



2014

ANNUAL FINANCIAL
STATEMENTS

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APPROVAL OF ANNUAL FINANCIAL STATEMENTS

TO THE SHAREHOLDERS 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 auditors is to express an independent opinion on the fair presentation of the financial statements based on their audit of Santam Ltd and its subsidiaries.

The board has confirmed that adequate internal financial control systems are being maintained. There were no 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 authorised for issue and publication by the board and signed on their behalf by:



GG Gelink
Chairman



L Lambrechts
Chief Executive Officer

2 March 2015

PREPARATION AND PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The preparation of the annual financial statements was supervised by the Chief Financial Officer of Santam Ltd, HD Nel.

SECRETARIAL CERTIFICATION

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

A handwritten signature in black ink, appearing to read 'M Allie', with a stylized flourish.

M ALLIE
Company secretary

2 March 2015

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SANTAM LTD

We have audited the consolidated and separate financial statements of Santam Ltd set out on pages 10 to 94, which comprise the statements of financial position as at 31 December 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Santam Ltd as at 31 December 2014, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 December 2014, we have read the directors' report, the report of the audit committee and the secretarial certification for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.


Price Waterhouse Coopers Inc

PRICEWATERHOUSECOOPERS INC

Director: C van den Heever

Registered auditor

Cape Town

2 March 2015

REPORT OF THE AUDIT COMMITTEE

The Santam audit committee appointed to hold office until the conclusion of the annual general meeting (AGM) on 1 June 2015, comprises four independent non-executive directors of the company. Messrs MD Dunn, B Campbell, MP Fandesio and GG Gelink were elected to the committee by the company's shareholders at the AGM on 27 May 2014. The qualifications of the members of the committee are listed on pages 54 and 55 of the integrated report. The members possess the necessary expertise to direct the committee in the execution of its duties.

The audit committee of Santam acts as such for all subsidiaries of the group where an audit committee is required in terms of the Companies Act, 71 of 2008, as amended. The committee has a charter, approved by the board, dealing, inter alia, with its membership, frequency of meetings and responsibilities. The charter is reviewed annually and was updated during November 2014. 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 held four scheduled meetings during the year under review. The required quorum was present at all meetings held. During the year the audit committee reviewed communication from the external auditors and, after conducting its own review, confirmed the independence of the auditors. The committee also considered and determined the fees and terms of engagement of the external auditors. Furthermore, the nature and extent of all non-audit services provided by PricewaterhouseCoopers and the fees in connection therewith were reviewed and approved by the committee.

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

The audit committee reviewed the 2014 Santam Ltd integrated report and considered factors and risks that may impact on the integrity of the report. The audit committee also reviewed the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information. The audit committee has not recommended the engagement of an external assurance provider on material sustainability issues to the board as it is of the view that the assurance provided is adequate, given the maturity of the processes in place. The committee has recommended the integrated report and annual financial statements to the board for approval.

The effectiveness of controls were reviewed principally through a process of management self-assessment, including formal confirmation per representation letters by executive management. Other relevant input to the review included 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.



MD DUNN
Chairman of the audit committee

2 March 2015

DIRECTORS' REPORT

ACTIVITIES

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

FINANCIAL REVIEW

The Santam group reported strong underwriting results for the 2014 financial year with a net underwriting margin of 8.7% compared to 2.8% in 2013, significantly above the long-term target range of 4% to 6%. The results were positively impacted by improved contributions from all business units including a substantial turnaround in the crop insurance business. In addition, the absence of hail-related catastrophe events during the fourth quarter resulted in a better underwriting performance during the second half of the financial year compared to 2013. Satisfactory gross premium growth of 10% was achieved (12% when excluding the impact of cell insurance business) in competitive market conditions.

The investment portfolio performance was in line with market movements experienced during 2014.

The underwriting results of the motor and property business classes continued to benefit from the impact of corrective actions and segmented premium increases implemented since 2013. The motor and property classes benefited from fewer weather-related catastrophe events with no significant events in the last quarter of 2014. Santam's continued focus on optimising the claims and procurement processes also reduced the effect of the weakening exchange rate on motor claims. Our direct insurer, MiWay, achieved a claims ratio of 57.4% (2013: 62.2%), resulting in an underwriting profit of R159 million (2013: R54 million).

The specialist property business delivered a strong underwriting performance despite a number of large property claims, due to a positive contribution from the reinsurance programme. Following corrective underwriting actions, with a specific focus on previously underperforming portfolios, liability business showed a significant improvement compared to 2013. The engineering class was under some pressure due to competitive forces. The crop insurance business achieved a significant turnaround from a loss-making position of R142 million in 2013 to an underwriting profit of R251 million in 2014. This business benefited from focused underwriting actions and benign weather conditions.

Santam Re achieved good profit growth, following lower retrocession costs and corrective action on the South African portfolio.

On a comparable basis, excluding the impact of volatility in the crop results, the 2014 net underwriting margin would be 6.9% compared to 3.8% in 2013. This improvement in the 'normalised' underwriting margin is mainly attributed to benign weather-related claims experience in 2014 and a significant focus by management on process enhancements and corrective actions to improve the profitability of all the insurance businesses in the group. Net catastrophe claims for 2014 amounted to R187 million compared to R280 million in 2013. The soft reinsurance market also provided opportunities to optimise reinsurance placements in 2014.

The group reported strong gross written premium growth of 12% in the property class. Corrective underwriting actions as well as expansion into foreign territories contributed to growth of this class of business. The motor book grew by more than 8%, positively impacted by an increase in MiWay gross written premiums to R1.5 billion (2013: R1.3 billion).

The specialist insurance classes had mixed fortunes with the liability class showing growth of only 4% following the decision to reduce risk exposure to medical malpractice business. In contrast, the engineering and transportation classes achieved good growth, mainly driven by expansion into foreign territories. The crop insurance business also reported growth of 26% through increased exposure and a change in the crop mix. The growth of cell insurance business in the Alternative Risk class was negatively impacted following the cancellation of a significant book of business.

Following South Africa's credit downgrade by global ratings agency Standard & Poor's (S&P) on 13 June 2014, Santam's long-term counterparty credit and insurer financial strength rating was adjusted from A- to BBB+, maintaining its maximum rating of two notches above the sovereign rating. At the same time, S&P affirmed the 'zaAA+' South Africa national scale rating on Santam, leaving our local policyholders and note holders unaffected. Alternative arrangements to support growth in territories outside of South Africa, in situations where this is dependent on Santam's S&P international scale rating, were put in place towards the end of 2013. In terms of these arrangements Santam has the facility to use an international insurer's AA-rated licence for such business. As part of the arrangement with the international insurer, Santam entered into an alternative risk transfer (ART) quota share agreement effective 1 January 2014, which reduced net earned premiums by R1 billion during this reporting period, reducing growth in net earned premiums to 3%. The agreement will generate dollar-denominated collateral to support Santam's use of the international insurer's AA-rated licence. The agreement also reduces Santam's net catastrophe exposure, resulting in lower catastrophe reinsurance premiums.

DIRECTORS' REPORT

The net acquisition cost ratio of 28.2% increased from 27.9% in 2013. On a comparable basis, excluding the impact of the ART reinsurance quota share arrangement, the management expense ratio increased by 1.2%. Variable incentive costs increased compared to 2013 following the significant improvement in underwriting performance and were a contributor to the expense ratio increase. Binder fees payable to intermediaries also increased following changes in regulations in 2013. Strategic project costs amounted to 1% of net earned premium and relate to continued investment in strategic projects to improve our online interaction capability, to centralise our back-office processing and to implement a new core underwriting, administration and product management platform for the Santam Commercial and Personal intermediated business. Development costs of R81 million for the latter project were capitalised in 2014. The project is progressing according to plan.

The net commission ratio reduced by 0.6% on a comparable basis. The decrease was mainly due to the higher reinsurance profit commissions and rebates received on specialist and crop insurance business as well as growth at MiWay, where no commission expenses are incurred.

In managing Santam's risk pool, we aim to retain an optimum amount of risk after reinsurance, taking into account the group's risk appetite and the cost of reinsurance. The level of reinsurance earned premium as a percentage of gross earned premium increased from 11.8% in 2013 to 13.7% in 2014 on a comparable basis, excluding the impact of the ART quota share reinsurance arrangement and cell business. Favourable reinsurance terms on specialist business lines, and increased quota share treaties for the crop and Santam Re businesses, were key drivers for the increase.

The investment return on insurance funds of R425 million increased from the R374 million earned in 2013, supported by a small increase in interest rates as well as a higher average insurance funds balance for the year.

The combined effect of insurance activities resulted in a net insurance income of R1 919 million compared to R851 million in 2013.

The performance of the interest-bearing portfolios exceeded the SteFI index, while the listed equities marginally underperformed against the SWIX40 benchmark in 2014. The performance of the interest-bearing and equities portfolios continue to exceed the relative benchmarks over the longer term. The group's investment performance was negatively impacted by the 2013 hedge over equities, which expired in May 2014 at a loss of R93 million. The weakening of the rand during 2014 had a positive impact on the valuations of our foreign currency assets held by our local operations of R71 million (2013: R91 million).

Positive fair value movements to the value of R93 million in Santam's interest in the Sanlam Emerging Markets (SEM) general insurance businesses in Africa, India and Southeast Asia enhanced the investment performance. During 2014, Santam invested a further R186 million in participatory investments in SEM general insurance businesses, including new investments in Nigeria (8.7% effective interest), Rwanda (22.1% effective interest) and Ghana (14% effective interest). At year-end, the SEM investments had a fair value of R807 million (2013: R528 million), which now accounts for 11.4% of Santam group's shareholder funds.

Net earnings from associated companies of R58 million lagged the R86 million reported in 2013 mainly due to the key contributor, Credit Guarantee Insurance Corporation of Africa Ltd reporting lower earnings compared to 2013.

Cash generated from operations of R2.4 billion increased from the R1.6 billion reported in 2013 mainly due to the improved underwriting results.

Headline earnings increased by 40% compared to 2013. The solvency margin of 45.6% marginally exceeded our long-term target range of 35% to 45%, while the group achieved a return on capital of 24.7% (2013: 20%).

Santam concluded the acquisition of a 100% interest in Brolink (Pty) Ltd (Brolink) in 2014. Following the acquisition, Santam consolidated its administration businesses. Original Co-Sourcing SA (Pty) Ltd (Orico), previously owned by Indwe Broker Holdings Group (Pty) Ltd (Indwe), and the part of the Riscor Underwriting Managers (Pty) Ltd business not operated on Santam's in-house systems were integrated with Brolink effective 1 October 2014.

The earnings were negatively impacted by an impairment of R69 million in the Indwe investment. The impairment was mainly driven by reduced growth projections by Indwe in competitive market conditions and the reduced income for the Indwe group following the disposal of Orico to Brolink.

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.

DIRECTORS' REPORT

ORDINARY SHARES ISSUED

The shares in issue remained at 119 346 417 (2013: 119 346 417) shares of no par value (including 4 710 975 (2013: 4 969 126) treasury shares). In terms of the deferred share plan (DSP), implemented in 2007, 348 196 (2013: 374 892) shares were granted to employees on a deferred delivery basis during the year, 62 880 (2013: 99 237) shares lapsed as a result of resignations and 446 158 (2013: 575 745) treasury shares were issued in terms of the DSP. Full details are set out in note 18 to the annual financial statements.

A subsidiary in the group holds 4 710 975 (2013: 4 969 126) Santam shares. The shares are held as 'Treasury shares'.

CAPITAL STRUCTURE

Debt securities

For details on debt securities, refer to note 21 to the financial statements.

DIVIDENDS

The following dividends were paid and are proposed.

Interim dividend of 262 cents per share (2013: 242 cents)

A final dividend of 480 cents per share (2013: 433 cents)

	Group	
	2014	2013
	R million	R million
	313	289
	573	517
	886	806

SPECIAL DIVIDEND

No special dividend was declared or paid during 2014 and 2013.

SUBSIDIARIES

Details of the company's direct and indirect interests in subsidiaries are set out in note 47 to the financial statements. The following changes in shareholding took place during the year:

- On 15 May 2014, Swanvest 120 (Pty) Ltd acquired the remaining 70% of the shareholding in H & L Underwriting Managers (Pty) Ltd.
- On 1 July 2014, Swanvest 120 (Pty) Ltd acquired 100% of the shareholding in Brolink (Pty) Ltd.
- On 1 November 2014, Centriq Insurance Holdings Ltd acquired an additional 18.5% of the shareholding in Nautical Underwriting Managers (Pty) Ltd.
- On 1 June 2014, Swanvest 120 (Pty) Ltd sold its shareholding of 70% in Legal Exchange Corporation (Pty) Ltd.

ASSOCIATED COMPANIES

Details of the holding company's interest in associated companies are set out in note 47 to the financial statements. The following changes in shareholding took place during the year:

- On 15 May 2014, Swanvest 120 (Pty) Ltd acquired the remaining 70% of the shareholding in H & L Underwriting Managers (Pty) Ltd.

RELATED PARTIES

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

For related-party transactions and key management personnel, refer to note 43 to the annual financial statements.

Details of directors' remuneration and their interest in the company's shares appear in note 43 to the annual financial statements.

HOLDING COMPANY

Sanlam Ltd, the company's holding company, holds 59.21% (2013: 59.34%) of the total issued ordinary share capital.

SEGMENT INFORMATION

Refer to note 5 in the notes to the financial statements for the segmental report.

DIRECTORS' REPORT

DIRECTORATE AND COMPANY SECRETARY AT 31 DECEMBER 2014

Committee memberships	Risk committee	Audit committee	Human resources committee	Nominations committee	Sustainability and ethics committee	Investment committee
Non-executive directors						
B Campbell	•	•				
MD Dunn	•	•				
MP Fandeso	•	•				
BTPKM Gamedze	•				•	
GG Gelink (Chairman)	•	•	•	•		•
MLD Marole			•	•	•	
JP Möller	•					•
MJ Reyneke	•					•
J van Zyl			•	•		
Executive directors						
IM Kirk (Chief Executive Officer)	•					•
HD Nel (Chief financial officer)	•					•
Y Ramiah					•	

The following changes took place on the company's board of directors subsequent to 31 December 2014:

- L Lambrechts – Appointed as Chief Executive Officer from 1 January 2015
- T Fubu – Appointed to the board on 1 January 2015

Company secretary

M Allie

Registered office for company secretary

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

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

AUDITORS

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

SPECIAL RESOLUTIONS PASSED

The following special resolutions were passed by Santam Ltd at the annual general meeting on 27 May 2014:

- Approval of directors' remuneration.
- General authority to the directors, in accordance with the JSE Listings Requirements and Companies Act, to repurchase companies shares.
- General authority to provide direct or indirect financial assistance to related companies or person (or inter-related companies or corporations).
- Update existing memorandum of incorporation (MOI) with minor changes relating to the forfeiture of unclaimed dividends to bring it in line with the MOI of its majority shareholder, Sanlam Ltd.
- MiWay Insurance Ltd passes a special resolution at the annual general meetings on 30 October 2014 to update the existing MOI to define the retirement period of non-executive directors.
- Centriq Insurance Holdings Ltd, Centriq Insurance Company Ltd, Centriq Life Insurance Company Ltd and Nova Risk Partners Ltd all passed special resolutions at their annual general meeting held on 27 June 2014 providing general approval to the companies to provide direct and indirect financial assistance to any related or inter-related companies.

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

The company is from time to time, as an essential part of conducting the business of the group, required to provide financial assistance to group companies as part of its day-to-day operations in the form of loan funding, guarantees or general financial assistance as contemplated in section 45 of the Act. In accordance with section 45(5) of the Act this serves to give notice that the Santam board, in line with existing practice, approved that the company may, in accordance with and subject to the provisions of section 45 of the Act and in terms of the special resolution passed at the company's annual general meeting in 2014, provide such direct or indirect financial assistance to related and inter-related companies and corporations as described in section 45 of the Act. The amount and format of financial assistance which may be granted pursuant to the resolution is subject to ongoing review by the Santam board and may in total exceed the reporting threshold of 0,1% of the Santam group's net asset value provided for in the Act.

