cost fence	**–**	74	**–**	74
	–	75	**–**	75

The interest rate derivatives represent the fair value of interest rate swaps effected on a portion (R113 million) of fixed interest securities held in the investment portfolio underlining the subordinated callable note (refer note 18). The interest rate swaps have the effect of swapping a variable interest rate for a fixed interest rate on these assets to eliminate interest rate risk on assets supporting the bond liability. The derivatives mature on 30 September 2016 and 10 June 2017.

The zero cost fence on the SWIX40 represents two equity derivatives that were entered into in September 2010 and October 2010 for the purpose of protecting R1 billion and R750 million of Santam's equity portfolio respectively. The first fence structure had an attachment point of 5311 (SWIX40 index) with downside protection of 9% from said point as well as upside participation of 18% from said point. The second fence had an attachment point of 5589 with downside protection of 9% and upside participation of 16%. As Santam's equity exposure tracks the SWIX on an enhanced index basis, a SWIX40 structure was the most appropriate match available. However, some basis risk exists to the extent that the underlying equity's exposure differs from the SWIX40. These structures were unwound during July and August 2011 at a realised profit of R5 million over the contract term.

11. REINSURANCE ASSETS				
Reinsurers' share of insurance liabilities	**1 500**	1 267	**1 292**	1 149
Total assets arising from reinsurance contracts	**1 500**	1 267	**1 292**	1 149

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

12. LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES				
Receivables arising from insurance and reinsurance contracts				
– due from contract holders/intermediaries	**1 147**	1 025	**911**	764
– due from reinsurers	**231**	304	**104**	181
– less provision for impairment of receivables from reinsurers	**(9)**	(4)	**(9)**	(4)
Other loans and receivables:				
– other receivables	**553**	446	**320**	234
– less provision for impairment	**(108)**	(56)	**(94)**	(54)
– loans to associated companies	**22**	20	**–**	–
– loans to subsidiaries	**–**	–	**738**	283
– less provision for impairment of loans to subsidiaries	**–**	–	**(38)**	(38)
Total	**1 836**	1 735	**1 932**	1 366

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

The carrying value of loans and receivables approximate fair value, except for loans to wholly owned subsidiaries. Provisions for impairment are based on the recoverability of individual loans and receivables.

13. CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	**1 598**	1 143	**930**	641
	1 598	1 143	**930**	641

	Group and Company Ordinary shares		Group Treasury shares	
	Number of shares (thousands)	Stated capital R million	Number of shares (thousands)	Stated capital R million
14. SHARE CAPITAL				
At 1 January 2010	119 346	107	6 493	660
Purchase of treasury shares			288	34
Reissue of treasury shares			(457)	(43)
At 31 December 2010	119 346	107	6 324	651
Purchase of treasury shares			289	37
Reissue of treasury shares			(527)	(53)
At 31 December 2011	**119 346**	**107**	**6 086**	**635**

The total authorised number of ordinary shares is 150 million shares of no par value and 12 million non-redeemable, non-participating, non-cumulative no par value preference shares. All issued shares are fully paid. Subject to the restrictions imposed by the Companies Act, 71 of 2008, as amended, the authorised and unissued shares are under the control of the directors until the forthcoming annual general meeting. Until the next annual general meeting the directors are authorised to issue 10 million of the unissued shares for any purpose and in accordance with such rules and conditions as they see fit.

In 2007 a subsidiary in the group acquired 6 972 940 Santam shares through a voluntary share buy-back offer on 20 April 2007 at R102 per share. In 2011, 145 500 shares were reissued in terms of the share option plan and 383 163 in terms of the deferred share plan (DSP). The net amount of these transactions has been deducted from shareholders' equity. The shares are held as "Treasury shares". The company has the right to reissue these shares at a later date subject to approval by the JSE and the Regulator.

15. SHARE OPTIONS

Share options were granted to executive directors, senior and middle management in prior years. The exercise prices of the granted options were equal to the market price of the shares on the date of the grant. Options were conditional on the employee remaining in service. The vesting period was five years and lapsed after the sixth year. Options could be exercised from the third year (provided the employee is still in service) in lots of 40% after three years, another 30% after the fourth year with the balance from the fifth year, fully exercised before the sixth year. The group had no legal or constructive obligation to repurchase or settle the options in cash.

Santam had two independent share incentive schemes; namely, an option scheme and a deferred payout/delivery scheme. With the introduction of the DSP in 2007, share options are no longer issued to employees, but the options issued were allowed to be exercised by option holders at the respective vesting periods. As at December 2011, both share incentive schemes have now run out.

In terms of the DSP, implemented during 2007, shares are granted to employees on a deferred delivery basis over a five-year period. The fair value used in determining the grant is based on the Santam share price five-day weighted average on grant date, adjusted for dividends not accruing to participants during the vesting period and expected employee attrition over the vesting period.

(i) Deferred share plan (DSP)

2010

The following shares were awarded and the delivery thereof deferred to a predetermined future date.

Date awarded	Latest irreversible date	Grant price	Number of shares
1 June 2007	31 May 2012	R94.53	166 688
17 September 2010	31 May 2012	R111.42	7 558
1 June 2008	31 May 2013	R74.91	611 140
17 September 2010	31 May 2013	R107.44	28 641
1 June 2009	31 May 2014	R66.81	586 198
17 September 2010	31 May 2014	R102.87	28 892
1 June 2010	31 May 2015	R92.99	556 339
17 September 2010	31 May 2015	R98.46	28 594
			2 014 050

Movements during the period	Average price	
As at 1 January 2010	R75.74	1 598 147
Shares awarded	R92.99	572 732
Shares awarded in lieu of special dividend	R103.61	93 685
Awarded shares lapsed due to resignations	R81.13	(111 717)
Shares issued	R92.23	(138 797)
As at 31 December 2010	R80.51	2 014 050

2011

Date awarded	Latest irreversible date	Grant price	
1 June 2007	31 May 2012	R94.53	74 084
17 September 2010	31 May 2012	R111.42	7 558
1 June 2008	31 May 2013	R74.91	337 028
17 September 2010	31 May 2013	R107.44	28 641
1 June 2009	31 May 2014	R66.81	537 428
17 September 2010	31 May 2014	R102.87	28 892
1 June 2010	31 May 2015	R92.99	525 717
17 September 2010	31 May 2015	R98.46	28 594
1 June 2011	31 May 2016	R113.94	402 660
			1 970 602

Movements during the period	Average price	
As at 1 January 2011	R80.51	2 014 050
Shares awarded	R113.94	417 480
Awarded shares lapsed due to resignations	R87.53	(77 765)
Shares issued	R79.01	(383 163)
As at 31 December 2011	R87.60	1 970 602

(ii) Share option scheme

2010

The following share options – which lapse after six years, when they become irreversible – were awarded and are outstanding in terms of the Santam Limited Share Incentive Scheme.

Date awarded	Latest irreversible date	Exercise price*	
10 November 2005	10 November 2011	R37.68	149 500
			1 943 500

Movements during the period	Average price	
As at 1 January 2010	R41.43	479 450
Awarded options lapsed due to resignations	R37.68	(19 850)
Options exercised	R35.53	(310 100)
As at 31 December 2010	R37.68	149 500

15. SHARE OPTIONS (continued)

2011	Date awarded	Latest irreversible date	Exercise price*	Number of shares
	10 November 2005	10 November 2011	R37.68	–
				–

Movements during the period	Average price	
As at 1 January 2011	R37.68	149 500
Awarded options lapsed due to resignations	R37.68	(4 000)
Options exercised	R37.68	(145 500)
As at 31 December 2011	R37.68	–

** On 22 September 2010 a special dividend of 500 cents per share was paid to shareholders. The exercise price of all options granted before that date was reduced with R5.00, but limited to R1.00. For those options where the new exercise price, after the R5.00 per share adjustment, was less than R1.00 the option holders received, on the relevant vesting dates, an amount equal to the calculated loss in fair value likely suffered, plus interest on such an amount, calculated at the risk-free rate.*

(iii) Deferred payout/delivery scheme

2010

In terms of the scheme, share options were exercised on condition that the relevant scheme shares may only be released on the fifth anniversary of the option date. It has since been amended to provide for the release of the scheme shares in trenches on the third, fourth and fifth anniversary of the option date.

