SANTAM LIMITED AND ITS SUBSIDIARIES

AUDITED ABRIDGED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

- **Gross written premium growth of 9.5%**
- **Underwriting margin of 4% significantly impacted by catastrophic events**
- **55% increase in investment returns**
- **Group solvency ratio of 41%**
- **Strong cash generation**
- **Tax charge significantly impacted by STC on special dividend and CGT inclusion rate change**
- **Final dividend of 410 cents per share, up 15.5%**

FINANCIAL REVIEW

The Santam group achieved positive underwriting results in a financial year characterised by a number of catastrophe events in the final quarter, while also achieving 9.5% growth in gross written premium, significantly above industry growth. The negative financial impact of the tough underwriting conditions was partially offset by the excellent investment market returns in 2012. Income before tax of R1 700 million was 10% below the 2011 level achieved. The income tax charge increased by 28%, mainly due to a secondary tax on companies charge of R96 million on the special dividend paid in the first half of the year and an increase of R80 million in the deferred tax provision on fair value movements of equities due to the increase in the capital gains tax inclusion rate effective from 2013.

Headline earnings decreased by 18% compared to 2011. Net cash generated from operating activities increased to R1.7 billion (2011: R1.6 billion) while the solvency margin of 41% remains within our long-term target range of 35% to 45%, following the payment of the special dividend in March 2012. Return on capital was impacted by the adverse underwriting conditions and the increased taxation charge and reduced to 19.3% (2011: 25.0%). Excluding the impact of the taxation charges noted above, Santam achieved a 22.6% return on capital.

The South African insurance industry was significantly impacted by a number of catastrophe events during 2012, most notably the floods in Mpumalanga in January, a number of significant hail storms in Gauteng during October and November and a devastating fire at St Francis Bay, also in November. These events resulted in losses to Santam in excess of R400 million net of catastrophe reinsurance, more than three times the average annual catastrophe claims registered by the group over the past 12 years (restated to 2012 rand values and exposure). Despite the high claims volumes experienced following these events we comfortably met our obligations to our clients.

Our net claims margin was 68.3%, compared to 64.2% reported in 2011. The 2012 underwriting result of R623 million (2011: R1 186 million) and net underwriting margin of 4.0% (2011: 8.1%) was significantly impacted by these events and an increase in claims frequency and severity, most notably fire claims, resulting in the net underwriting margin dropping to below the medium-term target of 5% to 7%.

The benefits of our diversified business model were evident again this year. While our traditional intermediated and direct businesses were under bottom-line pressure in the final quarter, our specialist and reinsurance businesses were able to use their market position and expertise to protect margins and continue growing premiums.

Premium growth continued the solid performance of 2011, with gross written premium for the group increasing by 9.5% (2011: 11.7%), gaining market share with industry premiums reflecting marginal growth. Positive growth was achieved across all significant insurance classes, with MiWay reaching gross written premiums of R1 billion, an increase of 38% compared to 2011.

The group's net acquisition cost ratio of 27.7% was in line with 2011. The increase in management expenses ascribed to the significant growth in MiWay which currently has a higher level of management expenses, as well as increased external management fees, was offset by a lower performance bonus provision and commission expenses. We have continued to invest 1% of net earned premium in strategic initiatives in the traditional Santam intermediated business to ensure the group achieves its long-term goals. Spending on current projects will continue for the next two years and we anticipate that the full benefits will start to accrue from 2016. These initiatives will ensure the group remains agile and competitive.

Investment returns on insurance funds of R415 million increased from the R388 million earned in 2011, resulting mainly from higher float levels despite lower interest rates in 2012.

The combined effect of insurance activities resulted in a net insurance income of R1 038 million or a 6.6% margin, compared to R1 574 million and a margin of 10.7% in 2011.

Following the strong equity markets, investment income, including dividends, interest received and management fees paid, increased to R787 million in 2012 compared to the R355 million generated in 2011. The weakening of the rand during 2012 had a positive impact on the valuations of our foreign currency assets held by our local operations of R14 million (2011: R90 million). Santam's investment portfolio performance compared favourably to the benchmarks set.