STATEMENT OF FINANCIAL POSITION

		Group		Company	
	Notes	2014 R million	2013 R million	2014 R million	2013 R million
ASSETS					
Non-current assets					
Property and equipment	6	117	95	52	45
Intangible assets	7	1 086	1 072	223	150
Deferred income tax	20	161	188	–	–
Investments in subsidiaries	8	–	–	1 499	1 568
Investments in associates	9	355	318	117	117
Financial assets – at fair value through income					
Equity securities	10	3 896	4 011	3 777	3 845
Debt securities	10	7 837	7 306	5 562	5 145
Derivatives	11	–	1	–	1
Reinsurance assets	12,25	144	117	140	121
Current assets					
Cell owners' interest	23	9	15	–	–
Investment in subsidiaries	8	–	–	538	538
Financial assets – at fair value through income					
Short-term money market instruments	10	1 892	1 424	1 156	889
Reinsurance assets	12,25	3 372	2 227	3 113	1 864
Deferred acquisition costs	25.2	447	369	408	328
Loans and receivables including insurance receivables	13	2 869	2 684	3 170	2 999
Income tax assets		10	31	–	10
Cash and cash equivalents	14	2 561	2 343	1 457	1 505
Non-current assets held for sale	15	428	415	–	–
Total assets		25 184	22 616	21 212	19 125
EQUITY					
Capital and reserves attributable to the company's equity holders					
Share capital	16	107	107	107	107
Treasury shares	16	(506)	(520)	–	–
Other reserves	19	238	224	–	–
Distributable reserves	19	7 171	6 321	6 715	5 700
		7 010	6 132	6 822	5 807
Non-controlling interest	17	430	400	–	–
Total equity		7 440	6 532	6 822	5 807
LIABILITIES					
Non-current liabilities					
Deferred income tax	20	301	315	239	242
Financial liabilities – at fair value through income					
Debt securities	21	999	997	999	997
Investment contracts	22	105	126	–	–
Cell owners' interest	23	924	814	–	–
Insurance liabilities	25	1 528	1 595	1 514	1 592
Current liabilities					
Financial liabilities – at fair value through income					
Debt securities	21	24	24	24	24
Derivatives	11	–	204	–	204
Financial liabilities – at amortised cost					
Collateral guarantee contracts	24	88	82	88	82
Insurance liabilities	25	10 514	9 096	8 256	6 885
Deferred reinsurance acquisition revenue	25.2	232	171	215	155
Provisions for other liabilities and charges	26	91	84	23	15
Trade and other payables	27	2 717	2 561	2 823	3 122
Current income tax liabilities		221	15	209	–
Total liabilities		17 744	16 084	14 390	13 318
Total shareholders' equity and liabilities		25 184	22 616	21 212	19 125

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Group		Company	
		2014 R million	2013 R million	2014 R million	2013 R million
Gross written premium		22 710	20 631	19 866	17 861
Less: reinsurance written premium		5 075	3 731	3 987	2 351
Net written premium		17 635	16 900	15 879	15 510
Change in unearned premium					
Gross amount		532	334	476	343
Reinsurers' share		(119)	(185)	(251)	(136)
Net insurance premium revenue		17 222	16 751	15 654	15 303
Investment income	28	807	782	1 090	913
Income from reinsurance contracts ceded		1 119	600	1 013	460
Net gain on financial assets and liabilities at fair value through income	29	286	449	297	398
Net income		19 434	18 582	18 054	17 074
Insurance claims and loss adjustment expenses	30	14 315	13 807	12 639	12 055
Insurance claims and loss adjustment expenses recovered from reinsurers	30	(3 437)	(2 200)	(2 792)	(1 454)
Net insurance benefits and claims		10 878	11 607	9 847	10 601
Expenses for the acquisition of insurance contracts	31	2 983	2 721	3 327	2 941
Expenses for marketing and administration	31	3 050	2 562	2 397	2 026
Expenses for asset management services	31	31	29	24	22
Amortisation and impairment of intangible assets	7,31	130	114	7	20
Expenses		17 072	17 033	15 602	15 610
Results of operating activities		2 362	1 549	2 452	1 464
Finance costs	33	(93)	(118)	(90)	(112)
Net income from associates	9	58	86	34	53
Net (loss)/profit on sale of associate	9	–	(18)	–	47
Net profit on sale of subsidiary		–	–	–	163
Impairment on net investments and loans of associates		–	(26)	(69)	–
Profit before tax		2 327	1 473	2 327	1 615
Income tax expense	34	(660)	(300)	(515)	(227)
Profit for the year		1 667	1 173	1 812	1 388
Other comprehensive income, net of tax		8	143	–	–
Items that may subsequently be reclassified to income		8	143	–	–
Currency translation differences		–	–	–	–
Total comprehensive income for the year		1 675	1 316	1 812	1 388
Profit attributable to:					
– equity holders of the company		1 579	1 120	1 812	1 388
– non-controlling interest		88	53	–	–
		1 667	1 173	1 812	1 388
Total comprehensive income attributable to:					
– equity holders of the company		1 587	1 263	1 812	1 388
– non-controlling interest		88	53	–	–
		1 675	1 316	1 812	1 388
Earnings attributable to the equity holders	35				
Basic earnings per share (cents)		1 382	982		
Diluted earnings per share (cents)		1 372	973		
Weighted average number of shares (millions)		114.26	114.12		
Weighted average number of ordinary shares for diluted earnings per share (millions)		115.09	115.12		

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company					Total
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	Non-controlling interest R million	
GROUP						
Balance as at 1 January 2013	107	(579)	77	5 904	108	5 617
Profit for the year	–	–	–	1 120	53	1 173
Other comprehensive income:						
Currency translation differences	–	–	143	–	–	143
Total comprehensive income for the year ended						
31 December 2013	–	–	143	1 120	53	1 316
Issue of target shares	–	–	–	–	277	277
Sale of treasury shares	–	59	–	–	–	59
Loss on sale of treasury shares	–	–	–	(60)	–	(60)
Transfer to reserves	–	–	4	(4)	–	–
Share-based payment costs	–	–	–	106	–	106
Dividends paid	–	–	–	(745)	(37)	(782)
Acquisition of subsidiary	–	–	–	–	(1)	(1)
Balance as at 31 December 2013	107	(520)	224	6 321	400	6 532
Profit for the year	–	–	–	1 579	88	1 667
Other comprehensive income:						
Currency translation differences	–	–	8	–	–	8
Total comprehensive income for the year ended						
31 December 2014	–	–	8	1 579	88	1 675
Issue of target shares	–	–	–	–	–	–
Sale of treasury shares	–	51	–	(51)	–	–
Purchase of treasury shares	–	(37)	–	–	–	(37)
Transfer to reserves	–	–	6	(6)	–	–
Share-based payment costs	–	–	–	123	–	123
Dividends paid	–	–	–	(795)	(58)	(853)
Balance as at 31 December 2014	107	(506)	238	7 171	430	7 440
COMPANY						
Balance as at 1 January 2013	107	–	–	5 059	–	5 166
Profit for the year	–	–	–	1 388	–	1 388
Total comprehensive income for the year ended						
31 December 2013	–	–	–	1 388	–	1 388
Share-based payment costs	–	–	–	138	–	138
Loss on delivery of shares in terms of share scheme	–	–	–	(107)	–	(107)
Dividends paid	–	–	–	(778)	–	(778)
Balance as at 31 December 2013	107	–	–	5 700	–	5 807
Profit for the year	–	–	–	1 812	–	1 812
Total comprehensive income for the year ended						
31 December 2013	–	–	–	1 812	–	1 812
Share-based payment costs	–	–	–	151	–	151
Loss on delivery of shares in terms of share scheme	–	–	–	(119)	–	(119)
Dividends paid	–	–	–	(829)	–	(829)
Balance as at 31 December 2014	107	–	–	6 715	–	6 822

STATEMENT OF CASH FLOWS

	Notes	Group		Company	
		2014	2013 Restated*	2014	2013 Restated*
		R million	R million	R million	R million
Cash generated from operations	37	2 443	1 616	1 731	1 588
Interest paid		(93)	(118)	(90)	(112)
Income tax paid	38	(420)	(221)	(280)	(137)
Net cash from operating activities		1 930	1 277	1 361	1 339
Cash flows from investing activities					
Acquisition of financial assets		(8 040)	(7 560)	(5 798)	(5 059)
Proceeds from sale of financial assets		7 556	6 615	5 573	4 337
Settlement of fence		(297)	–	(297)	–
Acquisition of subsidiaries	39	(28)	(105)	–	(95)
Cash acquired through acquisition/sale of subsidiaries	39	3	15	–	15
Purchases of equipment		(69)	(36)	(31)	(23)
Purchases of intangible assets		(102)	(71)	(81)	(56)
Proceeds from sale of equipment		4	1	–	1
Acquisition of associated companies		–	(88)	–	–
Capitalisation of associated companies		(16)	–	–	–
Proceeds from sale of associated companies		–	63	–	63
Acquisition of book of business		–	(9)	–	(9)
Net cash used in investing activities		(989)	(1 175)	(634)	(826)
Cash flows from financing activities					
Purchase of treasury shares		(37)	–	–	–
Proceeds from issue of target shares		–	277	–	–
(Decrease)/increase in investment contract liabilities		(21)	29	–	–
Increase in collateral guarantee contracts		6	7	6	7
Dividends paid to company's shareholders	40	(795)	(745)	(829)	(778)
Dividends paid to non-controlling interest	40	(58)	(37)	–	–
Increase in cell owners' interest		110	111	–	–
Net cash used in financing activities		(795)	(358)	(823)	(771)
Net increase/(decrease) in cash and cash equivalents		146	(256)	(96)	(258)
Cash and cash equivalents at beginning of year		2 343	2 471	1 505	1 645
Exchange gains on cash and cash equivalents		72	128	48	118
Cash and cash equivalents at end of year		2 561	2 343	1 457	1 505

* 2013 comparatives have been restated following the changes in the statement of cash flows described in Note 2 – Restatement.

NOTES TO THE FINANCIAL STATEMENTS

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

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 3.

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

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

a) Standards, amendments and interpretations effective in 2014

The following amendments to published standards are mandatory for the group's accounting periods beginning on or after 1 January 2014:

Number	Effective date	Executive summary
Amendments to IAS 32 Financial Instruments: Presentation	1 January 2014	The IASB has issued amendments to the application guidance in IAS 32, 'Financial instruments: Presentation', that clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP. Additional disclosure on derivative instruments that are disclosed on a net basis is provided in note 4.
Amendments to IFRS 10, consolidated financial statements', IFRS 12 and IAS 27 for investment entities	1 January 2014	The amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. The amendments had no impact on the group.
IASB issues narrow scope amendments to IAS 36, 'Impairment of assets'	1 January 2014	These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. Additional disclosure was provided in note 7.
Amendment to IAS 39 on novation of derivatives	1 January 2014	The IASB has amended IAS 39 to provide relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. Similar relief will be included in IFRS 9, 'Financial Instruments'. The amendment had no impact on the group.

NOTES TO THE FINANCIAL STATEMENTS

IFRIC 21 – Accounting for levies.	1 January 2014	<p>This interpretation sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses diversity in practice around when the liability to pay a levy is recognised.</p> <p>This interpretation had no impact on the group.</p>
Annual Improvements 2010-12 cycle	1 July 2014	<p><i>IFRS 2 Share-based payment</i> The amendment clarifies the definition of a “vesting condition” and separately defines “performance condition” and “service conditions”.</p> <p>The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.</p> <p><i>IFRS 3 Business combinations</i> The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32 Financial instruments: Presentation.</p> <p>The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.</p> <p>Consequential changes are also made to IFRS 9, IAS 37 and IAS 39.</p> <p>The amendment is effective for business combinations where the acquisition date is on or after 1 July 2014.</p> <p>These amendments had not material impact on the group.</p>

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

Number	Effective date
IFRS 9 Financial Instruments	1 January 2018
Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities – Applying the consolidation exception	1 January 2016
Amendments to IFRS 11 – Joint arrangements	1 January 2016
IFRS 14 Regulatory deferral accounts	1 January 2016
IFRS 15 Revenue from contracts with customers	1 January 2017
Amendments to IAS 1 – Disclosure initiative	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendment to IAS 19 – Employee Benefits	1 July 2014
Amendment to IAS 27 – Equity method in separate financial statements	1 January 2016
Amendment to IAS 16 and IAS 41 – Agriculture: Bearer plants	1 January 2016
Annual Improvements 2011 – 13 cycle	1 July 2014
Annual Improvements 2012 – 14 cycle	1 January 2016

These standards and amendments are not expected to have a material impact on the group.

NOTES TO THE FINANCIAL STATEMENTS

1.3 Consolidation

a) Subsidiaries and business combinations

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with 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. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit and loss.

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

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

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

b) Changes in ownership interests without change of control

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

c) Disposal of subsidiaries

When the group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for 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) Interest in equity accounted investees

The group's interest in equity accounted investees comprise interest in 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 equity accounted investee is reduced, but significant influence or joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

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

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

The group determines at each reporting date whether there is any objective evidence that the investment in 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 the 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. 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 comprehensive income.

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

The company accounts for its investment in associates 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.

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 South African rand, which is the group's presentation currency.

b) Transactions and balances

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

c) Group companies

The results and financial position of all group entities (none of which 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.

NOTES TO THE FINANCIAL STATEMENTS

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 and associates; 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 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.

NOTES TO THE FINANCIAL STATEMENTS

b) Computer software

Computer software is recognised at cost less amortisation and impairment charges. Computer software packages acquired are initially recognised at fair value. Cost associated with maintaining computer software 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 ten 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 Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if the carrying amount will be recovered principally through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the assets or disposal groups are available for immediate sale in their present condition and management is committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of the classification.

Immediately prior to being classified as held for sale, the carrying amount of the non-current assets or disposal groups is measured in accordance with the applicable IFRS. After classification as held for sale, it is measured at the lower of the carrying amount or fair value less costs to sell. An impairment loss is recognised in profit or loss for any initial and subsequent write-down of the asset and disposal group to fair value less costs to sell. A gain for any subsequent increase in fair value less costs to sell is recognised in profit or loss to the extent that it is not in excess of the cumulative impairment loss previously recognised.

Non-current assets or disposal groups that are classified as held for sale are not depreciated.

NOTES TO THE FINANCIAL STATEMENTS

1.10 Financial assets

1.10.1 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.

1.10.2 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. Interest is accrued on financial assets at fair value through income on the effective yield basis.

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.

NOTES TO THE FINANCIAL STATEMENTS

1.10.3 Determination of fair value

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

When applicable, the group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair values of quoted investments are based on current stock exchange prices at the close of business on the statement of financial position date. If the market for a financial asset is not active or if it is unquoted, the group establishes fair value by using valuation techniques. These include 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.

The group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

1.11 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 assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective-interest rate. The amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective-interest rate determined under contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

NOTES TO THE FINANCIAL STATEMENTS

b) Impairment of other non-financial assets

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

1.12 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.

1.13 Offsetting financial and other instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a currently 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

1.14 Cash and cash equivalents

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

1.15 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.

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

1.16 Debt securities

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

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

1.17 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.

NOTES TO THE FINANCIAL STATEMENTS

1.18 Insurance contracts

Insurance contracts are classified into three main categories, depending on the type of insurance risk exposure, namely short-term, long-term and cell insurance.

a) General insurance

General 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. General insurance contracts are further classified into the following categories:

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

Recognition and measurement

i) Gross written premiums

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

ii) Provision for unearned premiums

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

iii) Provision for unexpired risk

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

iv) Provision for claims

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

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

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the company at that date. This provision is calculated using actuarial modelling (refer note 3).