Movements during the period	Average price	Number of shares
As at 1 January 2010	R6.58	5 700
Scheme shares released	R6.57	(5 700)
As at 31 December 2010	R6.65	–

The share options exercised are not issued and payment for them is not required, unless the option holder is in the group's service on the date on which the shares become irreversible.

Valuation of share options and charge to the statement of comprehensive income

The fair value of options granted since 7 November 2002, calculated using a model based on a hybrid of the European and American binomial methods, was R54 million (2010: R54 million). The significant inputs into the model are the share price on grant date, share option exercise price, vesting period, standard deviation of expected share price returns on date of grant and expected employee turnover time. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share price over the last six years.

In terms of the deferred share plan (DSP), implemented during 2007, shares are granted to employees on a deferred delivery basis over a five-year period. The fair value used in determining the grant is based on the Santam share price five-day weighted average on grant date, adjusted for dividends not accruing to participants during the vesting period and expected employee attrition over the vesting period. Shares awarded under the DSP are valued at the grant price and expensed to the statement of comprehensive income over the five-year vesting period. Total share-option costs for the above options amounting to R63 million (2010: R57 million) has been included in the statement of comprehensive income.

16. RESERVES

	Group		Company	
A) Other reserves	**2011 R million**	2010 R million	**2011 R million**	2010 R million
Translation reserve	**21**	(87)	**–**	–
Contingency reserve	**1 471**	1 352	**1 360**	1 270
	1 492	1 265	**1 360**	1 270

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

The contingency reserve is maintained at 10% of net written premium of southern African business. The utilisation of this reserve, in case of a catastrophe, is subject to the approval of the Financial Services Board.

(a) Movements in the translation reserve were as follows

At the beginning of the year	(87)	(15)
Currency translation differences	108	(72)
At the end of the year	21	(87)

	Group		Company	
	2011 R million	2010 R million	2011 R million	2010 R million
(b) Movements in the contingency reserve were as follows:				
At the beginning of the year	1 352	1 283	1 270	1 202
Transfer from retained earnings	119	69	90	68
At the end of the year	1 471	1 352	1 360	1 270
B) Distributable reserves				
Retained earnings	4 933	4 214	4 280	3 443
Share-based payment reserve	139	191	139	191
	5 072	4 405	4 419	3 634

The obligation that flows from an agreement between the entity and another party to enter into a share-based payment transaction, which entitles the other party to receive benefits in terms of the agreement are accounted for as part of other comprehensive income as a share-based payment reserve.

(a) Movements in the share-based payment reserve were as follows:				
At the beginning of the year	191	134	191	134
Transfer from retained earnings	63	57	53	57
Transfer to retained earnings	(110)	–	(100)	–
Transfer to employee benefit provision	(5)	–	(5)	–
At the end of the year	139	191	139	191

17. DEFERRED INCOME TAX

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 28% (2010: 28%) in South Africa and the official tax rates in the foreign subsidiaries where applicable.

The amounts are as follows				
Deferred tax assets	(359)	(251)	(151)	(93)
Deferred tax liabilities	267	269	202	188
Total net deferred income tax account	(92)	18	51	95
The gross movement on the deferred income tax account is as follows:				
At the beginning of the year	18	41	95	61
Acquisition of subsidiaries	9	(61)	–	–
Tax credited directly to equity	(10)	–	–	–
Foreign currency translation difference	2	–	–	–
(Credited)/charged to the statement of comprehensive income	(111)	38	(44)	34
At the end of the year	(92)	18	51	95

17. DEFERRED INCOME TAX (continued)

The movements in deferred tax assets and liabilities during the year were as follows:

a) *Deferred tax assets*	Unrealised appreciation of investments R million	Provisions and accruals R million	Tax losses carried forward R million	STC credits R million	Total R million
GROUP					
At 1 January 2010	–	(47)	(38)	(3)	(88)
Transfer to deferred tax liabilities	–	(10)	–	–	(10)
Acquisition of subsidiaries	–	–	(103)	–	(103)
(Credited)/charged to the statement of comprehensive income	–	(53)	3	–	(50)
At 31 December 2010	–	(110)	(138)	(3)	(251)
Transfer to deferred tax liabilities		3	–	–	3
Acquisition of subsidiaries	–		(1)	–	(1)
Tax credited directly to equity	–	(10)	–	–	(10)
(Credited)/charged to the statement of comprehensive income	(2)	(124)	27	(1)	(100)
At 31 December 2011	(2)	(241)	(112)	(4)	(359)
COMPANY					
At 1 January 2010	–	(55)	–	(4)	(59)
Credited to the statement of comprehensive income	–	(33)	–	(1)	(34)
At 31 December 2010	–	(88)	–	(5)	(93)
Credited to the statement of comprehensive income	–	(58)	–	–	(58)
At 31 December 2011	–	(146)	–	(5)	(151)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The group has no unrecognised tax losses (2010: RNil).

b) *Deferred tax liabilities*	Unrealised appreciation of investments R million	Provisions and accruals R million	Other differences R million	Total R million
GROUP				
At 1 January 2010	129	–	–	129
Transfer from deferred tax assets	–	10	–	10
Acquisition of subsidiaries	–	(6)	48	42
Charged to the statement of comprehensive income	80	4	4	88
At 31 December 2010	209	8	52	269
Transfer from deferred tax assets	–	(3)	–	(3)
Acquisition of subsidiaries	5	–	5	10
Foreign currency translation difference	2	–	–	2
Charged/(credited) to the statement of comprehensive income	–	10	(21)	(11)
At 31 December 2011	216	15	36	267
COMPANY				
At 1 January 2010	120	–	–	120
Charged to the statement of comprehensive income	62	–	6	68
At 31 December 2010	182	–	6	188
Charged/(credited) to the statement of comprehensive income	20	–	(6)	14
At 31 December 2011	202	–	–	202

No deferred tax has been provided on temporary differences relating from investments in associates amounting to R119 million (2010: R104 million).

No deferred tax has been provided on temporary differences relating from investments in subsidiaries amounting to R84 million (2010: RNil).

	Group		Company	
	2011 R million	2010 R million	**2011 R million**	2010 R million
18. DEBT SECURITIES				
At the beginning of the year	**925**	839	**925**	839
Net fair value losses on debt securities	**39**	86	**39**	86
	964	925	**964**	925
Accrued interest	**24**	24	**24**	24
	988	949	**988**	949
Estimated redemption value on maturity date	**1 000**	1 000	**1 000**	1 000

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

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

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

19. INVESTMENT CONTRACTS		
At the beginning of the year	**495**	333
Investment contracts issued	**284**	498
Investment contracts sold/matured	**(697)**	(369)
Net fair value losses on investment contracts	**22**	33
Investment contracts (unit-linked)	**104**	495

The net fair value gains on investment contracts are equal to the net fair value gains on the linked financial assets at fair value through income. The movement in the net fair value of the linked assets and liabilities are included in "Net fair value gains on assets and liabilities at fair value through income" in the statement of comprehensive income. The maturity values of these financial liabilities are determined by the fair values of the linked assets.

20. CELL OWNERS' INTEREST		
At the beginning of the year	**577**	535
Acquired through business combinations	**–**	(39)
Net increase in cell owners' interest	**87**	109
Preference shares issued by subsidiary	**5**	35
Redemption of preference shares	**(8)**	(17)
Dividends paid to preference shareholders	**(58)**	(46)
	603	577
Insolvent cells	**40**	12
	643	589

21. COLLATERAL GUARANTEE CONTRACTS				
At the beginning of the year	**108**	101	**108**	101
Interest	**6**	7	**6**	7
	114	108	**114**	108

Santam issued a guarantee on behalf of one of its corporate clients regarding mining rehabilitation. The guarantee was issued on the back of a full collateral guarantee in the form of moneys deposited with Santam. These assets are included in financial assets, debt securities, at fair value through income and amounted to R114 million (2010: R108 million). As a result, the transaction is not recorded as an insurance transaction in terms of IFRS 4, but as a financial instrument in terms of IAS 39.