Net earnings from associated companies decreased from R85 million in 2011 to R40 million in 2012. Credit Guarantee Insurance Corporation of Africa Ltd delivered a positive contribution to associated earnings. The 26% investment in NICO Holdings Ltd in Malawi was impaired by R43 million following the devaluation of the Malawian currency which had an adverse effect on the banking and other financial services businesses of NICO Holdings.

Since the acquisition of Santam's controlling stake in Indwe during 2010, the market conditions have weakened due to increased competition and low premium increases resulting in a slowdown in Indwe's growth rate. An impairment of R35 million of the goodwill acquired and R25 million relating to software developed by Indwe was therefore deemed necessary.

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

Prospects

It is expected that South Africa's GDP growth will be less than 3% and headline inflation will average below 6% for the 2013 financial year. Short-term insurance industry growth for the 2012 year was very subdued, mainly due to soft premium rates in the market. Following these soft market conditions and the increase in claims frequency and cost during 2012, a hardening of insurance rates is expected in 2013. This should improve average premium levels. Santam is positioned to manage increases selectively through our market and risk segmentation approach across the group. In addition, our growth through diversification strategy positions the group well to leverage for growth in high-growth segments and territories.

The weakening of the rand during 2012 and the early part of 2013 will put further upwards pressure on claims cost, most notably on the cost of motor vehicle repairs due to the increased cost of imported vehicle parts. We are optimistic that our continued efforts to drive efficiency in the value chain and our overall focus on cost efficiency in the group will offset some of the impact of the upwards cost pressure.

Nominal interest rates are expected to remain at current levels during 2013. This will put continued pressure on the return on insurance funds in 2013.

Uncertainty remains in the investment markets due to the slow global recovery and a number of economic challenges in South Africa.

Declaration of dividend (Number 118)

Notice is hereby given that the board has declared a final gross dividend of 410 cents per share (2011: 355 cents). Shareholders are advised that the last day to trade cum dividend will be Thursday, 14 March 2013. The shares will trade ex dividend from the commencement of business on Friday, 15 March 2013. The record date will be Friday, 22 March 2013, and the payment date will be Monday, 25 March 2013. Certificated shareholders may not dematerialise or rematerialise their shares between 15 March 2013 and 22 March 2013, both dates inclusive.

The dividend has been declared from income reserves and will be subject to dividends tax that was introduced with effect from 1 April 2012. There are R10 221 368 STC credits available for utilisation. Accordingly, the secondary tax on companies (STC) credit available is 8.56445 cents per share. The amount per share subject to the withholding of dividends tax at a maximum rate of 15% is therefore 401.43555 cents per share. A net dividend of 349.78467 cents per share will apply to shareholders liable for dividends tax at a rate of 15% and 410 cents per share for shareholders that qualify for complete exemption therefrom. The issued ordinary share capital as at 27 February 2013 is 119 346 417 shares. The company's income tax reference number is 9475/144/71/4.

In terms of the dividends tax legislation, the dividends tax amount due will be withheld and paid over to the South African Revenue Service (SARS) by a nominee company, stockbroker or Central Security Depository Participant (CSDP) (collectively "Regulated Intermediary") on behalf of shareholders. However, all shareholders should declare their status to their Regulated Intermediary, as they may qualify for a reduced dividends tax rate or they may even be exempt from dividends tax. The increase in the dividend per share includes a once-off adjustment of approximately 7% to the dividend per share declared to account for the STC saving for the company resulting from the introduction of dividends tax.

Preparation and presentation of the financial statements

The preparation of the audited financial statements was supervised by the Chief financial officer of Santam Ltd, HD Nel. The full set of annual financial results is published on our website at www.santam.co.za or can be requested from the company secretary.

Auditors' report

The company's external auditors, PricewaterhouseCoopers Inc, have audited the abridged financial report. A copy of their unqualified audit opinion is available on request at the company's registered offices.