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 1.17 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Income received from insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) is included with premium income.

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

NOTES TO THE FINANCIAL STATEMENTS

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

Income from reinsurance contracts ceded, that varies with and is related to obtaining new reinsurance contracts and renewing existing reinsurance contracts, is deferred over the period of the related reinsurance contract and is recognised as a 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 SAP 104 issued by the Actuarial Society of South Africa and are reflected as 'Insurance liabilities' in the statement of financial position. The operating surpluses or losses arising from life insurance contracts are determined by the annual valuation. These surpluses or losses are arrived at after taking into account the movement within the policyholder liabilities.

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 shareholder, whereby the risks and rewards associated with certain insurance activities accrue to the cell shareholder. Cell captives allow clients to purchase non-convertible preference shares in the registered insurance company which undertakes the professional insurance management of the cell, including: underwriting, reinsurance, claims management, actuarial and statistical analysis, investment and accounting services. The terms and conditions are governed by the shareholders' agreement. There are currently two distinct types of cell captive arrangements: a) first party and b) third party.

NOTES TO THE FINANCIAL STATEMENTS

- First-party cell captive arrangements are arrangements where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies.
The cell shareholder and the policyholder are considered the same person. Where more than one contract is entered into with a single counterparty, it shall be considered a single contract, and the shareholder and insurance agreement are considered together for risk transfer purposes. As these contracts are a single contract there is no significant risk transfer and such cell captive facilities are accounted for as investment contract liabilities.
- Third-party cell captive arrangements are arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. The insurance company is the principle to the insurance contract, although the business is underwritten on behalf of the cell shareholder. The shareholder's agreement, however, determines that the cell shareholders remain responsible for the solvency of the cell captive arrangements. In substance, the insurance company therefore reinsures this business to the cell shareholder as the cell shareholder remains responsible for the solvency of the cell captive arrangement.

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

1.19 Investment contracts

The group recognise the following investment contracts:

a) First-party cells

First-party cell captives are disclosed in accordance with the requirement detailed in the accounting policy under 'First party' (refer to accounting policy note 1.18 (c)).

b) Policies with no significant risk transfer

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

1.20 Liability to cell shareholders

Liability to cell shareholders is measured in accordance with the requirement detailed in the accounting policy under 'Cell insurance' (refer to accounting policy note 1.18 (c)).

Liabilities to cell shareholders represent the cells' shareholder funds in respect of the insurance business conducted in the cell structures. The premiums and claims relating to first-party cells have been excluded from the statement of comprehensive income and are accounted for directly in the liability. The premium and claims payments relating to contracts in third-party cells have been included in the statement of comprehensive income but as the third-party cell shareholder, in substance, is the reinsurer, the net result is accounted for as part of the reinsurance contract liability.

1.21 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.

NOTES TO THE FINANCIAL STATEMENTS

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 to settle the balances on a net basis.

c) Withholding tax on dividends

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

1.22 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) Long-term incentive and retention bonus plan

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

d) Deferred share plan (DSP)

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

e) The Emthunzini Black Economic Empowerment (BEE) Scheme

In terms of the BBBEE scheme, Central Plaza (a structured entity within the Sanlam group), undertakes to deliver a specified number of units to selected black Santam employees or strategic business partners on predetermined dates in the future. Employees still need to be in the employment of Santam on or by those dates. Vesting occurs based on the contracts with employees or the strategic business partners but does not exceed a period of seven years. The fair value of equity instruments granted is measured on grant date using an appropriate valuation model, which takes into account the market price on grant date, the cost of funding, as well as an assumption on the actual percentage of shares that will be delivered. The fair value on grant date is recognised in the statement of comprehensive income on a straight-line basis over the vesting period of the equity instruments, adjusted to reflect actual levels of vesting, with a corresponding increase in equity.

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 net insurance result after certain adjustments as well as growth targets. The group recognises an accrual where contractually obliged or where there is a past practice that has created a constructive obligation.

h) 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 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.

1.24 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.

1.25 Other revenue recognition

Interest income

Interest income is recognised using the effective-interest method.

1.26 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.

1.27 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.

NOTES TO THE FINANCIAL STATEMENTS

2. RESTATEMENT

Statement of cash flows

During the year the group changed its disclosure of cash flows from investing activities. IAS 7 requires that major classes of receipts and payments should be reported gross in the statement of cash flows. More detailed and relevant information became available during the year, which enabled the group to provide enhanced disclosure of the gross proceeds and sales of financial assets to users of the financial statements.

In accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the change has been made retrospectively and the comparatives restated accordingly.

The table below shows the impact of the change:

	Group 2013 R million	Company 2013 R million
Effect on statement of cash flows		
Cash utilised in investing activities previously reported	(945)	(722)
Cash utilised in investing activities restated	(945)	(722)
Acquisition of financial assets	(7 560)	(5 059)
Proceeds from sale of financial assets	6 615	4 337
Impact of change	–	–

The change had no impact on the statement of financial position, statement of comprehensive income, statement of changes in equity and earnings or diluted earnings per share (refer to note 35).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The group makes estimates and assumptions that could 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 proportion of premiums written in the current year, which relate to risks that have not expired by the end of the financial year.

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

NOTES TO THE FINANCIAL STATEMENTS

The provisions for unearned premiums are first determined on a gross level and thereafter the reinsurance impact is recognised based on the relevant reinsurance contract. 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 group's estimate of the cost of settlement of claims that have occurred and were reported by the reporting date, but that have not yet been finally settled.

Claims provisions are determined based on previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on the interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard for the specific circumstances, information available from the insured and/or loss adjuster 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.

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

Stochastic chain-ladder methodology

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

NOTES TO THE FINANCIAL STATEMENTS

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.

IBNR is considered to be the most sensitive to changes in assumptions; therefore a sensitivity analysis is performed. In the southern African operations, excluding alternative risk business, a 5% upward adjustment in the level of sufficiency of the IBNR reserve would result in an additional charge of approximately R48 million (2013: R43 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 R43 million (2013: R38 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. Refer to note 7 for impairment of goodwill recognised.

c) 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 15% and 19%. 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.

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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.

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 on other players in the market. For the newly acquired key business relationships recognised at 31 December 2014 a useful life range of two to four years and an average cancellation rate of between 18% and 35% were assumed.

If a useful life range of one to three years were applied the asset value would have been R5 million (2013: R3 million) lower and if a range of six to nine years were applied, the asset would have been R2 million (2013: R4 million) higher.

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

d) 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 4.

e) Fair value hierarchy assumptions applied to bond disclosure

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from the stock exchange or pricing service, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the closing price. These instruments are included in level 1 and comprise mainly equity 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. Listed bonds that did not trade actively during a financial reporting period are classified as Level 2 financial instruments.

4. RISK AND CAPITAL MANAGEMENT

4.1. Objective and framework

As an insurance group, Santam Ltd and its subsidiaries are in the business of actively seeking risk with a view to adding value by managing it. This section summarises the key risks to the group and the steps taken to manage them.

The underlying premise of enterprise risk management (ERM) is that every entity exists to provide value for its stakeholders. All entities face uncertainty and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value.

Enterprise risk management enables management to effectively deal with uncertainty and thus enhance the capacity to build value. Value is maximised when management sets strategies and objectives that strike an optimal balance between risk and reward and then efficiently and effectively deploy resources in pursuit of the entity's objectives.

Santam has adopted an ERM approach and framework that is appropriate to the nature, scale and complexity of its business and risks. The Santam approach is aligned with the principles of King III, ISO 31000, SAM requirements as well as the requirements of our majority shareholder, Sanlam.

NOTES TO THE FINANCIAL STATEMENTS

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

A key component of the ERM framework is the risk management process. This process consists of:

- Risk identification;
- Risk analysis;
- Risk evaluation; and
- Risk treatment and/or response

4.2. Risk assessment process

Santam's risk assessment process aims to identify, analyse, evaluate and manage those risks that are relevant to the company and group's strategic objectives. Risks are identified from a top down (strategic) and bottom up (operational) perspective to create and maintain an integrated view of material risk exposures.

The top down approach is undertaken at an executive and senior management level and considers strategic risks affecting Santam in the medium to long term. In parallel, the bottom up approach is undertaken by enterprise, risk and compliance management (ERCM) at a business unit or specialist unit level to assess all categories of risks from their perspectives with specific focus on operational risks.

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

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

Santam has developed an internal model to analyse the quantifiable risks. The model covers the following risk categories:

- market risk
- insurance risk
- reinsurance risk
- credit risk
- operational risk

The model is also used to aggregate the individual risk modules into a single economic capital requirement amount.

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

Risk management involves selecting and implementing one or more options for addressing risks. Risk management options are not necessarily mutually exclusive or appropriate in all circumstances. The options available include the following: transfer risk, treat risk, terminate risk or tolerate risk.

Selecting the most appropriate risk management option involves balancing the costs and effort of implementation against the benefits derived. A number of treatment options may be considered and applied either individually or in combination.

The risk appetite framework governs the management of risk within the organisation. 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. It is within this risk appetite framework that Santam has selected its asset allocation and reinsurance programme which are among the most important determinants of risk and hence capital requirements within the organisation. The internal model allows for the measurement of Santam's expected performance relative to the risk appetite assessment criteria agreed to by Santam's board.

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The discussions that follow will focus mainly on the financial reporting risks affecting the following financial instruments and insurance balances:

	Group		Company	
	2014 R million	2013 R million	2014 R million	2013 R million
Financial and insurance assets				
Quoted equity securities	3 076	3 482	2 957	3 316
Unquoted equity securities	820	529	820	529
Total equity securities	3 896	4 011	3 777	3 845
Quoted debt securities	3 608	3 709	2 958	2 938
Unquoted debt securities	4 229	3 597	2 604	2 207
Total debt securities	7 837	7 306	5 562	5 145
Derivatives	–	1	–	1
Short-term money market instruments	1 892	1 424	1 156	889
Receivables due from contract holders	2 237	1 880	2 143	1 639
Reinsurance receivables	162	417	133	377
Other loans and receivables	470	387	894	983
Total loans and receivables including insurance receivables	2 869	2 684	3 170	2 999
Cell owners' interest	9	15	–	–
Reinsurance assets	3 516	2 344	3 253	1 985
Deferred acquisition costs	447	369	408	328
Cash and cash equivalents	2 561	2 343	1 457	1 505
Total financial and insurance assets	23 027	20 497	18 783	16 697
	Group		Company	
	2014 R million	2013 R million	2014 R million	2013 R million
Financial and insurance liabilities				
Debt securities	1 023	1 021	1 023	1 021
Investment contracts	105	126	–	–
Derivatives	–	204	–	204
Cell owners' interest	924	814	–	–
Collateral guarantee contracts	88	82	88	82
Insurance liabilities	12 042	10 691	9 770	8 477
Deferred reinsurance acquisition revenue	232	171	215	155
Trade and other payables	2 717	2 561	2 823	3 122
Total financial and insurance liabilities	17 131	15 670	13 919	13 061

4.2.1 Insurance risk

The group issues contracts that transfer insurance risk or financial risk or both. The group manages insurance risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. This section summarises these risks and the way the group manages those risks.

In general, the group issues personal, commercial and cell insurance policies that include the following terms and conditions:

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

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

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

In order to quantify the insurance risk faced by Santam, a stochastic simulation of Santam's claims is performed at a line of business level within Santam's internal model. Assumptions for each line of business are determined based on more than 10 years' worth of historic data. The expected claims liabilities are modelled for specific lines of business, which are then split into the appropriate sub-classes. For each sub-class of business, three types of losses are modelled, namely: attritional losses, individual large losses and catastrophe losses. Each of the sub-classes is modelled based on its own assumptions whose methodology and calibration are thoroughly documented in the internal model documentation.

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

Santam also models various catastrophes and the losses from each catastrophe are allocated to multiple classes of business. The following catastrophes are modelled: Earthquake, Storm (small), Storm (large), Hail (excluding crop damage), Marine (cargo), Aviation (hull/liability), Conflagration (property), Conflagration (liability), Utility Failure, Latent Liability and Economic Downturn.

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

Loss history	2014	2013	2012	2011	2010	2009	2008
Net claims paid and provided %*	63.1	69.3	68.3	64.2	64.1	70.6	68.4

* Expressed as a percentage of net earned premiums

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

Underwriting limits are set for business units, underwriting managers and intermediaries to ensure that this policy is consistently applied. Underwriting performance is monitored continuously and the pricing policy is revised accordingly. The group has the right to reprice and change the conditions for accepting risks on renewal and/or 30 days.

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

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

Insurance risk is further mitigated by ensuring that reserve and reinsurance risk is adequately managed.

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

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

Percentile approach

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

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

The next step is to determine a risk margin. The risk margin is calculated such that there is now a 75% probability that the reserves will be sufficient to cover future claims. For more detail on the reserving techniques used in this approach, refer to note 3.

Cost-of-capital approach

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

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

Two key differences between the percentile and cost-of-capital approaches are that under the cost-of-capital approach, reserves must be discounted using a term-dependent interest rate structure and that an allowance must be made for unallocated loss adjustment expenses.

The cost-of-capital approach will result in different levels of sufficiency per class underwritten so as to capture the differing levels of risk inherent within the different classes. This is in line with the principles of risk-based solvency measurement.

Refer to section 4.3 for more detail on the capital management process.

4.2.2 Reinsurance risk

Reinsurance risk is the risk that the reinsurance cover placed is inadequate and/or inefficient relative to the group and company's risk management strategy and objectives. The group and company obtain third-party reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or the company's capital. Santam has an extensive reinsurance programme that has developed over a number of years to suit the risk management needs of the business.

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

NOTES TO THE FINANCIAL STATEMENTS

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 1.3% of the total exposure of the significant geographical areas, amounting to protection of up to R6.8 billion (2013: R7.5 billion) per event in excess of an attachment point or R100 million. At the same time catastrophe protection for an aggregate of losses from events above R50 million where such losses exceed R100 million was put in place in 2013 and renewed in 2014. The cover is for an amount of R100 million in excess of a R100 million aggregate deductible.

Santam has implemented arrangements to support growth in territories outside South Africa, in situations where this is dependent on Santam's S&P international rating scale rating. In terms of these arrangements, Santam has facilitated the use of an international insurer's AA-rated licence for such business, if required. As part of the arrangement with the international insurer, Santam entered into an alternative risk transfer quota share agreement effective from 1 January 2014 which reduced net earned premiums by R1 billion during this reporting period and reducing growth in net earned premiums to 3%. The agreement will generate dollar-denominated collateral to support Santam's use of the international insurer's AA-rated licence. The agreement also reduces Santam's net catastrophe exposure.

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

4.2.3 Credit risk

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

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

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

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

Santam determines the credit quality for each of its counterparties by reference to the probability of default on the basis of assessments made by the rating agency over a one-year time horizon and the resulting loss given default. The underlying default probabilities are based on the credit migration models developed by Standard & Poor's, Fitch and Moody's which incorporate up to 90 years' worth of credit default information.

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

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

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

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

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

The group is protected by guarantees provided by the Intermediary Guarantee Facility for the non-payment of premiums collected by intermediaries. The protected portion of receivables due from contract holders and intermediaries amounts to 55.7% (2013: 74.1%). For the company, this amounts to 56.4% (2013: 64.8%). Debtors falling into the 'Not rated' category are managed by the internal credit control department on a daily basis to ensure recoverability of amounts.

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Santam seeks to avoid concentration of credit risk to groups of counterparties, business sectors, product types and geographical segments. The group's financial instruments, except for amounts owed by reinsurers and Santam's exposure to the four large South African banks, do not represent a concentration of credit risk. In terms of Santam's internal risk appetite framework no more than 15% of total portfolio assets are invested in any one of the four major South African banks. Accounts receivable is spread over a number of major companies and intermediary parties, clients and geographic areas. The group assesses concentration risk for debt securities, money market instruments and cash collectively. The group does not have concentrations in these instruments to any one company exceeding 15% of total debt securities, money market instruments or cash. In 2013 the exposure to Absa Bank Ltd amounted to 19.2%.