	Group		Company	
	2011 R million	2010 R million	**2011 R million**	2010 R million
22. INSURANCE LIABILITIES AND REINSURANCE ASSETS				
Gross				
Long-term insurance contracts				
– claims incurred but not reported	**9**	9	**–**	–
Short-term insurance contracts				
– claims reported and loss adjustment expenses	**4 191**	3 777	**3 711**	3 360
– claims incurred but not reported	**1 246**	1 189	**1 031**	979
– unearned premiums	**3 029**	2 788	**1 753**	1 655
Total insurance liabilities – gross	**8 475**	7 763	**6 495**	5 994
Recoverable from reinsurers				
Long-term insurance contracts				
– claims incurred but not reported	**1**	1	**–**	–
Short-term insurance contracts				
– claims reported and loss adjustment expenses	**920**	880	**758**	749
– claims incurred but not reported	**150**	146	**93**	79
– unearned premiums	**429**	240	**441**	321
Total reinsurers' share of insurance liabilities	**1 500**	1 267	**1 292**	1 149
Net				
Long-term insurance contracts				
– claims incurred but not reported	**8**	8	**–**	–
Short-term insurance contracts				
– claims reported and loss adjustment expenses	**3 271**	2 897	**2 953**	2 611
– claims incurred but not reported	**1 096**	1 043	**938**	900
– unearned premiums	**2 600**	2 548	**1 312**	1 334
Total insurance liabilities – net	**6 975**	6 496	**5 203**	4 845

22.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2011			2010		
Year ended 31 December	**Gross R million**	**Reinsurance R million**	**Net R million**	Gross R million	Reinsurance R million	Net R million
GROUP						
Notified claims	**3 777**	**(880)**	**2 897**	4 288	(1 336)	2 952
Incurred but not reported	**1 198**	**(147)**	**1 051**	1 146	(133)	1 013
Total at the beginning of the year	**4 975**	**(1 027)**	**3 948**	5 434	(1 469)	3 965
Cash paid for claims settled in the year	**(10 327)**	**1 338**	**(8 989)**	(9 999)	1 289	(8 710)
Increase in liabilities						
– arising from current year claims	**10 788**	**(1 384)**	**9 404**	9 531	(848)	8 683
– arising from portfolio transfer	**10**	**–**	**10**	–	–	–
Acquisition of subsidiaries	**–**	**–**	**–**	9	(3)	6
Cell accounting	**–**	**2**	**2**	–	4	4
Total at the end of the year	**5 446**	**(1 071)**	**4 375**	4 975	(1 027)	3 948
Notified claims	**4 191**	**(920)**	**3 271**	3 777	(880)	2 897
Incurred but not reported	**1 255**	**(151)**	**1 104**	1 198	(147)	1 051
Total at the end of the year	**5 446**	**(1 071)**	**4 375**	4 975	(1 027)	3 948

Year ended 31 December	2011 Gross R million	2011 Reinsurance R million	2011 Net R million	2010 Gross R million	2010 Reinsurance R million	2010 Net R million
COMPANY						
Notified claims	3 360	(749)	2 611	3 842	(1 160)	2 682
Incurred but not reported	979	(79)	900	950	(74)	876
Total at the beginning of the year	4 339	(828)	3 511	4 792	(1 234)	3 558
Cash paid for claims settled in the year	(8 917)	609	(8 308)	(8 996)	797	(8 199)
Increase in liabilities						
– arising from current year claims	9 320	(634)	8 686	8 541	(388)	8 153
– arising from portfolio transfer	–	2	2	2	(3)	(1)
Total at the end of the year	4 742	(851)	3 891	4 339	(828)	3 511
Notified claims	3 711	(758)	2 953	3 360	(749)	2 611
Incurred but not reported	1 031	(93)	938	979	(79)	900
Total at the end of the year	4 742	(851)	3 891	4 339	(828)	3 511

b) Provision for unearned premiums

Year ended 31 December						
GROUP						
At the beginning of the year	2 788	(240)	2 548	2 830	(342)	2 488
Charged to the statement of comprehensive income	241	(219)	22	(65)	34	(31)
Acquisition of subsidiaries	–	–	–	23	(16)	7
Cell accounting	–	30	30	–	84	84
Total at the end of the year	3 029	(429)	2 600	2 788	(240)	2 548
COMPANY						
At the beginning of the year	1 655	(321)	1 334	1 647	(297)	1 350
Movement for the period	98	(120)	(22)	8	(24)	(16)
Total at the end of the year	1 753	(441)	1 312	1 655	(321)	1 334

22.2 Movements in deferred acquisition costs and deferred reinsurance acquisition revenue

	Group		Company	
a) Deferred acquisition costs	2011 R million	2010 R million	2011 R million	2010 R million
At the beginning of the year	251	259	273	251
Movement for the period	81	(8)	3	22
Cell accounting	–		–	–
Classified as non-current assets held for sale	–	–	–	–
Total at the end of the year	332	251	276	273
b) Deferred reinsurance acquisition revenue				
At the beginning of the year	40	53	74	60
Movement for the period (included in Income from reinsurance contracts ceded)	62	(13)	36	14
Total at the end of the year	102	40	110	74

22. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

22.3 Claims development tables

The presentation of the claims development tables for the Santam group, is based on the actual date of the event that caused the claim (accident year basis). The claims development tables represent the development of actual claims paid for continuing operations for 2009 and 2008.

PAYMENT DEVELOPMENT

GROUP – Short-term insurance claims – gross	Claims paid in respect of								
	Total R million	2011 R million	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million	2005 R million	2004 and prior R million
Reporting year									
Actual claims costs:									
– 2011	**10 327**	7 767	2 141	247	52	54	60	6	–
– 2010	**9 999**	–	7 144	2 236	411	116	41	23	28
– 2009	**10 016**	–	–	7 702	1 959	197	92	28	38
– 2008	**8 996**	–	–	–	7 181	1 547	156	47	65
– 2007	**7 971**	–	–	–	–	6 219	1 385	132	235
– 2006	**6 988**	–	–	–	–	–	5 521	1 062	405
– 2005	**5 955**	–	–	–	–	–	–	4 711	1 244
– 2004	**4 797**	–	–	–	–	–	–	–	4 797
– 2003	**5 076**	–	–	–	–	–	–	–	5 076
– 2002	**4 832**	–	–	–	–	–	–	–	4 832
Cumulative payments to date	**74 957**	7 767	9 285	10 185	9 603	8 133	7 255	6 009	16 720
– Short-term insurance claims – net									
Reporting year									
Actual claims costs:									
– 2011	**8 989**	7 082	1 673	148	39	23	19	5	–
– 2010	**8 710**	–	6 401	1 816	323	103	35	17	15
– 2009	**8 805**	–	–	6 928	1 651	131	41	19	35
– 2008	**7 727**	–	–	–	6 172	1 381	93	31	50
– 2007	**6 672**	–	–	–	–	5 292	1 197	99	84
– 2006	**6 020**	–	–	–	–	–	4 924	909	187
– 2005	**5 185**	–	–	–	–	–	–	4 223	962
– 2004	**4 064**	–	–	–	–	–	–	–	4 064
– 2003	**4 194**	–	–	–	–	–	–	–	4 194
– 2002	**3 754**	–	–	–	–	–	–	–	3 754
Cumulative payments to date	**64 120**	7 082	8 074	8 892	8 185	6 930	6 309	5 303	13 345