On behalf of the board

VP Khanyile
Chairman

IM Kirk
Chief Executive Officer

27 February 2013

Consolidated statement of financial position

	Notes	Audited At 31 Dec 2012 R million	Audited At 31 Dec 2011 R million
ASSETS			
Non-current assets			
Property and equipment		99	80
Intangible assets		990	994
Deferred income tax		221	207
Investments in associates		261	274
Financial assets – at fair value through income			
Equity securities	6	3 551	3 856
Debt securities	6	6 957	6 160
Derivatives	6	6	1
Financial assets – at amortised cost			
Cell owners' interest		24	40
Reinsurance assets	7	137	244
Current assets			
Financial assets – at fair value through income			
Short-term money market instruments	6	917	1 775
Reinsurance assets	7	1 618	1 256
Deferred acquisition costs		340	332
Loans and receivables including insurance receivables	6	2 088	1 836
Income tax assets		57	36
Cash and cash equivalents		2 471	1 598
Total assets		19 737	18 689
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital		107	107
Treasury shares		(579)	(635)
Other reserves		77	1 492
Distributable reserves		5 904	5 072
		5 509	6 036
Non-controlling interest		108	105
Total equity		5 617	6 141
LIABILITIES			
Non-current liabilities			
Deferred income tax		284	115
Financial liabilities – at fair value through income			
Debt securities	6	1 034	964
Investment contracts	6	83	48
Financial liabilities – at amortised cost			
Cell owners' interest		712	643
Insurance liabilities	7	1 340	1 404
Provisions for other liabilities and charges		–	1
Current liabilities			
Financial liabilities – at fair value through income			
Debt securities	6	24	24
Investment contracts	6	12	56
Financial liabilities – at amortised cost			
Collateral guarantee contracts		75	114
Insurance liabilities	7	8 318	7 071
Deferred reinsurance acquisition revenue		147	102
Provisions for other liabilities and charges		161	105
Trade and other payables		1 886	1 828
Income tax liabilities		44	73
Total liabilities		14 120	12 548
Total shareholders' equity and liabilities		19 737	18 689

Consolidated statement of comprehensive income

	Notes	Audited Year ended 31 Dec 2012 R million	Audited Year ended 31 Dec 2011 R million	Change %
Gross written premium		19 386	17 707	9.5%
Less: Reinsurance written premium		3 564	3 033	
Net written premium		15 822	14 674	7.8%
Change in unearned premium				
Gross amount		323	241	
Reinsurers' share		(127)	(219)	
Net insurance premium revenue		15 626	14 652	6.6%
Investment income	8	859	676	
Income from reinsurance contracts ceded		516	321	
Net gain on financial assets and liabilities at fair value through income	8	480	189	
Net income		17 481	15 838	10.4%
Insurance claims and loss adjustment expenses		12 167	10 788	
Insurance claims and loss adjustment expenses recovered from reinsurers		(1 488)	(1 384)	
Net insurance benefits and claims		10 679	9 404	13.6%
Expenses for the acquisition of insurance contracts		2 540	2 324	
Expenses for marketing and administration		2 349	2 114	
Expenses for asset management services		31	28	
Amortisation and impairment of intangible assets		116	68	
Expenses		15 715	13 938	12.7%
Results of operating activities		1 766	1 900	(7.1%)
Finance costs		(106)	(94)	
Net income from associates		83	85	
Impairment on investment in associate		(43)	–	
Profit before tax		1 700	1 891	(10.1%)
Income tax expense	9	(624)	(486)	
Profit for the year		1 076	1 405	(23.4%)
Other comprehensive income				
Currency translation differences		23	108	
Total comprehensive income for the year		1 099	1 513	
Profit attributable to:				
– equity holders of the company		1 027	1 376	
– non-controlling interest		49	29	
		1 076	1 405	
Total comprehensive income attributable to:				
– equity holders of the company		1 050	1 484	
– non-controlling interest		49	29	
		1 099	1 513	
Earnings attributable to equity shareholders	12			
Basic earnings per share (cents)		904	1 216	(25.7%)
Diluted earnings per share (cents)		895	1 202	(25.5%)
Weighted average number of shares – millions		113.56	113.15	
Weighted average number of ordinary shares for diluted earnings per share – millions		114.81	114.47	

	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
Balance as at 1 January 2011	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
Profit for the year	–	–	–	1 027	49	1 076
Other comprehensive income:						
Currency translation differences	–	–	23	–	–	23
Total comprehensive income for the year ended 31 December 2012	–	–	23	1 027	49	1 099
Sale of treasury shares	–	56	–	–	–	56
Loss on sale of treasury shares	–	–	–	(57)	–	(57)
Transfer to reserves	–	–	(1 438)	1 438	–	–
Share-based payments	–	–	–	50	–	50
Dividends paid	–	–	–	(1 626)	(48)	(1 674)
Interest acquired from non-controlling interest	–	–	–	–	2	2
Balance as at 31 December 2012	107	(579)	77	5 904	108	5 617