Santam uses a large panel of secure reinsurance companies. The credit risk of reinsurers included in the reinsurance programme is considered annually by reviewing their financial strength as part of the renewal process. The group's largest reinsurance counterparty is Allianz (2013: Lloyds). The credit risk exposure is further monitored throughout the year to ensure that changes in credit risk positions are adequately addressed.

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.

The following table provides information regarding the aggregated credit risk exposure for financial and insurance assets. The 2014 credit ratings provided in these tables were determined as follows: Sanlam Investment Management (SIM) provided management with reports generated from their credit system on a quarterly basis, detailing all counterparty, duration and credit risk. These reports include international, national and internal ratings. SIM also provides management with a conversion table that is then applied to standardise the ratings to the equivalent Fitch international long-term rates. The Fitch international equivalence table was not applied to comparative information. In 2013, international ratings were used where available, otherwise national or internal ratings were applied.

31 December 2014

GROUP	Credit rating											Not rated	Carrying value
	AA+	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB-	B		
	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Debt securities – quoted	–	–	–	–	–	1 361	1 195	367	275	38	–	372	3 608
Debt securities – unquoted	–	–	–	–	–	1 638	2 424	29	92	41	–	5	4 229
Total	–	–	–	–	–	2 999	3 619	396	367	79	–	377	7 837
Short-term money market instruments	–	–	–	–	–	809	665	223	10	67	–	118	1 892
Receivables due from contract holders/intermediaries	–	–	–	13	38	36	8	20	–	–	–	2 122	2 237
Reinsurance receivables	–	–	–	1	32	–	10	17	–	–	–	102	162
Other loans and receivables	–	–	–	–	22	37	47	11	21	2	–	330	470
Total	–	–	–	14	92	73	65	48	21	2	–	2 554	2 869
Cell owners' interest	–	–	–	–	–	–	–	–	–	–	–	9	9
Cash and cash equivalents	–	207	251	163	329	511	959	–	5	–	2	134	2 561
Total	–	207	251	177	421	4 392	5 308	667	403	148	2	3 192	15 168
COMPANY													
Debt securities – quoted	–	–	–	–	–	1 023	1 088	284	171	28	–	364	2 958
Debt securities – unquoted	–	–	–	–	–	997	1 525	21	16	40	–	5	2 604
Total	–	–	–	–	–	2 020	2 613	305	187	68	–	369	5 562
Short-term money market instruments	–	–	–	–	–	599	395	93	–	66	–	3	1 156
Receivables due from contract holders/intermediaries	–	–	–	13	38	36	8	6	–	–	–	2 042	2 143
Reinsurance receivables	–	–	–	–	32	–	–	–	–	–	–	101	133
Other loans and receivables	–	–	–	–	–	34	36	4	2	2	–	816	894
Total	–	–	–	13	70	70	44	10	2	2	–	2 959	3 170
Cash and cash equivalents	–	207	251	116	206	266	384	–	–	–	2	25	1 457
Total	–	207	251	129	276	2 955	3 436	408	189	136	2	3 356	11 345

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31 December 2013

GROUP	Credit rating								Not rated	Carrying value
	AAA R million	AA+ R million	AA R million	AA- R million	A+ R million	A R million	A- R million	BBB R million		
Debt securities – quoted	307	122	146	180	79	288	399	1 818	370	3 709
Debt securities – unquoted	–	528	627	139	32	60	401	1 520	290	3 597
Total	307	650	773	319	111	348	800	3 338	660	7 306
Short-term money market instruments	101	88	138	95	42	15	165	650	130	1 424
Receivables due from contract holders/ intermediaries	–	–	–	–	3	28	33	8	1 808	1 880
Reinsurance receivables	–	11	–	224	3	2	97	–	80	417
Other loans and receivables	20	29	2	4	23	2	10	45	252	387
Total	20	40	2	228	29	32	140	53	2 140	2 684
Derivatives	–	–	1	–	–	–	–	–	–	1
Cash and cash equivalents	12	278	171	462	300	–	889	220	11	2 343
Total national ratings	330	973	1 073	397	455	354	166	114	–	3 862
Total internal ratings	68	–	–	86	25	24	24	99	–	326

COMPANY	Credit rating								Not rated	Carrying value
	AAA R million	AA+ R million	AA R million	AA- R million	A+ R million	A R million	A- R million	BBB R million		
Debt securities – quoted	165	1	42	102	62	149	361	1 698	358	2 938
Debt securities – unquoted	–	–	–	16	–	21	397	1 478	295	2 207
Total	165	1	42	118	62	170	758	3 176	653	5 145
Short-term money market instruments	11	–	6	–	37	5	145	626	59	889
Receivables due from contract holders/ intermediaries	–	–	–	–	–	28	33	8	1 570	1 639
Reinsurance receivables	–	–	–	216	–	2	88	–	71	377
Other loans and receivables	2	–	2	3	2	2	8	43	921	983
Total	2	–	2	219	2	32	129	51	2 562	2 999
Derivatives	–	–	1	–	–	–	–	–	–	1
Cash and cash equivalents	–	–	–	337	96	–	853	219	–	1 505
Total national ratings	73	–	50	104	178	166	79	33	–	683
Total internal ratings	67	–	–	16	–	24	20	99	–	226

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

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

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.

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

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Financial assets that are past due but not impaired

At 31 December 2014	Neither past due nor impaired R million	0 – 3 months R million	3 – 6 months R million	6 months – 1 year R million	Greater than 1 year R million	Financial assets that have been impaired R million	Impairment R million	Carrying value R million
GROUP								
Debt securities – quoted	3 608	–	–	–	–	–	–	3 608
Debt securities – unquoted	4 225	–	–	–	4	–	–	4 229
Total	7 833	–	–	–	4	–	–	7 837
Short-term money market instruments	1 892	–	–	–	–	–	–	1 892
Receivables due from contract holders/intermediaries	2 166	28	43	–	–	–	–	2 237
Reinsurance receivables	131	21	5	5	–	41	(41)	162
Other loans and receivables	467	2	1	–	–	99	(99)	470
Total	2 764	51	49	5	–	140	(140)	2 869
Cell owners' interest	9	–	–	–	–	–	–	9
Cash and cash equivalents	2 561	–	–	–	–	–	–	2 561
COMPANY								
Debt securities – quoted	2 958	–	–	–	–	–	–	2 958
Debt securities – unquoted	2 604	–	–	–	–	–	–	2 604
Total	5 562	–	–	–	–	–	–	5 562
Short-term money market instruments	1 156	–	–	–	–	–	–	1 156
Receivables due from contract holders/intermediaries	2 108	–	35	–	–	–	–	2 143
Reinsurance receivables	128	–	–	5	–	41	(41)	133
Other loans and receivables	894	–	–	–	–	128	(128)	894
Total	3 130	–	35	5	–	169	(169)	3 170
Cash and cash equivalents	1 457	–	–	–	–	–	–	1 457
At 31 December 2013								
GROUP								
Debt securities – quoted	3 709	–	–	–	–	–	–	3 709
Debt securities – unquoted	3 593	–	–	–	4	–	–	3 597
Total	7 302	–	–	–	4	–	–	7 306
Short-term money market instruments	1 424	–	–	–	–	–	–	1 424
Receivables due from contract holders/intermediaries	1 815	34	27	–	4	3	(3)	1 880
Reinsurance receivables	368	14	14	4	16	40	(40)	417
Other loans and receivables	380	7	–	–	–	148	(148)	387
Total	2 563	55	41	4	20	191	(191)	2 684
Derivatives	1	–	–	–	–	–	–	1
Cash and cash equivalents	2 343	–	–	–	–	–	–	2 343
COMPANY								
Debt securities – quoted	2 938	–	–	–	–	–	–	2 938
Debt securities – unquoted	2 207	–	–	–	–	–	–	2 207
Total	5 145	–	–	–	–	–	–	5 145
Short-term money market instruments	889	–	–	–	–	–	–	889
Receivables due from contract holders/intermediaries	1 639	–	–	–	–	–	–	1 639
Reinsurance receivables	343	–	14	4	16	31	(31)	377
Other loans and receivables	983	–	–	–	–	146	(146)	983
Total	2 939	–	14	4	16	177	(177)	2 999
Derivatives	1	–	–	–	–	–	–	1
Cash and cash equivalents	1 505	–	–	–	–	–	–	1 505

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4.2.4 Market risk

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

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

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

Financial instruments measured at fair value on a recurring basis

The following financial instruments are measured at fair value. The table below analyses these financial instruments per valuation method.

The valuation methods are categorised as follows:

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

Holdings in securities and other financial instruments of African Bank Investments Ltd and African Bank Ltd were transferred to level 3 subsequent to these companies being placed into curatorship and the suspension of these securities by the JSE Ltd.

31 December 2014

GROUP	Level 1	Level 2	Level 3	Total
Financial assets	R million	R million	R million	R million
Equity securities				
Quoted				
Listed	2 999	–	–	2 999
Unitised funds	–	75	–	75
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	820	820
Total equity securities	3 001	75	820	3 896
Debt securities				
Quoted				
Government and other bonds	1 250	492	13	1 755
Collateralised securities	–	152	–	152
Redeemable preference shares	–	250	–	250
Money market instruments > 1 year	–	1 436	15	1 451
Unquoted				
Government and other bonds	–	24	–	24
Money market instruments > 1 year	–	4 127	–	4 127
Redeemable preference shares	–	50	28	78
Total debt securities	1 250	6 531	56	7 837
Derivatives				
Interest rate swaps	–	–	–	–
Total derivatives	–	–	–	–
Short-term money market instruments	–	1 854	38	1 892
	4 251	8 460	914	13 625

NOTES TO THE FINANCIAL STATEMENTS

GROUP	Level 1	Level 2	Level 3	Total
Financial liabilities	R million	R million	R million	R million
Debt securities	1 023	–	–	1 023
Investment contracts	–	105	–	105
	1 023	105	–	1 128

COMPANY	Level 1	Level 2	Level 3	Total
Financial assets	R million	R million	R million	R million
Equity securities				
Quoted				
Listed	2 907	–	–	2 907
Unitised funds	–	48	–	48
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	820	820
Total equity securities	2 909	48	820	3 777
Debt securities				
Quoted				
Government and public bonds	994	480	13	1 487
Collateralised securities	–	124	–	124
Redeemable preference shares	–	250	–	250
Money market instruments > 1 year	–	1 090	7	1 097
Unquoted				
Government and public bonds	–	20	–	20
Money market instruments > 1 year	–	2 534	–	2 534
Redeemable preference shares	–	50	–	50
Total debt securities	994	4 548	20	5 562
Total derivatives	–	–	–	–
Short-term money market instruments	–	1 118	38	1 156
	3 903	5 714	878	10 495

COMPANY	Level 1	Level 2	Level 3	Total
Financial liabilities	R million	R million	R million	R million
Debt securities	1 023	–	–	1 023
	1 023	–	–	1 023

31 December 2013

GROUP	Level 1	Level 2	Level 3	Total
Financial assets	R million	R million	R million	R million
Equity securities				
Quoted				
Listed	3 350	–	–	3 350
Unitised funds	–	130	–	130
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	529	529
Total equity securities	3 352	130	529	4 011
Debt securities				
Quoted				
Government and other bonds	1 607	178	–	1 785
Redeemable preference shares	–	288	–	288
Money market instruments > 1 year	–	1 636	–	1 636
Unquoted				
Government and other bonds	–	54	–	54
Money market instruments > 1 year	–	3 520	–	3 520
Redeemable preference shares	–	–	23	23
Total debt securities	1 607	5 676	23	7 306
Derivatives				
Interest rate swaps	–	–	1	1
Total derivatives	–	–	1	1
Short-term money market instruments	–	1 424	–	1 424
	4 959	7 230	553	12 742

NOTES TO THE FINANCIAL STATEMENTS

GROUP	Level 1	Level 2	Level 3	Total
Financial liabilities	R million	R million	R million	R million
Debt securities	1 021	–	–	1 021
Investment contracts	–	126	–	126
Derivatives				
Fence	–	–	204	204
	1 021	126	204	1 351
COMPANY	Level 1	Level 2	Level 3	Total
Financial assets	R million	R million	R million	R million
Equity securities				
Quoted				
Listed	3 259	–	–	3 259
Unitised funds	–	55	–	55
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	529	529
Total equity securities	3 261	55	529	3 845
Debt securities				
Quoted				
Government and public bonds	1 300	159	–	1 459
Redeemable preference shares	–	288	–	288
Money market instruments > 1 year	–	1 191	–	1 191
Unquoted				
Government and public bonds	–	46	–	46
Money market instruments > 1 year	–	2 161	–	2 161
Total debt securities	1 300	3 845	–	5 145
Derivatives				
Interest rate swaps	–	–	1	1
Total derivatives	–	–	1	1
Short-term money market instruments	–	889	–	889
	4 561	4 789	530	9 880
COMPANY	Level 1	Level 2	Level 3	Total
Financial liabilities	R million	R million	R million	R million
Debt securities	1 021	–	–	1 021
Derivatives				
Fence	–	–	204	204
Total derivatives	–	–	204	204
	1 021	–	204	1 225

NOTES TO THE FINANCIAL STATEMENTS

Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from the stock exchange or pricing service, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the closing price. These instruments are included in level 1 and comprise mainly equity 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. Listed bonds that did not trade actively during a financial reporting period are classified as level 2 financial instruments.

Level 2

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

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

Level 3

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

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

- Unquoted equity instruments
 - Fair value (excluding SEM target shares) is determined based on valuation techniques where the input is determined by management, e.g. multiples of net asset value, and is not readily available in the market or where market observable input is significantly adjusted. Valuations are generally based on price/earnings multiples ranging between 1 and 11.
 - The fair value of the SEM target shares is determined using discounted cash flow models. The most significant assumptions used in these models are the discount rates, underwriting results and exchange rate expectations.
 - Refer to pages 45 and 46 for the sensitivity analysis on the key assumptions used in the valuation of unquoted equity instruments.
- 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. The fair value of the swap is disclosed on a net basis in the statement of financial position as well as the statement of comprehensive income due to the contractual right to settle the instrument on a net basis. The gross exposure asset and liability at year-end amounted to R16 million (2013: R23 million) and R16 million (2013: R22 million) respectively.
 - During the first half of 2013, Santam entered into three derivative fence structures between 28 March 2013 and 8 May 2013 covering equities to the value of R2 billion. All three tranches had downside protection of 10% with upside participation of 9.7%, 9.6% and 9.5%, respectively. The implementation levels were 7593 (SWIX40 index), 7515 and 7694, respectively. A negative fair value of R204 million was recorded as at 31 December 2013 and a loss of R93 million was incurred during the six months to 30 June 2014. The final tranche expired in May 2014 and the hedge was not renewed. The fair value of the fence is disclosed on a net basis in the statement of financial position as well as the statement of comprehensive income due to the contractual right to settle the instruments on a net basis. The gross exposure asset and liability at 31 December 2013 amounted to R6 million and R210 million, respectively.
 - Refer to page 46 for the sensitivity analysis on the key assumptions used in the valuation of derivative instruments.

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the changes in level 3 instruments for the year ended 31 December 2014

31 December 2014	Equity securities Unquoted R million	Debt securities Unquoted R million	Short-term money market instruments R million	Derivatives R million	Total R million
GROUP					
Opening balance	529	23	–	(203)	349
Acquisitions	186	–	–	–	186
Settlements	–	–	–	297	297
Transfer from level 1 and/or level 2	–	27	38	–	65
Gains/(losses) recognised in profit or loss	105	6	–	(94)	17
Closing balance	820	56	38	–	914

The Investment in Cardrow Insurance Ltd was classified as held for sale during 2013 (refer to note 15). The investment had an opening balance of R299 million with exchange gains of R8 million and fair value gains of R1 million during the year. The closing balance at 31 December 2014 amounted to R308 million.