COMPANY – Short-term insurance claims – gross	Claims paid in respect of								
	Total R million	2011 R million	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million	2005 R million	2004 and prior R million
Reporting year									
Actual claims costs:									
– 2011	**8 917**	7 106	1 575	160	33	22	18	3	–
– 2010	**8 996**	–	6 333	2 065	395	113	40	22	28
– 2009	**8 833**	–	–	6 777	1 779	154	72	15	36
– 2008	**7 673**	–	–	–	5 905	1 507	152	45	64
– 2007	**6 740**	–	–	–	–	5 039	1 348	130	223
– 2006	**6 110**	–	–	–	–	–	4 806	983	321
– 2005	**5 193**	–	–	–	–	–	–	4 092	1 101
– 2004	**4 099**	–	–	–	–	–	–	–	4 099
– 2003	**4 326**	–	–	–	–	–	–	–	4 326
– 2002	**4 230**	–	–	–	–	–	–	–	4 230
Cumulative payments to date	**65 117**	7 106	7 908	9 002	8 112	6 835	6 436	5 290	14 428
– Short-term insurance claims – net									
Reporting year									
Actual claims costs:									
– 2011	**8 308**	6 681	1 424	138	27	20	17	1	–
– 2010	**8 199**	–	6 010	1 719	308	99	33	16	14
– 2009	**8 188**	–	–	6 434	1 552	115	34	15	38
– 2008	**7 124**	–	–	–	5 609	1 345	91	30	49
– 2007	**6 142**	–	–	–	–	4 789	1 172	98	83
– 2006	**5 614**	–	–	–	–	–	4 611	864	139
– 2005	**4 672**	–	–	–	–	–	–	3 798	874
– 2004	**3 609**	–	–	–	–	–	–	–	3 609
– 2003	**3 794**	–	–	–	–	–	–	–	3 794
– 2002	**3 542**	–	–	–	–	–	–	–	3 542
Cumulative payments to date	**59 192**	6 681	7 434	8 291	7 496	6 368	5 958	4 822	12 142

22.4 Reporting development

GROUP – Short-term insurance claims provision – gross	Financial year in which claim occurred								
	Total R million	2011 R million	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million	2005 R million	2004 and prior R million
Reporting year									
Provision raised:									
– 2011	**4 192**	2 448	652	333	303	191	113	108	44
– 2010	**3 777**	–	2 325	556	312	171	146	137	130
– 2009	**4 288**	–	–	2 617	712	401	281	174	103
– 2008	**4 075**	–	–	–	2 579	630	356	260	250
– 2007	**3 774**	–	–	–	–	2 804	405	202	363
– 2006	**3 922**	–	–	–	–	–	2 929	375	618
– 2005	**3 187**	–	–	–	–	–	–	2 340	847
– 2004	**2 436**	–	–	–	–	–	–	–	2 436
– 2003	**2 303**	–	–	–	–	–	–	–	2 303
– 2002	**1 747**	–	–	–	–	–	–	–	1 747
Cumulative provisions to date	**33 701**	2 448	2 977	3 506	3 906	4 197	4 230	3 596	8 841

22. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

22.4 Reporting development (continued)

GROUP – Short-term insurance claims provision – net	Total R million	Financial year in which claim occurred 2011 R million	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million	2005 R million	2004 and prior R million
Reporting year									
Provision raised:									
– 2011	**3 273**	1 919	509	260	220	149	93	82	41
– 2010	**2 896**	–	1 813	402	228	132	117	105	99
– 2009	**2 952**	–	–	1 861	435	280	200	103	73
– 2008	**2 699**	–	–	–	1 805	403	195	145	151
– 2007	**2 444**	–	–	–	–	1 807	268	134	235
– 2006	**2 484**	–	–	–	–	–	1 916	214	354
– 2005	**1 909**	–	–	–	–	–	–	1 453	456
– 2004	**1 056**	–	–	–	–	–	–	–	1 056
– 2003	**1 104**	–	–	–	–	–	–	–	1 104
– 2002	**768**	–	–	–	–	–	–	–	768
Cumulative provisions to date	**21 585**	1 919	2 322	2 523	2 688	2 771	2 789	2 236	4 337

COMPANY – Short-term insurance claims provision – gross	Total R million	Financial year in which claim occurred 2011 R million	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million	2005 R million	2004 and prior R million
Reporting year									
Provision raised:									
– 2011	**3 711**	2 256	508	296	277	128	98	105	43
– 2010	**3 360**	–	2 023	487	291	161	140	132	126
– 2009	**3 842**	–	–	2 312	663	362	254	149	102
– 2008	**3 492**	–	–	–	2 030	616	348	254	244
– 2007	**3 371**	–	–	–	–	2 430	395	197	349
– 2006	**2 961**	–	–	–	–	–	2 015	355	591
– 2005	**2 342**	–	–	–	–	–	–	1 547	795
– 2004	**1 848**	–	–	–	–	–	–	–	1 848
– 2003	**1 206**	–	–	–	–	–	–	–	1 206
– 2002	**1 007**	–	–	–	–	–	–	–	1 007
Cumulative provisions to date	**27 140**	2 256	2 531	3 095	3 261	3 697	3 250	2 739	6 311
– Short-term insurance claims provision – net									
Reporting year									
Provision raised:									
– 2011	**2 953**	1 795	404	236	220	102	78	84	34
– 2010	**2 611**	–	1 607	356	214	125	113	101	95
– 2009	**2 681**	–	–	1 666	404	255	191	93	72
– 2008	**2 446**	–	–	–	1 569	396	191	142	148
– 2007	**2 261**	–	–	–	–	1 631	265	132	233
– 2006	**1 766**	–	–	–	–	–	1 202	212	352
– 2005	**1 318**	–	–	–	–	–	–	870	448
– 2004	**863**	–	–	–	–	–	–	–	863
– 2003	**396**	–	–	–	–	–	–	–	396
– 2002	**265**	–	–	–	–	–	–	–	265
Cumulative provisions to date	**17 560**	1 795	2 011	2 258	2 407	2 509	2 040	1 634	2 906

22.5 Liability adequacy test

An unexpired risk reserve (URR) is required if a company believes that its UPR will prove insufficient to cover the unexpired risk on its books at the valuation date. An actuarial review indicated that there is no need for a UPR.

	Pension fund holiday exposure* R million	Litigation exposures R million	Onerous contracts R million	Employee benefits R million	Other R million	Total R million
23. PROVISION FOR OTHER LIABILITIES AND CHARGES						
GROUP						
At 1 January 2010	18	9	5	–	–	32
Charged to statement of comprehensive income:						
– additional provisions/releases	1	–	–	–	5	6
Used during the year	–	–	(2)	–	–	(2)
Year ended 31 December 2010	19	9	3	–	5	36
Charged to statement of comprehensive income:						
– additional provisions/releases	–	–	–	42	–	42
– transfer from share-based payment reserve	–	–	–	8	–	8
– transfer directly from equity	–	–	–	36	–	36
Used during the year	(1)	–	(2)	(9)	(4)	(16)
Year ended 31 December 2011	18	9	1	77	1	106
COMPANY						
At 1 January 2010	18	9	5	–	–	32
Charged to statement of comprehensive income:						
– additional provisions/releases	1	–	–	–	5	6
Used during the year	–	–	(2)	–	–	(2)
Year ended 31 December 2010	19	9	3	–	5	36
Charged to statement of comprehensive income:						
– additional provisions/releases	(1)	–	–	3	–	2
– transfer from share-based payment reserve	–	–	–	5	–	5
Used during the year	(1)	–	(2)	–	(5)	(8)
Year ended 31 December 2011	17	9	1	8	–	35

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

	Group		Company	
	2011 R million	2010 R million	**2011 R million**	2010 R million
24. TRADE AND OTHER PAYABLES				
Amounts due to subsidiaries	–	–	606	644
Trade payables and accrued expenses	912	799	413	387
Deferred purchase consideration (refer note 37)	–	347	–	–
Amounts due to intermediaries	185	177	173	166
Amounts due to reinsurers	576	417	404	250
Amounts due to policyholders	97	65	36	21
Employee benefits	58	85	39	41
Total	1 828	1 890	1 671	1 509