Consolidated statement of cash flows

	Notes	Audited Year ended 31 Dec 2012 R million	Audited Year ended 31 Dec 2011 R million
Cash generated from operations		2 362	2 522
Interest paid		(106)	(119)
Income tax paid		(521)	(813)
Net cash from operating activities		1 735	1 590
Cash flows from investing activities			
Cash generated by investment activities		935	201
Acquisition of subsidiary	10	–	(343)
Cash acquired through acquisition of subsidiary	10	–	3
Purchases of equipment		(63)	(39)
Purchases of software		(31)	(28)
Proceeds from sale of equipment		1	1
Acquisition of associated companies		(6)	–
Acquisition of book of business		(81)	–
Net cash from/(used in) investing activities		755	(205)
Cash flows from financing activities			
Purchase of treasury shares		–	(37)
Proceeds on sale of treasury shares		–	4
Decrease in collateral guarantee contracts		(39)	–
Decrease in investment contract liabilities		(17)	(413)
Dividends paid to company's shareholders		(1 626)	(593)
Dividends paid to non-controlling interest		(48)	(25)
Increase in cell owners' interest		90	26
Net cash used in financing activities		(1 640)	(1 038)
Net increase in cash and cash equivalents		850	347
Cash and cash equivalents at beginning of year		1 598	1 143
Exchange gains on cash and cash equivalents		23	108
Cash and cash equivalents at end of year		2 471	1 598

1. BASIS OF PRESENTATION

This abridged consolidated financial information for the year ended 31 December 2012 has been prepared in accordance with IAS 34 – *Interim Financial Reporting* and in compliance with the Listings Requirements of the JSE Limited. The abridged consolidated financial information does not include all of the information required by IFRS for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with IFRSs.

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the previous and current financial year.

3. ESTIMATES

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

In preparing these abridged consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012.

4. RISK MANAGEMENT

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

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

The abridged consolidated financial statements do not include all risk management information and disclosure required in the annual financial statements and should be read in conjunction with the group's annual financial statements as at 31 December 2012.

There have been no changes in the risk management policies since the previous year-end.

During 2012 there were no significant changes in the business circumstances that affect the fair value of the group's financial assets and liabilities. There were no reclassifications of financial assets and liabilities in 2012.

5. SEGMENT INFORMATION

Segments have been identified by business activity, i.e. insurance activities and investment activities, as these activities mainly affect the group's risk 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; with 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.

In the past, group underwriting results included the MiWay deferred bonus plan expense (DBP) and the Santam BEE transaction costs. The MiWay DBP was introduced in 2011 to compensate management for the 10% stake they previously held in MiWay. An additional share incentive scheme was subsequently introduced representing a standard long-term incentive scheme. The BEE transaction costs relate to the Santam BEE transaction in 2007 in terms of which Santam shares are allocated to black staff and business partners.

The MiWay DBP, relating to the compensation of the 10% interest previously held by management in MiWay and the Santam BEE transaction costs are unrelated to the core underwriting performance of the group. Therefore, the underwriting results are shown excluding these expenses and the comparative segmental numbers have been restated as follows:

	2011 Rm	2011 % of net earned premiums
Net underwriting results as previously reported	1 131	7.7
MiWay DBP and Santam BEE transaction costs	55	0.4
Restated underwriting result	1 186	8.1

In previous financial years technical assets and liabilities per insurance class were disclosed. The disclosure has been discontinued given that the chief operating decision-maker does not review this information.