COMPANY

Opening balance	529	–	–	(203)	326
Acquisitions	186	–	–	–	186
Settlements	–	–	–	297	297
Transfer from level 1 and/or level 2	–	20	38	–	58
Gains recognised in profit or loss	105	–	–	(94)	11
Closing balance	820	20	38	–	878

The following table presents the changes in level 3 instruments for the year ended 31 December 2013

31 December 2013	Equity securities Unquoted R million	Debt securities Unquoted R million	Derivatives R million	Total R million
GROUP				
Opening balance	272	29	6	307
Acquisitions	511	–	–	511
Interest and dividends capitalised	1	–	–	1
Disposals	(39)	–	–	(39)
Classified as held for sale	(299)	–	–	(299)
Exchange rate differences	64	–	–	64
Gains/(losses) recognised in profit or loss	19	(6)	(209)	(196)
Closing balance	529	23	(203)	349

The investment in Cardrow Insurance Ltd was classified as held for sale during 2013 (refer to note 15). The investment had an opening balance of R233 million with exchange gains of R64 million and fair value gains of R2 million during the year. The closing balance at 31 December 2013 amounted to R299 million.

COMPANY

Opening balance	21	–	6	27
Acquisitions	509	–	–	509
Disposals	(27)	–	–	(27)
Gains recognised in profit or loss	26	–	(209)	(183)
Closing balance	529	–	(203)	326

NOTES TO THE FINANCIAL STATEMENTS

Price risk

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

Equity price risk arises from the negative effect that a fall in the market value of equities can have on Santam's net asset value. The group's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling methods. The group sets appropriate risk limits to ensure that no significant concentrations in individual companies arise. The group's largest investment in any one company comprises 11.6% (2013: 10.1%) of the total quoted equities and 1.4% (2013: 1.6%) of the total assets. The company's largest investment in any one company comprises 11.6% (2013: 10.3%) of the total quoted equities and 1.6% (2013: 1.8%) of the total assets. Each of the following investments has an individual value of more than 1.5% of the total quoted equity investment portfolio.

Details of the investments below 1.5%, summarised as "Other", are open to inspection at the registered office of the company.

	Group				Company			
	2014		2013		2014		2013	
	Number	Market	Number	Market	Number	Market	Number	Market
	of shares	value	of shares	value	of shares	value	of shares	value
		R million		R million		R million		R million
Listed								
Naspers Ltd	235 335	357	319 825	351	226 689	343	310 270	340
MTN Group Ltd	1 167 078	258	1 457 240	316	1 124 038	249	1 409 268	306
Sasol Ltd	380 733	164	486 937	251	366 697	158	472 035	243
British American Tobacco Plc	230 418	146	257 675	144	221 593	140	248 730	139
Steinhoff International Holdings Ltd	2 285 524	136	2 355 952	106	2 219 823	132	2 327 224	105
Standard Bank Group Ltd	919 607	132	988 280	128	884 851	127	988 280	128
SAB Miller Ltd	214 306	130	297 522	159	206 724	125	288 670	154
Anglo American Plc	490 020	106	594 158	136	473 903	102	594 158	136
Remgro Ltd	398 544	101	498 035	104	383 998	98	481 439	100
Old Mutual Plc	2 915 161	101	3 654 896	120	2 915 161	101	3 654 896	120
BHP Billiton Plc	384 657	96	481 453	156	372 748	93	467 334	151
The Bidvest Group Ltd	292 782	89	386 728	104	281 268	85	376 637	101
Compagnie Financière Richemont SA	799 362	84	1 094 876	115	774 165	81	1 069 309	112
Barclays Group Africa Ltd	445 942	81	443 151	59	434 713	79	431 762	57
Investec Plc	788 586	77	984 469	74	770 915	75	966 538	73
Woolworths Holdings Ltd	897 480	69	917 629	69	873 516	67	897 685	67
RMB Holdings Ltd	1 037 585	67	1 299 033	63	1 029 844	66	1 291 172	62
Nedbank Group Ltd	212 793	53	258 852	54	206 461	51	258 852	54
Vodacom Group Ltd	393 456	51	491 556	65	386 201	50	484 201	64
Aspen Pharmacare Holdings Ltd	115 000	47	–	–	113 994	46	–	–
FirstRand Bank Ltd	908 654	46	–	–	839 195	42	–	–
Other		608		778		597		746
		<u>2 999</u>		<u>3 350</u>		<u>2 907</u>		<u>3 254</u>
Listed								
Unitised funds		75		130		48		55
Irredeemable preference shares		2		2		2		2
		<u>3 076</u>		<u>3 482</u>		<u>2 957</u>		<u>3 316</u>

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

Sensitivity analysis on equity securities and derivatives

At 31 December 2014, the group's quoted equities were recorded at their fair value of R3 076 million (2013: R3 482 million). These figures include linked policy investments to the value of Rnil (2013: R47 million). The group is not exposed to significant price risk in respect of these investments as a corresponding fair value movement is recognised against the policyholder liability. A 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R308 million (2013: R344 million).

NOTES TO THE FINANCIAL STATEMENTS

The company's quoted equities were recorded at their fair value of R2 957 million (2013: R3 316 million). A 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R296 million (2013: R332 million).

The fair value of the SEM target shares is determined using discounted cash flow models. The most significant assumptions used in these models are the discount rate, exchange rate and net insurance margin profile expectations. A sensitivity analysis was performed for the material SEM holdings to determine the impact of a 10% change in these assumptions. Should the discount rates increase or decrease by 10%, the cumulative value of the most significant target shares would decrease by R102 million (2013: R93 million) or increase by R156 million (2013: R147 million), respectively. If exchange rates increase or decrease by 10%, the cumulative fair values will also increase or decrease by R60 million (2013: R50 million). Should the net insurance margin profile (projected over a period of 10 years) increase or decrease by 10%, the cumulative fair values will increase by R73 million (2013: R64 million) or decrease by R74 million (2013: R62 million), respectively.

A 10% decrease or increase in the discount rate applied to the net asset values and/or the valuation multiples of the remaining unquoted equities held by the group would decrease or increase the market value by Rnil (2013: R3 million).

The group makes use of derivative products as appropriate to manage equity exposure and to protect the portfolio from losses outside of its risk appetite. A 1% increase in the discount rate used to value the swap would result in a R2 million (2013: R3 million) decrease in the fair value of these instruments, but a 1% decrease in the discount rate would result in a R2 million (2013: R3 million) increase in the fair value, resulting in similar decreases and increases in investment income.

During the first half of 2013, Santam entered into three derivative fence structures between 28 March 2013 and 8 May 2013 covering equities to the value of R2 billion. All three tranches had downside protection of 10% with upside participation of 9.7%, 9.6% and 9.5%, respectively. The implementation levels were 7593 (SWIX40 index), 7515 and 7694, respectively. A negative fair value of R204 million was recorded as at 31 December 2013 and a loss of R93 million was incurred during the six months to 30 June 2014. The final tranche expired in May 2014 and the hedge was not renewed. The most significant input to the valuation was the market level. In 2013 an increase of 10% in the underlying equity market would result in the fence liability to be valued at R423 million. Similarly a decrease in 10% of the underlying equity market would result in the fence liability to be valued at R37 million.

Interest rate risk

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

An assumption is made that the assets backing the subordinated debt portfolio are not subject to interest rate risk as the liabilities are suitably hedged i.e. the market value of the subordinated debt and the market value of the assets backing the debt react the same way to changes in interest rates.

Exposure to interest rate risk is monitored through several methods that include scenario testing and stress testing using measures such as duration. The bond returns are modelled based on the historic performance of the individual bonds held in the portfolio, and adjusted to reflect the current interest rates and inflation environment. The risk-free rate used for modelling is 7.8% as at 31 December 2014 (2013: 7.8%).

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 2014, the group had an interest rate swap agreement to partially mitigate the effects of potential adverse interest rate movements on financial assets underlying the unsecured subordinated callable notes. The interest rate derivatives represent the fair value of interest rate swaps effected on a total of R106 million (2013: R108 million) of fixed interest securities held in the investment portfolio underlining the subordinated callable note. 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 12 June 2017.

NOTES TO THE FINANCIAL STATEMENTS

Sensitivity analysis on interest-bearing instruments

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

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

GROUP	2014		2013	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
Financial assets – fixed rate				
Quoted debt securities	(63)	67	(70)	76
Unquoted debt securities	(17)	17	(5)	6
Short-term money market instruments	(2)	2	–	–
Derivative instruments	(2)	2	(3)	3
Financial assets – variable rate				
Cash and cash equivalents	24	(24)	16	(16)
Quoted debt securities	11	(11)	19	(19)
Unquoted debt securities	19	(19)	21	(21)
Short-term money market instruments	9	(9)	8	(8)
Financial liabilities				
Debt securities – quoted	23	(24)	31	(32)
Total change in investment income, finance cost and net fair value movements before tax	2	1	17	(11)

COMPANY	2014		2013	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
Financial assets – fixed rate				
Quoted debt securities	(50)	52	(54)	59
Unquoted debt securities	(13)	13	(4)	4
Short-term money market instruments	(1)	1	–	–
Derivative instruments	(3)	3	(3)	3
Financial assets – variable rate				
Cash and cash equivalents	13	(13)	8	(8)
Quoted debt securities	11	(11)	12	(12)
Unquoted debt securities	19	(19)	18	(18)
Short-term money market instruments	9	(9)	7	(7)
Financial liabilities				
Debt securities – quoted	23	(24)	31	(32)
Total change in investment income, finance cost and net fair value movements before tax	9	(6)	15	(11)

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

Currency risk

Foreign currency risk is the risk that Santam will be negatively impacted by changes in the level or volatility of currency exchange rates relative to the South African rand. The group's primary foreign currency exposures are to the pound sterling, euro and the US dollar.

The group incurs exposure to currency risk in two ways:

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

These risks affect both the value of Santam's assets as well as the cost of claims, particularly for imported motor parts. The fair value of the investments in the SEM target shares is impacted by changes in the foreign exchange rates of the underlying operations. Santam is also pursuing international diversification in underwriting operations through the business written by Santam Re and the underwriting managers.

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

NOTES TO THE FINANCIAL STATEMENTS

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

31 December 2014

	Euro € million	United States dollar \$ million	British pound £ million	Total exposure R million
GROUP				
Debentures, insurance policies, public sector stocks and other loans	–	34.57	–	399.85
Cash, deposits and similar securities	2.94	62.40	1.98	789.31
Reinsurance assets	0.22	20.89	–	245.69
Trade and other receivables	1.57	14.44	1.25	294.58
Insurance liabilities	(1.84)	(54.50)	(4.33)	(736.80)
Trade and other payables*	(0.17)	(11.60)	(32.52)	(737.74)
Foreign currency exposure	2.72	66.20	(33.62)	254.89

COMPANY

Debentures, insurance policies, public sector stocks and other loans	–	34.57	–	399.85
Cash, deposits and similar securities	2.94	56.32	1.98	726.20
Reinsurance assets	0.22	20.89	–	245.69
Trade and other receivables	1.57	14.44	1.25	294.58
Insurance liabilities	(1.84)	(54.50)	(4.33)	(736.80)
Trade and other payables*	(0.17)	(11.60)	(32.52)	(737.74)
Foreign currency exposure	2.72	60.12	(33.62)	191.78

Exchange rates:

Closing rate	14.01	11.57	18.05
Average rate	14.38	10.84	17.85

* Included in the £32.52 million balance is the loan with Santam International of £25.88 million which is considered to be part of the net foreign investment which is classified as a non-current asset held for sale.

31 December 2013

	Euro € million	United States dollar \$ million	British pound £ million	Total exposure R million
GROUP				
Cash, deposits and similar securities	–	72.12	7.70	888.03
Reinsurance assets	–	0.34	–	3.46
Deferred acquisition costs	–	0.03	–	0.29
Trade and other receivables	–	4.49	0.88	123.53
Insurance liabilities	–	(0.86)	–	(8.88)
Deferred reinsurance acquisition revenue	–	(0.01)	–	(0.08)
Trade and other payables	–	(1.03)	(25.88)	(449.41)
Foreign currency exposure	–	75.08	(17.30)	556.94

COMPANY

Cash, deposits and similar securities	–	60.35	7.70	768.35
Reinsurance assets	–	0.34	–	3.46
Deferred acquisition costs	–	0.03	–	0.29
Trade and other receivables	–	4.49	0.88	123.53
Insurance liabilities	–	(0.86)	–	(8.88)
Deferred reinsurance acquisition revenue	–	(0.01)	–	(0.08)
Trade and other payables*	–	(1.03)	(25.88)	(449.41)
Foreign currency exposure	–	63.31	(17.30)	437.26

Exchange rates:

Closing rate	14.51	10.53	17.42
Average rate	12.78	9.61	15.00

* The £25.88 million relates to a loan with Santam International and is considered to be part of the net foreign investment.

NOTES TO THE FINANCIAL STATEMENTS

A 10% change in the rand exchange rate against GBP and USD would have the following impact on 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 profit and loss at 31 December 2014	(60.69)	60.69	76.57	(76.57)
Impact on profit and loss at 31 December 2013	(14.94)	14.94	79.04	(79.04)
COMPANY				
Impact on net assets at 31 December 2014	(60.69)	60.69	69.54	(69.54)
Impact on net assets at 31 December 2013	(30.16)	30.16	66.65	(66.65)

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.

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

Derivative risk

The group use derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates, foreign exchange rates and equity prices. The group does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes. The policy on use of derivatives is approved by the investment committee and the board. Refer to note 11 for more detail on the derivatives held by the group.

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 is has undertaken.

4.2.5 Liquidity risk

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

Santam manages the liquidity requirements by matching the duration of the assets invested to the corresponding liabilities. The net insurance liabilities are covered by investments with limited capital risk (i.e. cash and interest-bearing instruments) while Santam's subordinated debt obligation is covered by matching cash and interest-bearing instruments (including interest rate swaps).