	Group		Company	
	2011 R million	2010 R million	**2011 R million**	2010 R million
25. INVESTMENT INCOME				
Dividend income	**150**	118	**299**	237
Quoted	**123**	87	**120**	87
Unquoted	**27**	31	**179**	150
Interest income	**436**	535	**369**	461
Quoted	**217**	258	**202**	269
Unquoted	**219**	277	**167**	192
Foreign exchange differences	**90**	(20)	**73**	(18)
	676	633	**741**	680
26. NET GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME				
Net realised gains on financial assets	**140**	49	**210**	42
Net fair value gains on financial assets designated as at fair value through income	**21**	517	**9**	462
Net fair value gains on financial assets held for trading	**9**	47	**–**	–
Net realised gains on derivatives	**80**	42	**80**	42
Net fair value gains on financial liabilities designated as at fair value through income	**(61)**	(118)	**(39)**	(86)
Net fair value losses on debt securities	**(39)**	(85)	**(39)**	(86)
Net fair value losses on investment contracts	**(22)**	(33)	**–**	–
	189	537	**260**	460
27. GAIN ON REMEASURING EXISTING INTEREST IN ASSOCIATES ON ACQUISITION				
Indwe Broker Holdings (Pty) Ltd	**–**	124	**–**	–
MiWay Group Holdings (Pty) Ltd	**–**	91	**–**	–
	–	215	**–**	–

	Gross R million	Reinsurance R million	Net R million
28. INSURANCE BENEFITS AND CLAIMS			
2011			
GROUP			
Claims paid	10 327	(1 338)	8 989
Movement in the expected cost of outstanding claims	461	(46)	415
Total claims and loss adjustment expense	**10 788**	**(1 384)**	**9 404**
COMPANY			
Claims paid	8 917	(609)	8 308
Movement in the expected cost of outstanding claims	403	(25)	378
Total claims and loss adjustment expense	**9 320**	**(634)**	**8 686**
2010			
GROUP			
Claims paid	9 999	(1 289)	8 710
Movement in the expected cost of outstanding claims	(468)	441	(27)
Total claims and loss adjustment expense	**9 531**	**(848)**	**8 683**
COMPANY			
Claims paid	8 996	(797)	8 199
Movement in the expected cost of outstanding claims	(455)	409	(46)
Total claims and loss adjustment expense	**8 541**	**(388)**	**8 153**

	Group		Company	
	2011 R million	2010 R million	**2011 R million**	2010 R million
29. EXPENSES BY NATURE				
Auditor's remuneration	**16**	11	**11**	6
Audit fees				
– Current year	**12**	11	**7**	6
– Audit-related services	**4**	–	**4**	–
Depreciation	**38**	26	**21**	21
Amortisation of intangible assets	**68**	17	**6**	7
Impairment of intangible assets	**–**	10	**–**	–
Employee benefit expense (note 30)	**1 706**	1 332	**1 116**	1 059
Operating lease rentals	**293**	276	**247**	248
– Offices	**129**	103	**87**	80
– Computer equipment	**146**	157	**146**	155
– Furniture and mechanical equipment	**4**	2	**–**	–
– Motor vehicles	**14**	14	**14**	13
Costs incurred for the acquisition of insurance contracts	**2 324**	2 311	**2 494**	2 209
Asset management services	**28**	29	**23**	23
Other expenses	**61**	3	**359**	291
Total expenses	**4 534**	4 015	**4 277**	3 864
30. EMPLOYEE BENEFIT EXPENSE				
Wages, salaries and bonus	**1 387**	1 074	**907**	844
Social security costs	**102**	95	**96**	93
Long-term incentive scheme costs	**139**	90	**45**	53
Pension costs – defined-contribution plans	**67**	58	**57**	54
BBBEE cost	**11**	15	**11**	15
	1 706	1 332	**1 116**	1 059

For directors' emoluments included above refer to the Directors' report.

31. FINANCE COSTS				
Interest expense				
– interest on collateral guarantee	**6**	7	**5**	7
– banks and other	**5**	5	**–**	4
– subordinated callable note	**83**	83	**83**	83
– revenue authorities*	**–**	25	**–**	25
	94	120	**88**	119

** R25 million of interest to revenue authorities paid after 31 December 2010 was treated as cash flow in the current year in the statement of cash flows.*

32. INCOME TAX EXPENSE				
South African normal taxation				
Current year	**567**	580	**504**	516
– Charge for the year	**531**	472	**468**	411
– STC	**36**	108	**36**	105
Prior year	**(4)**	(11)	**–**	(9)
Foreign taxation – current year	**34**	32	**–**	–
Income taxation for the year	**597**	601	**504**	507
Deferred taxation	**(111)**	38	**(44)**	34
Current year	**(111)**	39	**(44)**	35
STC	**–**	(1)	**–**	(1)
Total taxation as per the statement of comprehensive income	**486**	639	**460**	541

	Group		Company	
	2011 R million	2010 R million	**2011 R million**	2010 R million
32. INCOME TAX EXPENSE (continued)				
Reconciliation of taxation rate (%)				
Normal South African taxation rate	**28.0**	28.0	**28.0**	28.0
Adjusted for				
– Disallowable expenses	**1.1**	0.9	**0.9**	1.1
– Foreign tax differential	**0.4**	0.3	**–**	–
– Exempt income	**(2.2)**	(1.4)	**(4.4)**	(3.3)
– Investment results	**(1.9)**	(4.9)	**(2.0)**	(3.0)
– Income from associates	**(1.3)**	(1.0)	**(0.4)**	(0.3)
– Previous years' under/(over)provision	**(0.3)**	(0.2)	**–**	(0.5)
– Other permanent differences	**–**	0.2	**–**	0.1
– STC	**1.9**	4.4	**1.9**	5.2
Net reduction	**(2.3)**	(1.7)	**(4.0)**	(0.7)
Effective rate (%)	**25.7**	26.3	**24.0**	27.3

33. EARNINGS PER SHARE

33.1 Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	Group	
	2011	2010
Basic earnings per share		
Profit attributable to the company's equity holders (R million)	**1 376**	1 762
Weighted average number of ordinary shares in issue (millions)	**113.15**	112.96
Earnings per share (cents)	**1 216**	1 560

33.2 Diluted earnings per share

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. In the diluted earnings per share calculation for the share options granted to employees, a calculation is made to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the "unpurchased" shares to be added to the ordinary shares outstanding for the purpose of computing the dilution. For the share options calculation no adjustment is made to net profit.

Diluted earnings per share		
Profit attributable to the company's equity holders (R million)	**1 376**	1 762
Weighted average number of ordinary shares in issue (millions)	**113.15**	112.96
Adjusted for share options	**1.32**	2.03
Weighted average number of ordinary shares for diluted earnings per share	**114.47**	114.99
Diluted basic earnings per share (cents)	**1 202**	1 532

33.3 Headline earnings per share

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

Headline earnings per share		
Profit attributable to the company's equity holders (R million)	**1 376**	1 762
Impairment of goodwill	**–**	10
Reversal of impairment charge on net investment in associates	**–**	(6)
Gain on remeasuring existing interest in associates on transfer to subsidiaries	**–**	(215)
Excess of acquirer's interest in the net fair value of the aquiree's identifiable assets, liabilities and contingent liabilities over cost	**–**	(6)
Tax charge	**–**	–
Headline earnings (R million)	**1 376**	1 545
Weighted average number of ordinary shares in issue (millions)	**113.15**	112.96
Headline earnings per share (cents)	**1 216**	1 367

	Group 2011	Group 2010
33.4 Diluted headline earnings per share		
Headline earnings (R million)	1 376	1 545
Weighted average number of ordinary shares for diluted earnings per share (millions)	114.47	114.99
Diluted headline earnings per share (cents)	1 202	1 343

34. DIVIDENDS PER SHARE

Ordinary dividend per share		
Interim of 200 cents per share (2010: 185 cps)	239	221
Proposed final of 355 cents per share (2010: 325 cps)	424	388
	663	609
Special dividend per share		
Special dividend of 850 cents per share (2010: 500 cps)	1 014	597
	1 014	597