5.1 For the year ended 31 December 2012

Business activity	Insurance activities R million	Investment activities R million	Unallocated R million	Total R million
2012				
Revenue	19 386	858		**20 244**
Gross written premium	19 386			**19 386**
Net written premium	15 822			**15 822**
Net earned premium	15 626			**15 626**
Claims incurred	10 679			**10 679**
Net commission	2 024			**2 024**
Management expenses	2 300			**2 300**
Underwriting result	623			**623**
Investment return on insurance funds	415			**415**
Net insurance result	1 038			**1 038**
Investment income net of management fee*		787		**787**
Income from associates net of impairment		40		**40**
MiWay DBP and Santam BEE transaction costs			(57)	**(57)**
Amortisation and impairment of intangible assets	(108)			**(108)**
Income before taxation	930	827	(57)	**1 700**

* *Interest income of R88 million and finance cost of R106 million are included.*

Insurance class	Gross written premium R million	Underwriting result R million
2012		
Accident and health	286	10
Alternative risk	2 103	(7)
Crop	687	38
Engineering	860	158
Guarantee	40	8
Liability	1 227	206
Miscellaneous	23	6
Motor	8 361	89
Property	5 291	32
Transportation	508	83
Total	**19 386**	**623**
Comprising:		
Commercial insurance	9 660	767
Personal insurance	7 623	(137)
Alternative risk	2 103	(7)
Total	**19 386**	**623**

5.2 For the year ended 31 December 2011

Business activity – Restated	Insurance activities R million	Investment activities R million	Unallocated 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	2 059			**2 059**
Underwriting result	1 186			**1 186**
Investment return on insurance funds	388			**388**
Net insurance result	1 574			**1 574**
Investment income net of management fee*		355		**355**
Income from associates net of impairment		85		**85**
MiWay DBP and Santam BEE transaction costs			(55)	**(55)**
Amortisation of intangible assets	(68)			**(68)**
Income before taxation	1 506	440	(55)	**1 891**

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

Insurance class	Gross written premium R million	Underwriting result R million
2011		
Accident and health	286	45
Alternative risk	1 924	(5)
Crop	575	12
Engineering	736	121
Guarantee	17	9
Liability	1 157	143
Miscellaneous	16	1
Motor	7 621	511
Property	4 981	258
Transportation	394	91
Total	**17 707**	**1 186**
Comprising:		
Commercial insurance	8 844	941
Personal insurance	6 939	250
Alternative risk	1 924	(5)
Total	**17 707**	**1 186**

	Audited At 31 Dec 2012 R million	Audited At 31 Dec 2011 R million

6. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME

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

	Audited At 31 Dec 2012 R million	Audited At 31 Dec 2011 R million
Financial assets at fair value through income	11 431	11 792
Loans and receivables	2 088	1 836
Total financial assets	13 519	13 628

Financial assets and liabilities at fair value through income – Fair value estimation

The table below analyses financial instruments, carried at fair value through income, by valuation method. The different levels have been defined as follows:

– **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, prices) or indirectly (that is, derived from prices)

– **Level 3:** Inputs for the asset or liability that are not based on observable data (that is, unobservable inputs)

Financial assets at fair value through income

2012	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	3 183	–	–	3 183
Unitised funds	–	94	–	94
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	272	272
Total equity securities	3 185	94	272	3 551
Debt securities				
Quoted				
Government and other bonds	1 644	87	–	1 731
Redeemable preference shares	–	275	–	275
Money market instruments (long-term instruments)	–	1 513	–	1 513
Unquoted				
Government and other bonds	–	31	–	31
Money market instruments (long-term instruments)	–	3 378	–	3 378
Redeemable preference shares	–	–	29	29
Total debt securities	1 644	5 284	29	6 957
Derivatives				
Interest rate swaps	–	–	6	6
Total derivatives	–	–	6	6
Short-term money market instruments	–	917	–	917
	4 829	6 295	307	11 431

2011	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	3 360	–	–	3 360
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 other bonds	1 575	182	–	1 757
Redeemable preference shares	–	392	–	392
Money market instruments (long-term instruments)	–	1 371	–	1 371
Unquoted				
Government and other bonds	–	167	–	167
Money market instruments (long-term instruments)	–	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

Financial liabilities at fair value through income

2012	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Debt securities	1 058	–	–	1 058
Investment contracts	–	95	–	95
	1 058	95	–	1 153

2011	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

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.