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

GROUP	< 1 year R million	1 to 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
Financial and insurance assets					
Equity securities – quoted	–	–	–	3 076	3 076
Equity securities – unquoted	–	–	–	820	820
Total	–	–	–	3 896	3 896
Debt securities – quoted	292	2 211	855	250	3 608
Debt securities – unquoted	2	4 145	7	75	4 229
Total	294	6 356	862	325	7 837
Short-term money market instruments	1 892	–	–	–	1 892
Receivables due from contract holders/intermediaries	2 237	–	–	–	2 237
Reinsurance receivables	161	1	–	–	162
Cell owners' interest	9	–	–	–	9
Other loans and receivables	459	8	–	3	470
Reinsurance assets (incl DAC)	3 284	618	61	–	3 963
Total	6 150	627	61	3	6 841
Cash and cash equivalents	2 561	–	–	–	2 561
Total financial and insurance assets	10 897	6 983	923	4 224	23 027

COMPANY

Financial and insurance assets

Equity securities – quoted	–	–	–	2 957	2 975
Equity securities – unquoted	–	–	–	820	820
Total	–	–	–	3 777	3 777
Debt securities – quoted	271	1 764	673	250	2 958
Debt securities – unquoted	–	2 554	–	50	2 604
Total	271	4 318	673	300	5 562
Short-term money market instruments	1 156	–	–	–	1 156
Receivables due from contract holders/intermediaries	2 143	–	–	–	2 143
Reinsurance receivables	133	–	–	–	133
Other loans and receivables	894	–	–	–	894
Reinsurance assets (incl DAC)	2 959	638	63	–	3 660
Total	6 129	638	63	–	6 830
Cash and cash equivalents	1 457	–	–	–	1 457
Total financial and insurance assets	9 013	4 956	736	4 077	18 782

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	1 165	–	1 248
Investment contracts	2	103	–	105
Cell owners' interest	–	924	–	924
Collateral guarantee contracts	88	–	–	88
Insurance liabilities (incl Reinsurance DAC)	10 115	1 970	189	12 274
Trade and other payables	2 684	33	–	2 717
Total	12 972	4 195	189	17 356

COMPANY

Debt securities	83	1 165	–	1 248
Collateral guarantee contracts	88	–	–	88
Insurance liabilities (incl Reinsurance DAC)	7 870	1 924	191	9 985
Trade and other payables	2 823	–	–	2 823
Total	10 864	3 089	191	14 144

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

GROUP	< 1 year	1 to 5 years	> 5 years	Open ended	Carrying value
Financial and insurance assets	R million	R million	R million	R million	R million
Equity securities – quoted	–	–	–	3 482	3 482
Equity securities – unquoted	–	–	–	529	529
Total	–	–	–	4 011	4 011
Debt securities – quoted	160	2 400	851	298	3 709
Debt securities – unquoted	1	3 291	–	305	3 597
Total	161	5 691	851	603	7 306
Short-term money market instruments	1 424	–	–	–	1 424
Cell owners' interest	15	–	–	–	15
Receivables due from contract holders/intermediaries	1 878	2	–	–	1 880
Reinsurance receivables	417	–	–	–	417
Other loans and receivables	373	14	–	–	387
Reinsurance assets (incl DAC)	2 263	430	20	–	2 713
Total	4 946	446	20	–	5 412
Derivatives	–	1	–	–	1
Cash and cash equivalents	2 343	–	–	–	2 343
Total financial and insurance assets	8 874	6 138	871	4 614	20 497

COMPANY

Financial and insurance assets					
Equity securities – quoted	–	–	–	3 316	3 316
Equity securities – unquoted	–	–	–	529	529
Total	–	–	–	3 845	3 845
Debt securities – quoted	117	1 891	642	288	2 938
Debt securities – unquoted	–	1 920	–	287	2 207
Total	117	3 811	642	575	5 145
Derivatives	–	–	–	–	–
Short-term money market instruments	889	–	–	–	889
Receivables due from contract holders/intermediaries	1 639	–	–	–	1 639
Reinsurance receivables	377	–	–	–	377
Other loans and receivables	983	–	–	–	983
Reinsurance assets (incl DAC)	1 888	406	19	–	2 314
Total	4 887	406	19	–	5 312
Derivatives	–	1	–	–	1
Cash and cash equivalents	1 505	–	–	–	1 505
Total financial and insurance assets	7 398	4 218	661	4 420	16 697

GROUP

Financial and insurance liabilities	Within 1 year	1 to 5 years	More than 5 years	Total
	R million	R million	R million	R million
Debt securities	83	1 223	–	1 306
Investment contracts	12	114	–	126
Derivatives	204	–	–	204
Cell owners' interest	–	814	–	814
Collateral guarantee contracts	82	–	–	82
Insurance liabilities (incl Reinsurance DAC)	8 735	2 035	92	10 862
Trade and other payables	2 561	–	–	2 561
Total	11 677	4 186	92	15 955

COMPANY

Financial and insurance liabilities	Within 1 year	1 to 5 years	More than 5 years	Total
	R million	R million	R million	R million
Debt securities	83	1 223	–	1 306
Derivatives	204	–	–	204
Collateral guarantee contracts	82	–	–	82
Insurance liabilities (incl Reinsurance DAC)	6 611	1 932	89	8 632
Trade and other payables	3 122	–	–	3 122
Total	10 102	3 155	89	13 346

NOTES TO THE FINANCIAL STATEMENTS

4.2.6 Operational risk

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

The group manages operational risk using a range of techniques and tools to identify, monitor and mitigate its operational risk in accordance with the group's risk appetite. These tools include Risk and Control Self Assessments and questionnaires, Key Risk Indicators (e.g. fraud and service indicators), Scenario Analyses and Loss Reporting. In addition, the group has developed a number of contingency plans including Incident Management and Business Continuity Plans. Quantitative analysis of operational risk exposures material to the group is used to inform decisions on the overall amount of capital held and the adequacy of contingency arrangements. Comprehensive scenario testing, involving senior and executive management, is conducted every three years with more focused testing done annually.

Although conduct risk is regarded as an operational risk, we have included it in our updated risk universe as a separate risk category, given the importance and potential risk exposure. In the 2011 Retail Conduct Risk Outlook, the Financial Conduct Authority (previously known as the Financial Services Authority) defined conduct risk as the risk that a firm's behaviour will result in poor outcomes for clients. For example: repudiation of claims without due consideration of the circumstances of the loss and selling insurance products to clients that do not meet the clients' insurance needs.

4.3. Solvency and capital management

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

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

The overall capital management objectives of the group are:

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

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

4.3.1 Own Risk and Solvency Assessment (ORSA)

Solvency Assessment and Management (SAM) introduces a requirement for general insurers to conduct an ORSA. Santam has performed an ORSA of its business annually since 2011 and presented the results to its executive management and board.

A generally accepted definition of an insurance company's ORSA is "the entirety of the processes and procedures employed to: identify, assess, monitor, manage and report the short and long-term risks an insurance undertaking faces or may face and determine the own funds necessary to ensure that the undertaking's solvency needs are met at all times."

This definition of an ORSA process requires Santam to identify all the risks facing the organisation. The next step involves quantifying the capital requirements for these risks and finally compare this capital requirement to the own funds available on its statement of financial position.

4.3.2 Capital appetite

The group's objective is to maintain sufficient capital, which comprises shareholders' equity and subordinated debt capital, to meet its strategic business plan and objectives. This represents sufficient surpluses for both regulatory and economic capital. To assist in managing its capital position, the group has set internal target coverage ratios for each of the principal capital measures.

When determining capital requirements, Santam uses a risk measure of value-at-risk at the 99.5th percentile confidence level over a one-year time period. This means that the model is used to determine the expected losses for each modelled risk category due to a 1-in-200-year worst case event.

NOTES TO THE FINANCIAL STATEMENTS

4.3.3 *Economic capital*

Economic capital is the group's preferred measure of capital sufficiency. It is the group's own assessment of the amount of capital it needs to hold to meet its obligations given the group's risk appetite.

The economic capital analysis compares available capital with the economic capital assessment.

The economic capital model is used to support, inform and improve the group's decision-making across the group. It is used to determine the group's optimum capital structure, its investment strategy, its reinsurance programme and to determine the pricing and target returns for each portfolio.

The results of the internal model indicate that Santam requires solvency capital approximately equal to 25% of net earned premium which is just below the current regulatory solvency level of 28% of net earned premium in terms of the FSB interim requirements under the Solvency Assessment and Management (SAM) initiative.

4.3.4 *Regulatory solvency position*

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

Management regards share capital, retained earnings and subordinated debt as capital for regulatory solvency purposes.

4.4 **Regulatory and compliance risk management**

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

Over the past few years there have been several changes in the group's regulatory and compliance business landscape. These changes are primarily driven by larger regulatory projects, which will continue to impact the group in the foreseeable future. It is expected that the group's solvency requirements, system requirements, financial reporting and the way it conducts its business will be impacted by the implementation of these projects.

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

4.5 **Conduct risk**

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

Santam constituted a TCF committee, consisting of key stakeholders, to monitor the manner in which TCF outcomes are evidenced within Santam and the Santam group. This committee meets on a quarterly basis. Quarterly reports are also submitted to the Santam board on the progress of TCF initiatives within the group.

NOTES TO THE FINANCIAL STATEMENTS

5. SEGMENT INFORMATION

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.

The group consists of two core operating segments, i.e. insurance and investment activities.

Insurance activities are all core general insurance and reinsurance underwriting activities directly undertaken by the group and are analysed by insurance class. The performance of insurance activities is based on gross written premium as a measure of growth; with net underwriting result and net insurance result as measures of profitability.

Investment activities are all investment-related activities undertaken by the group including strategic diversification activities. Investment activities are measured based on net investment income and net income from associated companies.

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

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

Insurance business denominated in foreign currencies are covered by foreign denominated bank accounts. Foreign exchange movements on underwriting results are therefore offset against the foreign exchange movements recognised on the bank accounts.

The MiWay deferred bonus plan (DBP), relating to the compensation of the 10% share previously held by management in MiWay and the Santam BEE transaction costs are unrelated to the core underwriting, investment or strategic diversification performance of the group. Therefore, these costs are disclosed as unallocated activities.

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

5.1 For the year ended 31 December 2014

Business activity	Insurance R million	Investment R million	Unallocated items R million	Total R million
Revenue	22 710	726	–	23 436
Gross written premium	22 710	–	–	22 710
Net written premium	17 635	–	–	17 635
Net earned premium	17 222	–	–	17 222
Claims incurred	10 878	–	–	10 878
Net commission	1 864	–	–	1 864
Management expenses	2 986	–	–	2 986
Underwriting result	1 494	–	–	1 494
Investment return on insurance funds	425	–	–	425
Net insurance result	1 919	–	–	1 919
Investment income net of management fee and finance costs	–	543	–	543
Income from associates net of impairment and losses on sale	–	58	–	58
MiWay DBP and Santam BEE transaction costs	–	–	(82)	(82)
Amortisation of intangible assets	(111)	–	–	(111)
Income before taxation	1 808	601	(82)	2 327

NOTES TO THE FINANCIAL STATEMENTS

Insurance activities

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

	Gross written premium R million	Underwriting result R million
Accident and health	350	49
Alternative risk	1 953	15
Crop	1 044	251
Engineering	1 127	169
Guarantee	22	–
Liability	1 246	220
Miscellaneous	53	5
Motor	9 629	524
Property	6 552	221
Transportation	734	40
Total	22 710	1 494
Comprising:		
Commercial insurance	12 298	1 177
Personal insurance	8 459	302
Alternative risk	1 953	15
Total	22 710	1 494

Investment activities

For detailed analysis of investment activities refer to notes 10 and 29.

5.2 For the year ended 31 December 2013

Business activity	Insurance R million	Investment R million	Unallocated R million	Total R million
Revenue	20 631	942	–	21 573
Gross written premium	20 631	–	–	20 631
Net written premium	16 900	–	–	16 900
Net earned premium	16 751	–	–	16 751
Claims incurred	11 607	–	–	11 607
Net commission	2 121	–	–	2 121
Management expenses	2 545	–	–	2 545
Underwriting result	477	–	–	477
Investment return on insurance funds	374	–	–	374
Net insurance result	851	–	–	851
Investment income net of management fee and finance costs	–	710	–	710
Income from associates net of impairment	–	42	–	42
MiWay DBP and Santam BEE transaction costs	–	–	(30)	(30)
Amortisation of intangible assets	(100)	–	–	(100)
Income before taxation	751	752	(30)	1 473

NOTES TO THE FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (continued)

Insurance activities

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

	Gross written premium R million	Underwriting result R million
Accident and health	316	50
Alternative risk	1 931	2
Crop	831	(142)
Engineering	1 010	210
Guarantee	43	11
Liability	1 194	119
Miscellaneous	47	2
Motor	8 887	199
Property	5 832	(2)
Transportation	540	28
Total	20 631	477
Comprising:		
Commercial insurance	10 697	520
Personal insurance	8 003	(45)
Alternative risk	1 931	2
Total	20 631	477

Investment activities

For detailed analysis of investment activities refer to notes 10 and 29.

5.3 Geographical analysis

	Gross written premium		Non-current assets	
	2014 R million	2013 R million	2014 R million	2013 R million
South Africa ¹	20 565	19 585	1 435	1 393
Africa ^{2,3}	1 837	845	331	117
Southeast Asia and India ³	220	123	599	484
China ³	88	78	–	–
Group total	22 710	20 631	2 365	1 994

¹ Include all 2013 gross written premium managed by specialist business units

² Include gross written premium relating to Santam Namibia of R1 055 million (2013: R812 million)

³ Include 2014 gross written premium managed by specialist business units

NOTES TO THE FINANCIAL STATEMENTS

6. PROPERTY AND EQUIPMENT GROUP

At 1 January 2013

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and other assets R million	Total R million
Cost or valuation	3	130	129	262
Accumulated depreciation	(1)	(77)	(85)	(163)
Net book amount	2	53	44	99

Year ended 31 December 2013

Opening net book amount	2	53	44	99
Additions	–	27	8	35
Depreciation charge	–	(27)	(12)	(39)
Closing net book amount	2	53	40	95

At 31 December 2013

Cost or valuation	3	157	137	297
Accumulated depreciation	(1)	(104)	(97)	(202)
Net book amount	2	53	40	95

Year ended 31 December 2014

Opening net book amount	2	53	40	95
Additions	–	26	43	69
Disposals	(1)	(1)	(5)	(7)
Depreciation charge	–	(28)	(12)	(40)
Closing net book amount	1	50	66	117

At 31 December 2014

Cost or valuation	2	176	166	344
Accumulated depreciation	(1)	(126)	(100)	(227)
Net book amount	1	50	66	117

COMPANY

At 1 January 2013

Cost or valuation	1	43	47	91
Accumulated depreciation	–	(17)	(29)	(46)
Net book amount	1	26	18	45

Year ended 31 December 2013

Opening net book amount	1	26	18	45
Additions	–	20	3	23
Depreciation charge	–	(17)	(6)	(23)
Closing net book amount	1	29	15	45

At 31 December 2013

Cost or valuation	1	63	50	114
Accumulated depreciation	–	(34)	(35)	(69)
Net book amount	1	29	15	45

Year ended 31 December 2014

Opening net book amount	1	29	15	45
Additions	–	13	18	31
Disposals	–	(1)	(1)	(2)
Depreciation charge	–	(17)	(5)	(22)
Closing net book amount	1	24	27	52

At 31 December 2014

Cost or valuation	1	72	61	134
Accumulated depreciation	–	(48)	(34)	(82)
Net book amount	1	24	27	52

Depreciation expense has been included in Expenses for marketing and administration in the statement of comprehensive income (refer note 31).

NOTES TO THE FINANCIAL STATEMENTS

	Goodwill R million	Computer software R million	Brand, trademark and tradenames R million	Key business relationships R million	Total R million
7. INTANGIBLE ASSETS GROUP					
At 1 January 2013					
Cost	829	141	39	226	1 235
Impairment/Accumulated amortisation	(45)	(109)	(25)	(66)	(245)
Net book amount	784	32	14	160	990
Year ended 31 December 2013					
Opening net book amount	784	32	14	160	990
Acquisitions	92	77	1	26	196
Impairment	(5)	–	–	–	(5)
Amortisation	–	(28)	(12)	(69)	(109)
Closing net book amount	871	81	3	117	1 072
At 31 December 2013					
Cost	921	218	40	252	1 431
Impairment/Accumulated amortisation	(50)	(137)	(37)	(135)	(359)
Net book amount	871	81	3	117	1 072
Year ended 31 December 2014					
Opening net book amount	871	81	3	117	1 072
Acquisitions	34	93	1	16	144
Impairment	(72)	–	–	–	(72)
Amortisation	–	(18)	(3)	(37)	(58)
Closing net book amount	833	156	1	96	1 086
At 31 December 2014					
Cost	955	311	41	268	1 575
Impairment/Accumulated amortisation	(122)	(155)	(40)	(172)	(489)
Net book amount	833	156	1	96	1 086
COMPANY					
At 1 January 2013					
Cost	–	39	–	9	48
Accumulated amortisation	–	(39)	–	(2)	(41)
Net book amount	–	–	–	7	7
Year ended 31 December 2013					
Opening net book amount	–	–	–	7	7
Acquisitions	76	62	1	24	163
Amortisation	–	(4)	–	(16)	(20)
Closing net book amount	76	58	1	15	150
At 31 December 2013					
Cost	76	101	1	33	211
Accumulated amortisation	–	(43)	–	(18)	(61)
Net book amount	76	58	1	15	150
Year ended 31 December 2014					
Opening net book amount	76	58	1	15	150
Acquisitions	–	81	–	–	81
Amortisation	–	(2)	(1)	(5)	(8)
Closing net book amount	76	137	–	10	223
At 31 December 2014					
Cost	76	182	1	33	292
Accumulated amortisation	–	(45)	(1)	(23)	(69)
Net book amount	76	137	–	10	223

Key business relationships

Key business relationships consists of client lists acquired R44 million (2013: R40 million) and key intermediary or other relationships R52 million (2013: R77 million) acquired as part of a business combination.