35. CASH GENERATED FROM OPERATIONS

	Group 2011 R million	Group 2010 R million	Company 2011 R million	Company 2010 R million
Profit before tax	1 891	2 428	1 914	1 984
Adjustments for:				
Non-cash items	92	(179)	4	86
– Loss on disposal of fixed assets	8	–	8	–
– Gain on remeasuring existing interest in associates on transfer to subsidiaries	–	(215)		–
– Profit on sale of business operations	–	–	(84)	–
– Share option costs	63	58	53	58
– Amortisation of intangible asset	68	17	6	7
– Impairment of goodwill	–	10		
– Depreciation	38	26	21	21
– Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	–	(6)	–	–
– Impairment (reversal)/charge on net investment in associated company	–	(6)	–	–
– Income from associated companies	(85)	(63)	–	–
Investment income, realised and fair value gains	(865)	(1 168)	(1 000)	(1 141)
Finance costs	94	120	88	119
Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)	678	246	(35)	304
Reinsurance assets	(232)	631	(144)	383
Deferred acquisition costs	(82)	8	(3)	(21)
Loans and receivables including insurance receivables	(108)	705	(569)	374
Insurance liabilities	714	(615)	501	(446)
Deferred reinsurance acquisition revenue	62	(13)	36	14
Provisions for other liabilities and charges	31	(14)	(1)	4
Trade and other payables	293	(456)	145	(4)
Investment income received in cash	632	668	670	693
Dividends received	179	138	299	234
Interest received	436	535	368	462
Foreign exchange differences	1	(11)	(1)	(9)
Movement in provision for investment income	16	6	4	6
Cash generated from operations	2 522	2 115	1 641	2 045

	Group		Company	
	2011 R million	2010 R million	**2011 R million**	2010 R million
36. INCOME TAX PAID				
Amounts charged to the statement of comprehensive income	**(486)**	(639)	**(460)**	(541)
Movement in deferred taxation	**(111)**	40	**(44)**	34
Movement in taxation liability	**(216)**	(156)	**(233)**	(109)
	(813)	(755)	**(737)**	(616)

37. BUSINESS COMBINATIONS

2011

Additions

a) MiWay Group Holdings (Pty) Ltd

During the year the deferred purchase consideration for MiWay Group Holdings (Pty) Ltd was settled in cash. A profit of R4 million was recognised in the statement of comprehensive income.

b) Mirabilis Engineering Underwriting Managers (Pty) Ltd

On I March 2011, the Santam group acquired 55% of the voting equity interest in Mirabilis Engineering Underwriting Managers (Pty) Ltd by merging its construction and engineering business into Mirabilis. The new merged entity will be the leading engineering underwriter in the South African market.

Details of the assets and liabilities acquired at fair value are as follows:	a) MiWay Group Holdings (Pty) Ltd	b) Mirabilis Engineering Underwriting Managers (Pty) Ltd	Total
Deferred taxation		(5)	**(5)**
Intangible assets		18	**18**
Financial assets at fair value through income		5	**5**
Loans and receivables		1	**1**
Cash and cash equivalents		3	**3**
Trade and other payables		(4)	**(4)**
Financial liabilities at fair value through income		–	**–**
Net asset value acquired	–	18	**18**
Goodwill		28	**28**
Excess of acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost		(38)	**(38)**
Less: Investment in non-controlling share previously acquired		(8)	**(8)**
Deferred purchase consideration paid	343	–	**343**
Purchase consideration paid	343	–	**343**

2010

Additions

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**
Financial assets at fair value through income	–	–	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)**
Less: Investment in associated share previously acquired	–	(190)	(91)	**(281)**
Less: 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.*

	Group		Company	
	2011 R million	2010 R million	**2011 R million**	2010 R million
38. TRANSACTIONS WITH NON-CONTROLLING PARTNERS				
Mirabilis Engineering Underwriting Managers (Pty) Ltd				
On 1 March 2011, Santam Ltd sold the non-controlling interest of 45% in its construction and engineering business by merging it into Mirabilis Engineering Underwriting Managers (Pty) Ltd.				
Non-controlling interest (sold)/acquired	–	78	–	78
Excess (received)/paid on sale/acquisition of non-controlling interest	**(38)**	12	**(38)**	12
Settled through acquisition of Mirabilis Engineering Underwriting Managers (Pty) Ltd	**38**	–	**38**	–
Purchase consideration paid	–	90	–	90

Comparative information relates to the acquisition of the non-controlling interest in Centriq Holdings (Pty) Ltd on 1 January 2010.

39. DIVIDENDS PAID				
Amounts paid for the year to company's shareholders	**593**	1 113	**627**	1 176
Amounts paid for the year to non-controlling interests	**25**	–	**–**	–
	618	1 113	**627**	1 176

40. CONTINGENCIES

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

41. COMMITMENTS

Operating lease commitments – where group company is the lessee

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

The group also leases vehicles under cancellable operating lease agreements. The group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 29.

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

2011	Up to 1 year R million	Between 1 to 5 years R million	More than 5 years R million	Total R million
Motor vehicles	13	13	–	**26**
Offices	74	137	25	**236**
	87	150	25	**262**
2010				
Motor vehicles	13	13	–	**26**
Offices	61	103	49	**213**
	74	116	49	**239**
2011				
IT Service agreements	174	148	–	**322**
2010				
IT Service agreements	162	296	–	**458**

42. RELATED-PARTY TRANSACTIONS

Major shareholders

Sanlam Ltd (incorporated in South Africa) is the ultimate holding company with a 60% shareholding in Santam Ltd. The balance of the shareholders (40%) do not have significant influence and thus no other shareholder is treated as a related party. The shares are widely held by public, non-public, individual and corporate shareholders (refer to Analysis of shareholders on page 83 for detail).

Transactions with directors and prescribed officers

Remuneration is paid to directors and prescribed officers in the form of fees to non-executive directors and remuneration to executive directors and prescribed officers of the company. All directors of Santam Ltd have notified that they did not have material interest in any contract of significance with the company or any of its subsidiaries, which could have given rise to a conflict of interest during the year. Details relating to directors' and prescribed officers emoluments and their shareholdings and share options granted in the company are disclosed in the directors' report.

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

Transactions with the Sanlam group

The company transacts with the Sanlam group on various levels, predominantly insurance-related cover, provided to Sanlam group companies. Sanlam Investment Management acts as the largest investment fund manager for the group with its fees negotiated on a regular basis.

The Chief Executive Officer of the Santam group partakes in the Sanlam group executive share purchase scheme whereby interest-bearing loans are granted to participants, repayable over four years.

Transactions with entities in the group

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

The company has several intercompany balances owed by and to subsidiaries in the group as at the end of the year. Loans to subsidiaries with outside shareholders are interest bearing and are repayable on demand. Loans to full subsidiaries are interest-free and repayable on demand. These inter-Santam group balances have been eliminated on consolidation (for detail on balances, refer note 44).

The company also has shareholder's loans owing by associated companies in the group (refer note 44). The loans are interest-free with no specific repayment terms.

The company has guaranteed liabilities of MiWay Group Holdings (Pty) Ltd with Absa Bank Ltd and IBM South Africa (Pty) Ltd, for an amount of R19 million (2010: RNil) and R7 million (2010: R4 million) respectively.

Transactions with key management

Remuneration is paid to other key managers of the group. In terms of the new employee long-term incentive and retention scheme (refer note 1.20 for more detail) loans were granted by the company to these key managers. These loans are interest bearing at the official rate and are repayable over four years.

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

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

	2011 R million	2010 R million
a) Sale of insurance contracts and other services		
Sale of insurance contracts		
– Sanlam Ltd and related parties	33	16
– MiWay Group Holdings Ltd	632	412
– Centriq Insurance Holdings Ltd	306	389
Sale of services		
– subsidiaries	4	11
b) Purchase of services		
– associates (for administration services)	(80)	(138)
– subsidiaries (for administration services)	(337)	(237)
– subsidiaries (for brokerage commission)	(514)	(25)
– Sanlam Ltd and related parties (for investment management services)	(28)	(28)
– Sanlam Ltd and related parties (for joint project costs)	–	3
– Sanlam Ltd and related parties (for IT infrastructure costs)	(167)	(134)
– Sanlam Ltd and related parties (for insurance claims paid)	(21)	(13)
– MiWay Group Holdings Ltd (for insurance claims paid)	(407)	(275)
– Centriq Insurance Holdings Ltd (for insurance claims paid)	(182)	(164)
– Sanlam Ltd and related parties (for commission paid)	(4)	(2)
c) Investment income and net realised/unrealised gains/losses received from:		
– Sanlam Ltd and related parties	(230)	(90)
d) Key management compensation		
Salaries and other short-term employee benefits	15	18
Share-based payments	5	6
e) Dividends paid		
– to Sanlam group	(339)	(631)