	Audited At 31 Dec 2012 R million	Audited At 31 Dec 2011 R million
7. INSURANCE LIABILITIES AND REINSURANCE ASSETS		
Gross		
Long-term insurance contracts		
– claims incurred but not reported	14	9
Short-term insurance contracts		
– claims reported and loss adjustment expenses	4 948	4 191
– claims incurred but not reported	1 311	1 246
– unearned premiums	3 385	3 029
Total insurance liabilities – gross	9 658	8 475
Non-current liabilities	1 340	1 404
Current liabilities	8 318	7 071
Recoverable from reinsurers		
Long-term insurance contracts		
– claims incurred but not reported	2	1
Short-term insurance contracts		
– claims reported and loss adjustment expenses	977	920
– claims incurred but not reported	192	150
– unearned premiums	584	429
Total reinsurers' share of insurance assets	1 755	1 500
Non-current assets	137	244
Current assets	1 618	1 256
Net		
Long-term insurance contracts		
– claims incurred but not reported	12	8
Short-term insurance contracts		
– claims reported and loss adjustment expenses	3 971	3 271
– claims incurred but not reported	1 119	1 096
– unearned premiums	2 801	2 600
Total insurance liabilities – net	7 903	6 975
8. INVESTMENT INCOME AND NET GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME		
Investment income	859	676
Dividend income*	342	150
Interest income	503	436
Foreign exchange differences	14	90
Net realised gains on financial assets	358	140
Net fair value gains on financial assets designated as at fair value through income	360	21
Net fair value (losses)/gains on financial assets held for trading	(166)	9
Net realised gains on derivatives	5	80
Net fair value losses on financial liabilities designated as at fair value through income	(77)	(61)
Net fair value losses on debt securities	(70)	(39)
Net fair value losses on investment contracts	(7)	(22)
	1 339	865

* *Dividend income for the group includes a dividend of R181 million from Santam's run-off international business.*

	Audited At 31 Dec 2012 R million	Audited At 31 Dec 2011 R million
9. TAX		
South African normal taxation		
Current year	433	567
Charge for the year	294	531
STC	139	36
Prior year	10	(4)
Foreign taxation – current year	38	34
Income taxation for the year	481	597
Deferred taxation	143	(111)
Current year	139	(111)
STC	4	–
Total taxation	624	486
Reconciliation of taxation rate (%)		
Normal South African taxation rate	28.0	28.0
Adjust for		
– Exempt income	(2.6)	(2.2)
– Investment results	(3.2)	(1.9)
– Change in CGT inclusion rate	4.7	–
– STC	8.4	1.9
– Other	1.4	(0.1)
Net increase/(reduction)	8.7	(2.3)
Effective rate (%)	36.7	25.7

10. BUSINESS COMBINATIONS

2012

Additions

Riscor Underwriting Managers (Pty) Ltd

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

The total purchase price amounted to R29 million. Intangible assets of R39 million and deferred taxation of R11 million were recognised. Net operating assets amounted to approximately R1 million.

Disposals

Stilus Underwriting Managers (Pty) Ltd

On 1 January 2012, the Santam Group sold its 60% interest in Stilus Underwriting Managers (Pty) Ltd.

	Audited At 31 Dec 2012 R million	Audited At 31 Dec 2011 R million
Details of assets and liabilities sold are as follows:		
Deferred taxation	(2)	–
Trade and other payables	4	–
Net asset value sold	2	–
Plus: Non-controlling interest	(2)	–
Purchase consideration received	–	–

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 1 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.

	a) MiWay Group Holdings Ltd	b) Mirabilis Engineering Underwriting Managers (Pty) Ltd	Total
Details of the assets and liabilities acquired at fair value are as follows:			
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)**
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 associated share previously acquired	–	(8)	**(8)**
Deferred purchase consideration paid	343	–	**343**
Purchase consideration paid	343	–	**343**