The valuation of key intermediary or other relationships is based on discounted cash flow models. Discount rates between 17% and 19% (2013: 17% and 19%) as well as cancellation rates of between 15% and 35% (2013: 15% and 35%) are used as significant input.

NOTES TO THE FINANCIAL STATEMENTS

Impairment tests of goodwill

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

	Group	
	2014	2013
	R million	R million
Crop	19	19
Alternative Risk	17	17
Brokerage	252	321
Policy administration	27	–
Engineering	28	28
MiWay Group	319	319
Liability	95	91
Accident and Health	76	76
	833	871

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

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

The nature of goodwill mainly relates to employee skill and industry knowledge. In 2014 the total goodwill balance was evaluated using discounted cash flow projections resulting in the goodwill on Indwe Broker Holdings (Pty) Ltd (included as part of Brokerage) being impaired by R69 million. Goodwill on dormant companies amounting to R3 million (2013: R5 million) were also impaired.

Discount rates between 15% and 19% were applied in the recoverable amount valuation. As discount rates are considered a significant input in the valuation of these entities, a sensitivity analysis was performed on the valuation outcome of the two most significant CGUs. If discount rates increase by 10% the valuations would decrease on average by 14% (2013: 13%). Should the discount rates decrease by 10% the valuations would increase on average by 20% (2013: 17%). These sensitivities and other relevant factors were considered in the overall impairment testing and it was concluded that no further impairment would be required.

Computer software

Additional software acquired by the group during the year consists of external software of R12 million (2013: R21 million) and internally developed software of R81 million (2013: R56 million). Additional software acquired by the company consisted of internally developed software. The internally developed software forms part of a strategic project to develop a new underwriting and product management system. Implementation of phase 1 of the project is only expected in 2015. No amortisation is therefore raised on these costs for both 2014 and 2013. Once the development is completed and ready for use, it is expected that the useful life of the technology will be 10 years.

NOTES TO THE FINANCIAL STATEMENTS

	Company	
	2014 R million	2013 R million
8. INVESTMENT IN SUBSIDIARIES		
At the beginning of the year	2 106	1 927
Investment in Santam Namibia Holdings*	–	168
Purchase price	–	445
Post-acquisition dividend	–	(277)
Investment in Travel Insurance Consultants**		16
Purchase price	–	95
Post-acquisition dividend	–	(79)
Impairment	(69)	–
Disposal of investment*	–	(5)
Unlisted shares at cost price less amounts written off	2 037	2 106
Non-current assets	1 499	1 568
Current assets	538	538

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

* In 2013 Santam Ltd disposed of its investment in Santam Namibia Ltd to Santam Namibia Holdings (Pty) Ltd at fair values in a share-for-share transaction. A post-acquisition dividend of R277 million was paid by Santam Namibia Holdings (Pty) Ltd resulting in a decrease in the net investment amount. (Also refer notes 28 and 29)

** In 2013 Santam Ltd acquired 100% interest in Travest Investments (Pty) Ltd and its subsidiary, Travel Insurance Consultants (Pty) Ltd, R95 million. All the assets and liabilities of Travel Insurance Consultants were then transferred to Santam Ltd. The intangible assets identified on acquisition were therefore also recognised by Santam Ltd. (Also refer note 7)

Details of investments are set out in note 47.

	Group	
	2014 R million	2013 R million
9. INVESTMENT IN ASSOCIATES		
GROUP		
At the beginning of the year	318	261
Capitalisation	16	–
Acquisitions	–	88
Share of results after tax	58	86
Share of results before tax	77	114
Share of tax	(19)	(28)
Dividends received from associated companies	(37)	(58)
Disposals	–	(48)
Transfer to investment in subsidiaries and unlisted investments	–	(8)
Exchange difference due to translation	–	(1)
Impairment	–	(2)
At the end of the year	355	318

Details of investments are set out in note 47.

On 28 November 2013 Santam Ltd sold its 25.1% shareholding in NICO Holdings Ltd for R64 million. The accumulated translation losses of R34 million was released in profit and loss resulting in the Santam group realising a net loss of R18 million. CGT of R9 million was raised by Santam Ltd.

On 17 September 2013, Swanvest 120 (Pty) Ltd, a wholly owned subsidiary of Santam Ltd, acquired 40% of the shareholding in Western Group Holdings Ltd for a purchase price of R88 million. A further capital contribution of R16 million was made during 2014.

On 15 May 2014, Swanvest 120 (Pty) Ltd, a wholly owned subsidiary of Santam Ltd, acquired the remaining 70% of the H & L Underwriting Managers (Pty) Ltd shareholding and the loans for R0.7 million and R5 million respectively. The carrying value of the associate was R0.3 million before the step up transaction.

NOTES TO THE FINANCIAL STATEMENTS

	Company	
	2014	2013
	R million	R million
COMPANY		
At the beginning of the year	117	133
Disposal	–	(16)
At the end of the year	117	117
Dividend income received from associates	34	53
Total income from associates	34	53

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

	*Credit Guarantee Insurance Corporation of Africa Ltd R million	**Western Group Holdings Ltd R million	***Censeo (Pty) Ltd R million	Other R million	Total R million
2014					
Current assets	1 697	185	15	4	1 901
Non-current assets	250	476	4	17	747
Current liabilities	877	69	9	7	962
Non-current liabilities	345	401	–	3	749
Revenue	971	363	117	21	1 472
Depreciation and amortisation	5	–	2	1	8
Interest income	41	12	–	–	53
Interest expense	4	–	–	–	4
Income tax expense	36	(8)	2	–	30
Profit or loss from continuing operations	118	20	5	1	144
Total comprehensive income	126	20	5	1	152
2013					
Current assets	1 049	151	16	6	1 222
Non-current assets	565	418	3	17	1 003
Current liabilities	877	118	6	7	1 008
Non-current liabilities	96	330	–	2	428
Revenue	776	488	100	21	1 385
Depreciation and amortisation	6	1	2	1	10
Interest income	27	18	–	–	45
Interest expense	4	1	–	–	5
Income tax expense	78	10	3	–	91
Profit or loss from continuing operations	220	37	8	1	266
Total comprehensive income	220	37	8	1	266

* The associate applies the Short-term Insurance Act, 53 of 1998, in terms of regulatory requirements. The 2014 information included is based on the last financial report that is publicly available (i.e. 31 December 2014).

** Western Group Holdings has a financial reporting period of 28 February. The information included in the summary consist of the unaudited management accounts for the 6 months ended 31 August 2014.

*** Censeo has a financial reporting period of 30 June. The information included in the summary consists of the last reported information (i.e. 30 June 2014).

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2014	2013	2014	2013
	R million	R million	R million	R million
10. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME (EXCLUDING DERIVATIVES)				
The group's financial assets are summarised below by measurement category.				
Equity securities				
– quoted	3 076	3 482	2 957	3 316
– unquoted	820	529	820	529
	3 896	4 011	3 777	3 845
Debt securities				
– quoted				
government and other bonds	1 755	1 785	1 487	1 459
collateralised securities	152	–	124	–
money market instruments (long-term instruments)	1 451	1 636	1 097	1 191
redeemable preference shares	250	288	250	288
– unquoted				
government and other bonds	24	54	20	46
money market instruments (long-term instruments)	4 127	3 520	2 534	2 161
redeemable preference shares	78	23	50	–
	7 837	7 306	5 562	5 145
Short-term money market instruments	1 892	1 424	1 156	889
Financial assets at fair value through income	13 625	12 741	10 495	9 879

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls it. The group considers collective investment schemes and other unit-linked investments to be structured entities. Collective investment schemes and other unit-linked investments are included in equity and debt securities. The following note provides information on significant unconsolidated structured entities in which the group holds an interest.

Unit-linked investments comprise local and foreign collective investment schemes as well as other unit-linked investments. Collective investments schemes are categorised into equity, property or interest-bearing instruments based on a minimum of 55% per category of the underlying asset composition of the fund by value. In the event no one category meeting this threshold, it is classified as a mixed class. Money market collective investment schemes are categorised as such.

	Group 2014 R million	Company 2014 R million
Collective investment schemes		
Local and foreign	298	298
Property	48	48
Money Market	250	250
Other unit-linked investments		
Local and foreign	27	–
Property	15	–
Mixed	12	–
Total investment in unconsolidated structured entities	325	298

In 2013 Santam disposed of its direct interest in NICO Holdings in terms of the NICO Holdings Transaction. Santam also held an entitlement to participate in the appreciation of SGIC above agreed minimum hurdle rates through a preference share issued by SEM and which has been redeemed at SEM's election and paid a dividend of R51 million. In terms of the Participation Transaction Santam will participate in 7.0% of the economic benefits of SGIC going forward.

Santam subscribed in separate classes of target shares issued by SEM in terms of a Participation Transaction, with each separate class linked to a participatory interest in the target companies listed below. The fair value of these instruments at year-end was R807 million (2013: R528 million). The shares were classified as unquoted equity securities.

NOTES TO THE FINANCIAL STATEMENTS

	Incorporated in	Type of business	Santam Effective Holding 2014 %	Santam Effective Holding 2013 %
Pacific & Orient Insurance Co. Berhad (P&O)	Malaysia	P&O is a niche general insurer based in Kuala Lumpur, Malaysia	15.4	15.4
Shriram General Insurance Company Ltd (SGIC)	India	SGIC is the general insurance business of the Shriram group, a financial conglomerate based in India	7.0	7.0
BIHL Insurance Company Ltd (BIHL Sure)	Botswana	BIHL Sure is a subsidiary of Botswana Insurance Holdings Ltd, a company listed on the Botswana Stock Exchange. BIHL Sure is a start-up general insurer providing a variety of insurance products.	20.4	18.6
NICO Holdings (NICO subsidiaries)	Malawi, Zambia, Uganda	The NICO subsidiaries offer predominantly personal and commercial insurance products.	21.6	8.7
NICO Holdings (NICO subsidiaries)	Tanzania	The NICO subsidiaries offer predominantly personal and commercial insurance products.	14.4	5.7
Soras Assurance Generales Ltd	Rwanda	The group was established in 1984 and offer motor, medical, fire, goods in transit, weather index and other miscellaneous insurance products.	22.1	–
Socar SA Burundi	Burundi	Form part of the Soras group and offer general insurance products.	7.3	–
Oasis Insurance PLC (Oasis)	Nigeria	Oasis offers a wide range of general insurance products.	8.7	–
Enterprise Insurance Company Ltd	Ghana	Enterprise Insurance Co. Ltd was established in 1924 and is the oldest insurance company in Ghana.	14.0	–

Group		Company	
2014	2013	2014	2013
R million	R million	R million	R million
11. DERIVATIVES			
Financial assets – at fair value through income			
Over the counter			
Interest rate swaps	–	1	–
	–	1	–
Financial liability – at fair value through income			
Over the counter			
Zero cost fence	–	(204)	–
	–	(204)	–

The interest rate derivatives represent the fair value of interest rate swaps effected on a portion R106 million (2013: R108 million) of fixed interest securities held in the investment portfolio underlining the subordinated callable note (refer note 21). 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 12 June 2017.

During the first half of 2013 Santam entered into three derivative fence structures between 28 March 2013 and 8 May 2013 covering equities to the value of R2 billion. All three tranches had downside protection of 10% with upside participation of 9.7%, 9.6% and 9.5% respectively. The implementation levels were 7593 (SWIX40 index), 7515 and 7694 respectively. A negative fair value of R204 million was recorded as at 31 December 2013 and a further loss of R93 million was incurred during the twelve months to 31 December 2014. The final tranche expired in May 2014 and the hedge was not renewed.

In February 2015, a zero cost fence structure was entered into based on the SWIX40 providing 10% downside protection from the implementation level of 10 443, with a capped return (excluding dividends) of 110.9% and a maturity date of 17 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2014	2013	2014	2013
	R million	R million	R million	R million
12. REINSURANCE ASSETS				
Non-current	144	117	140	121
Current	3 372	2 227	3 113	1 864
Total assets arising from reinsurance contracts	3 516	2 344	3 253	1 985

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 13).

13. LOANS AND RECEIVABLES INCLUDING INSURANCE**RECEIVABLES**

Receivables arising from insurance and reinsurance contracts:

– due from contract holders/intermediaries	2 237	1 880	2 143	1 639
– due from reinsurers	203	457	174	408
– less provision for impairment of receivables from reinsurers	(41)	(40)	(41)	(31)
Other loans and receivables:				
– other receivables	569	496	344	334
– less provision for impairment	(99)	(109)	(90)	(108)
– loans to subsidiaries	–	–	678	795
– less provision for impairment of loans to subsidiaries	–	–	(38)	(38)
Total	2 869	2 684	3 170	2 999

Reconciliation of provisions for impairment of receivables from reinsurers and other receivables

At the beginning of the year	149	145	177	173
Charge to the statement of comprehensive income:				
– Increase in provisions	–	4	–	4
– Provisions utilised	(9)	–	(8)	–
Total at the end of the year	140	149	169	177

Amounts due from reinsurers includes collateral held in terms of the alternative risk transfer quota share arrangement of R236 million, which exceeds the receivable balance as there is a right to set off.

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. Provisions for impairment are based on the recoverability of individual loans and receivables.

14. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	2 561	2 343	1 457	1 505
	2 561	2 343	1 457	1 505

The carrying value of cash and cash equivalents approximates fair value.

15. NON-CURRENT ASSET HELD FOR SALE

Santam Ltd initially set up the Santam International group to facilitate the expansion into Europe. Santam International Ltd (Santam International) directly and indirectly held three subsidiaries called Santam UK Ltd, Westminster Motor Insurance Agency Ltd (WMIA) and Santam Europe Ltd (Europe). The holdings in WMIA and Europe were sold in 2008 and Santam International only retained deferred conditional rights relating to the sale contracts. WMIA and Europe were renamed subsequent to the sale to Cardrow Insurance Ltd (Cardrow) and Beech Hill Insurance Ltd (Beech Hill), respectively.

Santam Ltd will realise the deferred conditional rights relating to Cardrow and Beech Hill as and when they become unconditional and therefore these assets have been recognised as held for sale in the group as at 31 December 2013 and 2014. This process is expected to be concluded in 2015.

Once the assets have been realised, management will commence a process to unwind the Santam International group. The investment in Santam International as well as the loan to Santam International have therefore been classified as current assets on a company level. The completion of the unwinding process is subject to Regulatory approval.

Group assets that are classified as held for sale

Financial assets – at fair value through income		
Equity securities	308	299
Loans and receivables including insurance receivables	120	116
	428	415

In accordance with IFRS 5, the assets held for sale were recognised at their fair value less costs to sell. This is a non-recurring fair value based on the net asset value of the business and related costs that will be incurred in order to conclude the unwinding process. It was therefore also recognised within level 3 of the fair value hierarchy (see note 4).

NOTES TO THE FINANCIAL STATEMENTS

16. SHARE CAPITAL

At 1 January 2013

Reissue of treasury shares

At 31 December 2013

Purchase of treasury shares

Reissue of treasury shares

At 31 December 2014

Group and Company Ordinary shares		Group Treasury shares	
Number of shares (thousands)	Stated capital R million	Number of shares (thousands)	Stated capital R million
119 346	107	5 544	579
–	–	(575)	(59)
119 346	107	4 969	520
–	–	195	37
–	–	(453)	(51)
119 346	107	4 711	506

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

In 2007 a subsidiary in the group acquired 6 972 940 Santam shares through a voluntary share buy-back offer on 20 April 2007 at R102 per share. In total 453 083 (2013: 575 745) shares were reissued in terms of the deferred share plan (DSP). The net amount of these transactions has been deducted from shareholders' equity. In 2014 the subsidiary acquired 194 932 shares to utilise as part of the DSP. The shares are held as 'Treasury shares'.