	2011 R million	2010 R million
42. RELATED-PARTY TRANSACTIONS (continued)		
Transactions with key management (continued)		
f) Underwriting result		
– MiWay Group Holdings Ltd	(49)	(68)
– Centriq Insurance Holdings Ltd	80	(30)
g) Year-end balances with related parties		
Sanlam group: URD Beleggings (Edms) Bpk		
– preference shares	–	23
Sanlam group: Sanpref (Pty) Ltd		
– preference shares	235	235
Sanlam Alternative Income Fund		
– investment	392	375
Sanlam Property Fund		
– investment	9	9
Sanlam Capital Markets		
– Sanlam Bond	207	201
– derivative financial instruments	–	(74)
– money market instruments	115	79
Sanlam Life Insurance Ltd		
– bond	25	25
– trade payable	(11)	(1)
– prepaid insurance cover for directors and officers	–	(5)
– shares	1	1
Executive management		
– loan from Sanlam for Executive Share Purchase Plan	2	5

43. SOLVENCY MARGIN

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

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

	Group	
	2011	2010
Group capital and reserves attributable to equity holders (R million)	6 036	5 126
Debt securities	964	925
	7 000	6 051
Net written premium (R million)	14 674	13 519
Group solvency margin (%)	47.7%	44.8%

44. ANALYSIS OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investment in subsidiaries

Unlisted companies

	Nature of business	Country of incorporation	Issued capital R	Proportion held by the company 2011	Proportion held by the company 2010	Book value R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
Direct								
Aegis Insurance Company Ltd	Insurance	RSA	179 195 142	100.0%	100.0%	262	267	–
Centriq Insurance Holdings Ltd	Holding co.	RSA	102 330 882	100.0%	100.0%	150	–	22
Guardian National Insurance Company Ltd	Insurance	RSA	178 603 357	100.0%	100.0%	624	134	247
Indwe Broker Holdings Group (Pty) Ltd	Intermediary	RSA	28 552 225	100.0%	100.0%	263	–	–
Main Street 409 (Pty) Ltd	Holding co.	RSA	850	100.0%	100.0%	–	–	–
Mirabilis Engineering Underwriting Managers (Pty) Ltd	Underwriting	RSA	84 000 850	55.0%	–	84	–	–
Santam International Ltd	Holding co.	Guernsey	692 505 672	100.0%	100.0%	538	161	–
Santam Namibia Ltd	Insurance	Namibia	8 307 147	60.0%	60.0%	5	–	8
Sentinel Insurance Corporation Ltd	Investments	RSA	1 000 000	100.0%	100.0%	–	1	–
Swanvest 120 (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	1	–	404
Thebe Risk Services Holdings (Pty) Ltd	Holding co.	RSA	1 000	100.0%	100.0%	–	–	–
						1 927	563	681
Indirect								
Admiral Professional Underwriting Agency (Pty) Ltd	Underwriting	RSA	2 270 403	100.0%	100.0%	12	–	–
Africa Group Financial Services (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	–	–	–
Centriq Insurance Company Ltd	Insurance	RSA	55 000 084	100.0%	100.0%	102	38	5
Centriq Life Insurance Company Ltd	Insurance	RSA	21 000 000	100.0%	100.0%	23	–	–
C-Sure Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	100.0%	100.0%	3	–	2
Echelon Private Client Solutions (Pty) Ltd	Underwriting	RSA	1 000	60.0%	60.0%	–	–	11
Emerald Risk Transfer (Pty) Ltd	Insurance	RSA	2 000 200	100.0%	100.0%	94	–	1
Insurance Broker Resource Centre (Pty) Ltd	Underwriting	RSA	85 000	100.0%	100.0%	–	–	–
Isure Services (Pty) Ltd	IT Services	RSA	100	100.0%	100.0%	–	–	–
Isure Systems (Pty) Ltd	IT Services	RSA	100	100.0%	100.0%	–	–	–
Just I-Insure Consultants (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	–	–	–
Legal Exchange Corporation (Pty) Ltd	Underwriting	RSA	1 166 830	70.0%	70.0%	1	–	–
Misty Sea Trading 267 (Pty) Ltd	Investments	RSA	952	100.0%	–	–	–	–
MiWay Group Holdings (Pty) Ltd	Holding co.	RSA	211 101 111	100.0%	100.0%	257	–	–
Namibian National Insurance Company Ltd	Insurance	Namibia	3 100 000	100.0%	100.0%	3	5	–
Nova Risk Partners Ltd	Insurance	RSA	22 702 703	100.0%	100.0%	3	–	–
Santam UK Ltd	Holding co.	UK	100 006 574	100.0%	100.0%	75	–	–
Stalker Hutchison Admiral (Pty) Ltd	Underwriting	RSA	7 914 393	100.0%	100.0%	53	–	–
Stilus Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	60.0%	60.0%	–	–	–
Wheatfields Investments no 136 (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	–	–	–
						626	43	19
TOTAL INVESTMENTS IN SUBSIDIARIES						2 553	606	700

44. ANALYSIS OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

	Nature of business	Country of incorporation	Issued capital R	Proportion held by the company 2011	Proportion held by the company 2010	Carrying value including equity accounted earnings R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
Direct								
Credit Guarantee Insurance Corporation of Africa Ltd	Insurance	RSA	2 649 333	33.6%	33.6%	140	–	–
NICO Holdings Ltd	Fin. Services	Malawi	31 284 955	25.1%	25.1%	112	–	–
South African Nuclear Pool Administrators (Pty) Ltd	Insurance	RSA	120	25.0%	25.0%	–	–	–
						252	–	–
Indirect								
Beyonda Group (Pty) Ltd	Insurance	RSA	200	49.0%	49.0%	6	–	–
Censeo (Pty) Ltd	Claim assessment	RSA	–	37.5%	37.5%	3	–	3
H and L Underwriting Managers (Pty) Ltd	Underwriting	RSA	100	30.0%	–	–	–	1
Paladin Underwriting Managers (Pty) Ltd	Insurance	RSA	3 008 000	40.0%	40.0%	13	–	–
Fame and Fortune Trading 152 (Pty) Ltd	Motor body repairs	RSA	–	49.0%	40.0%	–	–	17
Nautical Underwriting Managers (Pty) Ltd	Underwriting	RSA	200	45.0%	–	–	–	–
Vulindlela Underwriting Management (Pty) Ltd	Underwriting	RSA	448 000	31.4%	31.4%	–	–	1
						22	–	22
TOTAL INVESTMENTS IN ASSOCIATED COMPANIES						274	–	22

2011	Number of shares	Group market value/ Directors' valuation R million
A) Analysis based on IFRS classification: Financial assets at fair value through income		
i) Debt securities – at fair value through income		
Quoted		
Government and other bonds		1 757
Other		1 371
Unitised funds		392
		3 520
Unquoted		
Government and public bonds		167
Money market instruments (long-term instruments)		2 197
Unquoted redeemable preference shares		
Redeemable preference shares:		
Sanpref Cum Red Pref	234 000	235
RMB Specialised Lines Holdings (Pty) Ltd	4 000	4
Investec – AELPREF	37 000	37
		276
Total debt securities at fair value through income		6 160
ii) Equity securities – at fair value through income		
Each of the following investments has an individual value of more than 1.5% of the total quoted equity investment portfolio. Details of the investments below 1.5%, summarised as Other, are open to inspection at the registered office of the company.		
Quoted		
MTN Group Ltd	1 950 754	280
Sasol Ltd	679 177	262
Anglo American Plc	718 678	213
BHP Billiton Plc	844 334	198
SAB Miller Ltd	589 341	167
Standard Bank Group Ltd	1 486 110	147
British American Tobacco Plc	335 550	129
Naspers Ltd	317 016	112
Absa Bank Ltd	793 911	112
Old Mutual Plc	6 281 567	107
Vodacom Group Ltd	1 114 495	99
The Bidvest Group Ltd	581 663	90
Remgro Ltd	672 601	80
African Bank Investments Ltd	2 285 039	78
Tiger Brands Ltd	291 855	73
Woolworths Holdings Ltd	1 868 225	73
Compagnie Financiere Richemont SA	1 654 217	67
Impala Platinum Holdings Ltd	370 233	62
Anglo Platinum Ltd	101 164	54
Investec plc	1 264 759	54
RMB Holdings Ltd	1 961 371	54
Other		849
		3 360
Unquoted		414
Quoted		
Unitised funds		80
Irredeemable preference shares		2
Total equity securities at fair value through income		3 856