	Audited At 31 Dec 2012 R million	Audited At 31 Dec 2011 R million
11. TRANSACTIONS WITH NON-CONTROLLING PARTIES		
a) 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.		
Net excess received on sale/acquisition of non-controlling interest	–	(38)
Settled through acquisition of Mirabilis Engineering Underwriting Managers (Pty) Ltd	–	38
Purchase consideration paid	–	–
12. EARNINGS PER SHARE		
Basic earnings per share		
Profit attributable to the company's equity holders (R million)	1 027	1 376
Weighted average number of ordinary shares in issue (million)	113.56	113.15
Earnings per share (cents)	904	1 216
Diluted earnings per share		
Profit attributable to the company's equity holders (R million)	1 027	1 376
Weighted average number of ordinary shares in issue (million)	113.56	113.15
Adjusted for share options	1.25	1.32
Weighted average number of ordinary shares for diluted earnings per share (million)	114.81	114.47
Diluted basic earnings per share (cents)	895	1 202
Headline earnings per share		
Profit attributable to the company's equity holders (R million)	1 027	1 376
Impairment of goodwill	35	–
Impairment of software	25	–
Impairment of investment and associate	43	–
Tax charge and non-controlling interest	–	–
Headline earnings (R million)	1 130	1 376
Weighted average number of ordinary shares in issue (million)	113.56	113.15
Headline earnings per share (cents)	995	1 216
Diluted headline earnings per share		
Headline earnings (R million)	1 130	1 376
Weighted average number of ordinary shares for diluted earnings per share (million)	114.81	114.47
Diluted headline earnings per share (cents)	984	1 202
13. DIVIDENDS PER SHARE		
Ordinary dividend per share (cents)	640	555
Special dividend per share (cents)	–	850

(I) Analysis of shareholders

Analysis of shareholders	Number of shareholders	% of total shareholders	Number of shares	% Interest
1 – 100 shares	928	16.66%	67 791	0.06%
101 – 1 000 shares	2 829	50.85%	1 247 405	1.05%
1 001 – 50 000 shares	1 732	31.12%	9 640 750	8.08%
50 001 – 100 000 shares	34	0.61%	2 350 135	1.97%
100 001 – 10 000 000 shares	40	0.72%	26 742 737	22.41%
More than 10 000 000 shares	2	0.04%	79 297 599	66.43%
Total	5 565	100.00%	119 346 417	100.00%
Type of shareholder				
Individuals	3 871	69.57%	4 624 484	3.89%
Companies	347	6.23%	79 595 419	66.68%
Growth funds/unit trusts	142	2.55%	20 804 109	17.43%
Nominee companies or trusts	1 107	19.89%	4 116 457	3.45%
Pension and retirement funds	98	1.76%	10 205 948	8.55%
Total	5 565	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	5 411	26.27%	140	100.00%	5 551	28.77%
Directors	10	0.14%	–	–	10	0.14%
Trustees of employees' share scheme	1	0.00%	–	–	1	0.00%
Holdings of 5% or more	3	73.59%	–	–	3	71.09%
Sanlam Ltd	1	59.10%	–	–	1	57.09%
Central Plaza Investments 112 (Pty) Ltd*	1	9.68%	–	–	1	9.35%
Guardian National Insurance Ltd**	1	4.81%	–	–	1	4.65%
Total	5 425	100.00%	140	100.00%	5 565	100.00%

The analysis includes the shares held as treasury shares.

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

(II) Analysis of debt security holders

	Number of debt security holders	% of total debt security holders	Number of units	% Interest
Analysis of debt security holders				
1 – 50 000 units	1	1.09%	31 700	–
50 001 – 100 000 units	2	2.17%	185 600	0.02%
100 001 – 1 000 000 units	31	33.70%	18 467 000	1.85%
1 000 001– 10 000 000 units	42	45.65%	176 822 000	17.68%
More than 10 000 000 units	16	17.39%	804 493 700	80.45%
Total	92	100.00%	1 000 000 000	100.00%
Type of debt security holder				
Brokers	2	2.17%	53 531 700	5.35%
Endowment funds	5	5.43%	13 458 600	1.35%
Insurance companies	9	9.78%	213 792 800	21.38%
Investment companies	1	1.09%	125 000 000	12.50%
Medical aid schemes	2	2.17%	1 150 000	0.12%
Mutual funds	35	38.04%	209 120 900	20.91%
Nominees and trusts	2	2.17%	1 490 000	0.15%
Pension funds	33	35.89%	356 546 000	35.65%
Private companies	3	3.26%	25 910 000	2.59%
Total	92	100.00%	1 000 000 000	100.00%

	Debt security holders in SA	
Debt security holder spread	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%
RMB Capital Markets	53 500 000	5.35%
Other	461 681 100	46.16%
Total	1 000 000 000	100.00%