(I) INVESTMENTS – COMPOSITION

	Group market value/ Directors' valuation R million
iii) Derivatives – at fair value through income	1
iv) Cash and short-term money market instruments	
Short-term money market instruments	1 775
Cash and cash equivalents	1 598
v) Associated companies	274
Total financial assets	13 664
B) Analysis based on investment classification	
Equities	
– Quoted	3 360
– Unquoted	414
Preference shares	
– Quoted	2
– Unquoted	276
Bonds	5 492
Unitised funds	472
Derivatives	1
Short-term money market instruments	1 775
Cash and cash equivalents	1 598
Associated companies	274
	13 664

2010	Number of shares	Group market value/ Directors' valuation R million
A) Analysis based on IFRS classification:		
Financial assets at fair value through income		
i) Debt securities – at fair value through income		
Quoted		
Government and other bonds		1 816
Other		1 174
Unitised funds		398
		3 388
Unquoted		
Government and public bonds		195
Money market instruments (long-term instruments)		354
Unquoted redeemable preference shares		
Sanlam Group – URD Beleggings (Edms) Bpk	22 749 793	23
Sanpref Cum Red Pref	234 000	235
Misty Sea Trading 267 (Pty) Ltd	1 120	14
Investec – AELPREF	37 000	37
		309
Total debt securities at fair value through income		4 246
ii) Equity securities – at fair value through income		
Each of the following investments has an individual value of more than 1.5% of the total quoted equity investment portfolio. Details of the investments below 1.5%, summarised as Other, are open to inspection at the registered office of the company.		
Quoted		
MTN Group Ltd	1 929 741	259
BHP Billiton Plc	916 984	243
Sasol Ltd	674 347	233
Anglo American Plc	625 718	215
Standard Bank Group Ltd	1 579 910	170
SAB Miller Ltd	689 950	163
Naspers Ltd	340 748	132
Absa Bank Ltd	815 719	114
Impala Platinum Holdings Ltd	408 106	95
The Bidvest Group Ltd	602 924	95
African Bank Investments Ltd	2 333 418	90
Compagnie Financière Richemont SA	2 179 900	85
Old Mutual Plc	6 484 328	84
British American Tobacco Plc	317 000	81
Remgro Ltd	697 497	79
Vodacom Group Ltd	970 597	74
Anglo Platinum Ltd	105 924	74
Imperial Holdings Ltd	472 082	60
Tiger Brands Ltd	302 260	59
RMB Holdings Ltd	1 439 216	55
Capital Shopping Centres Group Plc	1 233 114	52
Other		948
		3 460
Unquoted		334
Quoted		
Unitised funds		36
Irredeemable preference shares		2
Total equity securities at fair value through income		3 832

(I) INVESTMENTS – COMPOSITION

	Group market value/ Directors' valuation R million
iii) Derivatives – at fair value through income	(75)
iv) Cash and short-term money market instruments	
Short-term money market instruments	3 685
Cash and cash equivalents	1 143
v) Associated companies	211
Total financial assets net of derivative	13 042
B) Analysis based on investment classification	
Equities	
– Quoted	3 460
– Unquoted	334
Preference shares	
– Quoted	2
– Unquoted	309
Bonds	3 540
Unitised funds	433
Derivatives	(75)
Short-term money market instruments	3 685
Cash and cash equivalents	1 143
Associated companies	211
	13 042

(II) ANALYSIS OF SHAREHOLDERS

Analysis of shareholders	Number of shareholders	% of total shareholders	Number of shares	% Interest
1 – 100 shares	876	16.94%	64 745	0.05%
101 – 1 000 shares	2 516	48.69%	1 126 720	0.95%
1 001 – 50 000 shares	1 684	32.59%	9 570 656	8.02%
50 001 – 100 000 shares	40	0.77%	2 819 604	2.36%
100 001 – 10 000 000 shares	50	0.97%	26 793 882	22.45%
More than 10 000 000 shares	2	0.04%	78 970 810	66.17%
Total	**5 168**	**100.00%**	**119 346 417**	**100.00%**
Type of shareholder				
Individuals	3 570	69.08%	4 358 655	3.65%
Companies	362	7.00%	92 884 299	77.82%
Growth funds/unit trusts	138	2.67%	8 910 091	7.47%
Nominee companies or trusts	975	18.87%	3 985 025	3.34%
Pension and retirement funds	123	2.38%	9 208 347	7.72%
Total	**5 168**	**100.00%**	**119 346 417**	**100.00%**

	Shareholders in SA		Shareholders other than in SA		Total shareholders	
Shareholder spread	Nominal number	% Interest	Nominal number	% Interest	Nominal number	% Interest
Public shareholders	5 006	25.90%	145	100.00%	5 151	28.59%
Directors	13	0.14%	–	–	13	0.14%
Trustees of employees' share scheme	1	0.00%	–	–	1	0.00%
Holdings of 5% or more	3	73.96%	–	–	3	71.27%
Sanlam Ltd	1	58.96%	–	–	1	56.82%
Central Plaza Investments 112 (Pty) Ltd*	1	9.71%	–	–	1	9.35%
Guardian National Insurance Ltd**	1	5.29%	–	–	1	5.10%
Total	**5 023**	**100.00%**	**145**	**100.00%**	**5 168**	**100.00%**

The analysis includes the shares held as treasury shares.

** BEE special purpose company*
*** Owner of treasury shares*

(III) ANALYSIS OF DEBT SECURITY HOLDERS

Analysis of debt security holders	Number of debt security holders	% of total debt security holders	Number of units	% Interest
1 - 50 000 units	1	1.16%	47 700	–
50 001 - 100 000 units	1	1.17%	85 600	0.01%
100 001 - 1 000 000 units	32	37.21%	19 047 000	1.90%
1 000 000 - 10 000 000 units	39	45.35%	175 930 000	17.59%
More than 10 000 000 units	13	15.12%	804 889 700	80.50%
Total	**86**	**100.00%**	**1 000 000 000**	**100.00%**
Type of debt security holder				
Banks	1	1.16%	10 500 000	1.05%
Brokers	2	2.33%	53 547 700	5.35%
Endowment Funds	5	5.81%	15 758 600	1.58%
Insurance Companies	7	8.14%	182 792 800	18.28%
Investment Companies	5	5.81%	179 352 500	17.94%
Medical Aid Schemes	2	2.33%	1 150 000	0.12%
Mutual Funds	25	29.07%	93 027 400	9.30%
Nominees and Trusts	2	2.33%	1 490 000	0.15%
Pension Funds	34	39.53%	353 421 000	35.33%
Private Companies	3	3.49%	108 960 000	10.90%
Total	**86**	**100.00%**	**1 000 000 000**	**100.00%**

Debt security holder spread	Debt security holders in SA Nominal number	% Interest
Government Employees Pension Fund	214 767 500	21.48%
Old Mutual Life Assurance Company (South Africa) Ltd	145 051 400	14.51%
Momentum Group Ltd	125 000 000	12.50%
Indwa Investments Ltd	100 000 000	10.00%
RMB Capital Markets	53 500 000	5.35%
Other	361 681 100	36.17%
Total	**1 000 000 000**	**100.00%**

ADMINISTRATION

NON-EXECUTIVE DIRECTORS
B Campbell, MD Dunn, MP Fandeso, BTPKM Gamedze, VP Khanyile (Chairman), MLD Marole, JP Möller, YG Muthien, J van Zyl, BP Vundla (resigned effective 17 January 2012)

EXECUTIVE DIRECTORS
IM Kirk (Chief Executive Officer), Y Ramiah, MJ Reyneke (Chief Financial Officer)

SPONSOR
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Masood Allie

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