17. NON-CONTROLLING INTEREST IN SUBSIDIARIES

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

	Group	
	2014 R million	2013 R million
Santam Namibia	421	384
Mirabilis	15	15
Other	(6)	1
Total	430	400

	Mirabilis Engineering Underwriting Managers (Pty) Ltd		Santam Namibia Ltd	
	2014 R million	2013 R million	2014 R million	2013 R million
Ownership and voting right	45.0%	45.0%	40.0%	40.0%
Target share interest			37.4%	37.4%
Current assets	33	38	576	359
Non-current assets	7	7	288	263
Current liabilities	6	9	527	335
Non-current liabilities	–	–	22	19
Net assets	34	36	315	268
Carrying amount of NCI	15	15	421	384
Revenue	86	84	1 055	817
Profit after tax	36	37	100	91
Total comprehensive income	36	37	100	91
Profit allocated to NCI	16	17	78	37
Cash flows from operating activities	38	33	168	78
Cash flows from investing activities	–	–	(77)	(18)
Cash flows from financing activities, before dividends to NCI	(21)	(16)	(32)	(36)
Cash flows from financing activities – cash dividends to NCI	(17)	(13)	(21)	(24)
Net increase in cash and cash equivalents	–	4	38	–

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

NOTES TO THE FINANCIAL STATEMENTS

18. SHARE INCENTIVE SCHEMES

(i) Deferred share plan (DSP)

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

- a) Three years – 40%
- b) Four years – 30%
- c) Five years – 30%

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

For the year ended 31 December 2014 allocations in respect of 348 196 shares (2013: 374 892) were made to 269 participants (2013: 256) under the DSP. The fair value of the grants on grant date, calculated in terms of IFRS 2, amounted to R67 million (2013: R62 million) and is expensed in the statement of comprehensive income over the vesting period of five years. The fair value is based on the Santam share price on grant date, adjusted for dividends not accruing to participants during the vesting period and the probability that the service and performance conditions will be met in part.

2013	Date awarded	Latest irreversible date	Grant price	Number of shares
The following shares were awarded and the delivery thereof deferred to a predetermined future date.	16 March 2012	31 May 2013	R156.70	184
	1 June 2009	31 May 2014	R66.81	79 440
	17 September 2010	31 May 2014	R102.87	28 892
	16 March 2012	31 May 2014	R153.45	31 314
	1 June 2010	31 May 2015	R92.99	250 277
	17 September 2010	31 May 2015	R98.46	28 594
	16 March 2012	31 May 2015	R148.10	31 455
	1 June 2011	31 May 2016	R113.94	343 489
	16 March 2012	31 May 2016	R142.91	23 858
	1 June 2012	31 May 2017	R151.80	341 957
	17 September 12	31 May 2017	R164.69	15 174
	1 June 2013	31 May 2018	R166.57	366 241
				1 540 875

Movements during the period	Average price	Number of shares
As at 1 January 2013	R108.49	1 840 965
Shares awarded	R166.57	374 892
Awarded shares lapsed due to resignations	R120.11	(99 237)
Accelerated vesting	R104.86	(21 946)
Shares issued	R104.86	(553 799)
As at 31 December 2013	R130.98	1 540 875

2014	Date awarded	Latest irreversible date	Grant price	Number of shares
	1 June 2010	31 May 2015	R92.99	84 018
	17 September 2010	31 May 2015	R98.46	28 594
	16 March 2012	31 May 2015	R148.10	31 455
	1 June 2011	31 May 2016	R113.94	186 874
	16 March 2012	31 May 2016	R142.91	23 858
	1 June 2012	31 May 2017	R151.80	327 157
	17 September 2012	31 May 2017	R164.69	15 174
	1 June 2013	31 May 2018	R166.57	337 054
	1 June 2014	31 May 2019	R193.60	345 849
				1 380 033

NOTES TO THE FINANCIAL STATEMENTS

Movements during the period	Average price	Number of shares
As at 1 January 2014	R130.98	1 540 875
Shares awarded	R193.60	348 196
Awarded shares lapsed due to resignations	R143.61	(62 880)
Accelerated vesting	R116.11	(6 110)
Shares issued	R100.54	(440 048)
As at 31 December 2014	R155.97	1 380 033

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

The Staff Trust is one of three components of a structured entity which hosts the Santam BBBEE scheme. Refer to note 45 for further information of the structured entity. Units are allocated to new black employees that joined the Santam group and to black employees that were promoted since the previous allocation. These units are allocated on a deferred delivery basis over a seven-year period. The fair value used in determining the allocation is based on the unit price on grant date, adjusted for expected employee attrition over the vesting period. The unit price reflects the net asset value of the units in the Staff Trust. The total unit allocation costs for the Staff Trust amounting to R16.6 million (2013: R15.4 million) has been included in the statement of comprehensive income.

2013	Date awarded	Latest irreversible date	Grant price	Number of units
The following units were awarded and the delivery thereof deferred to a predetermined future date.	1 December 2007	30 November 2014	R47.00	686 573
	1 September 2008	31 August 2015	R0.00	169 530
	1 September 2009	31 August 2016	R8.00	220 699
	1 September 2010	31 August 2017	R31.05	184 959
	1 September 2011	31 August 2018	R53.65	215 500
	1 September 2012	31 August 2019	R97.90	230 933
	1 January 2013	31 December 2019	R87.48	306 923
	1 September 2013	31 August 2020	R80.44	225 714
	1 December 2013	30 November 2020	R84.47	12 161
				2 252 992

Movements during the period	Average price	Number of units
As at 1 January 2013	R42.64	1 890 269
Units awarded	R84.65	576 261
Awarded units lapsed due to resignations	R36.66	(208 273)
Accelerated vesting	R33.69	(5 265)
As at 31 December 2013	R53.72	2 252 992

2014	Date awarded	Latest irreversible date	Grant price	Number of units
The following units were awarded and the delivery thereof deferred to a predetermined future date.	1 December 2007	30 November 2014	R47.00	688 970
	1 September 2008	31 August 2015	R0.00	164 698
	1 September 2009	31 August 2016	R8.00	218 783
	1 September 2010	31 August 2017	R31.05	174 775
	1 September 2011	31 August 2018	R53.65	198 980
	1 September 2012	31 August 2019	R97.90	207 493
	1 January 2013	31 December 2019	R87.48	293 676
	1 September 2013	31 August 2020	R80.44	181 709
	1 December 2013	30 November 2020	R84.47	12 161
	1 September 2014	31 August 2021	R87.97	178 269
				2 319 514

Movements during the period	Average price	Number of units
As at 1 January 2014	R53.72	2 252 992
Units awarded	R87.97	179 122
Awarded units lapsed due to resignations	R72.57	(112 285)
Accelerated vesting	R80.44	(315)
As at 31 December 2014	R55.00	2 319 514

NOTES TO THE FINANCIAL STATEMENTS

18. SHARE INCENTIVE SCHEMES (continued)

(iii) The Emthunzini Black Economic Empowerment Business Partners Trust (the Business Partners Trust)

The Business Partners Trust is one of 3 components of a structured entity which hosts the Santam BBBEE scheme. Refer to note 45 for further information of the structured entity. Units are allocated to strategic business partners. Participants include black intermediaries, black non-executive directors, black strategic business partners and:

- Key black employees of select Santam subsidiaries and associates on a discretionary basis.
- Santam black senior employees, they being responsible for driving synergies between the two groups.
- Santam black non-executive directors.

Units will vest as per the agreements with employees and business partners. The fair value used in determining the allocation is based on the unit price on grant date. The unit price reflects the net asset value of the units in the Business Partners Trust. The total unit allocation costs for the Business Partners Trust amounting to R64.1 million (2013: R13.8 million) has been included in the statement of comprehensive income.

2013	Date awarded	Latest irreversible date	Grant price	Number of units
The following units were awarded and the delivery thereof deferred to a predetermined future date.	1 September 2008	1 February 2015	(R2.00)	1 170 857
	27 August 2010	1 February 2015	R29.10	442 067
	15 September 2010	1 February 2015	R37.51	1 700 000
	1 September 2011	1 February 2015	R53.65	13 404
	13 March 2013	1 February 2015	R81.21	380 098
	31 October 2013	1 February 2015	R86.75	56 356
				3 762 782

Movements during the period	Average price	Number of units
As at 1 January 2013	R22.55	3 326 328
Units awarded	R81.89	458 091
Awarded units lapsed due to resignations	R81.21	(21 637)
As at 31 December 2013	R43.64	3 762 782

2014	Date awarded	Latest irreversible date	Grant price	Number of units
The following units were awarded and the delivery thereof deferred to a predetermined future date.	1 September 2008	1 February 2015	(R2.00)	1 170 857
	27 August 2010	1 February 2015	R29.10	442 067
	15 September 2010	1 February 2015	R37.51	1 700 000
	1 September 2011	1 February 2015	R53.65	13 404
	13 March 2011	1 February 2015	R81.21	354 913
	31 October 2013	1 February 2015	R86.75	50 194
	1 December 2014	1 February 2015	R80.17	571 850
				4 303 285

Movements during the period	Average price	Number of units
As at 1 January 2014	R43.64	3 762 782
Units awarded	R80.17	571 850
Awarded units lapsed due to resignations	R82.30	(31 347)
As at 31 December 2014	R35.79	4 303 285

NOTES TO THE FINANCIAL STATEMENTS

19. RESERVES

A) Other reserves

Translation reserve – classified as held for sale

Contingency reserve

	Group		Company	
	2014	2013	2014	2013
	R million	R million	R million	R million
Translation reserve – classified as held for sale	195	187	–	–
Contingency reserve	43	37	–	–
	238	224	–	–

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 still maintained for Santam Namibia in terms of NAMFISA regulations. A reversal of this provision will not be recognised in the statement of comprehensive income.

a) Movements in the translation reserve were as follows

At the beginning of the year

187 44

Release of currency translation difference on disposal of associate

– 34

Currency translation differences

8 109

At the end of the year

195 187

b) Movements in the contingency reserve were as follows

At the beginning of the year

37 33

Transfer from retained earnings

6 4

At the end of the year

43 37

B) Distributable reserves

Retained earnings

6 801 6 068 6 664 5 675

Share-based payment reserve

370 253 51 25

7 171 6 321 6 715 5 700

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 which is recognised as a share-based payment expense in the statement of comprehensive income. A release of this reserve will be not be recognised in profit or loss.

a) Movements in the share-based payment reserve were as follows

At the beginning of the year

253 147 25 (6)

Transfer from retained earnings

123 106 151 138

Transfer to retained earnings

(6) – (6) –

Loss on delivery of shares in terms of share scheme

– – (119) (107)

At the end of the year

370 253 51 25

NOTES TO THE FINANCIAL STATEMENTS

20. DEFERRED INCOME TAX

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 28% (2013: 28%) in South Africa and the official tax rates in the foreign subsidiaries where applicable.

	Group		Company	
	2014	2013	2014	2013
	R million	R million	R million	R million
The amounts are as follows:				
Deferred tax assets	(161)	(188)	–	–
Deferred tax liabilities	301	315	239	242
Total net deferred income tax account	140	127	239	242
<i>Deferred tax is made up as follows:</i>				
Unrealised appreciation of investments	400	368	388	352
Provisions and accruals	(171)	(103)	(106)	(47)
Tax losses carried forward	(98)	(131)	–	–
Other differences	9	(7)	(43)	(63)
	140	127	239	242
<i>Movement of deferred tax</i>				
Balance as at 1 January	127	63	242	223
Charge to the income statement	13	74	(5)	62
Unrealised appreciation of investments	32	8	36	7
Provisions and accruals	(67)	47	(59)	(6)
Tax losses carried forward	34	(20)	–	–
Other differences	14	39	18	61
Business combinations	(8)	7	–	–
Tax credited directly to equity	8	(17)	2	(43)
Acquisition of book of business	–	–	–	–
Balance as at 31 December	140	127	239	242

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 (2013: Rnil).

No deferred tax has been provided on temporary differences relating from investments in subsidiaries amounting to R178 million (2013: R247 million).

21. DEBT SECURITIES

At the beginning of the year	997	1 034	997	1 034
Net fair value losses/(gains) on debt securities	2	(37)	2	(37)
	999	997	999	997
Accrued interest	24	24	24	24
	1 023	1 021	1 023	1 021
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 national credit rating during the year, the movement in the fair value of the unsecured subordinated callable notes represent the market movement.

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2014	2013	2014	2013
	R million	R million	R million	R million
22. INVESTMENT CONTRACTS				
At the beginning of the year	126	95		
Investment contracts issued	48	58		
Investment contracts sold/matured	(69)	(30)		
Net fair value losses on investment contracts	–	3		
Investment contracts (unit-linked)	105	126		
Non-current assets	105	126		
Current assets	–	–		
23. CELL OWNERS' INTEREST				
At the beginning of the year	799	688		
Net increase in cell owners' interest	198	176		
Preference shares issued by subsidiary	9	61		
Redemption of preference shares	(3)	–		
Dividends paid to preference shareholders	(88)	(126)		
	915	799		
Amounts owed by cell owners	9	15		
	924	814		
24. COLLATERAL GUARANTEE CONTRACTS				
At the beginning of the year	82	75	82	75
Interest	6	7	6	7
	88	82	88	82

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 R88 million (2013: R82 million) as at 31 December. As a result, the transaction is not recorded as an insurance transaction in terms of IFRS 4, but as a financial instrument in terms of IAS 39.

The carrying value of collateral guarantee contracts approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2014	2013	2014	2013
	R million	R million	R million	R million
25. INSURANCE LIABILITIES AND REINSURANCE ASSETS				
Gross				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	13	3	–	–
– claims incurred but not reported	25	22	–	–
General insurance contracts				
– claims reported and loss adjustment expenses	6 227	5 520	5 711	5 038
– claims incurred but not reported	1 515	1 427	1 296	1 167
– unearned premiums	4 262	3 719	2 763	2 272
Total insurance liabilities – gross	12 042	10 691	9 770	8 477
Non-current	1 528	1 595	1 514	1 592
Current	10 514	9 096	8 256	6 885
Recoverable from reinsurers				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	6	1	–	–
– claims incurred but not reported	5	4	–	–
General insurance contracts				
– claims reported and loss adjustment expenses	2 266	1 315	2 155	1 182
– claims incurred but not reported	237	207	167	133
– unearned premiums	1 002	817	931	670
Total reinsurers' share of insurance liabilities	3 516	2 344	3 253	1 985
Non-current	144	117	140	121
Current	3 372	2 227	3 113	1 864
Net				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	7	2	–	–
– claims incurred but not reported	20	18	–	–
General insurance contracts				
– claims reported and loss adjustment expenses	3 961	4 205	3 556	3 856
– claims incurred but not reported	1 278	1 220	1 129	1 034
– unearned premiums	3 260	2 902	1 832	1 602
Total insurance liabilities – net	8 526	8 347	6 517	6 492

25.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

Year ended 31 December	2014			2013		
	Gross R million	Reinsurance R million	Net R million	Gross R million	Reinsurance R million	Net R million
GROUP						
Notified claims	5 523	(1 316)	4 207	4 948	(977)	3 971
Incurred but not reported	1 449	(211)	1 238	1 325	(194)	1 131
Total at the beginning of the year	6 972	(1 527)	5 445	6 273	(1 171)	5 102
Cash paid for claims settled in the year	(13 556)	2 516	(11 040)	(13 148)	1 813	(11 335)
Increase in liabilities						
– arising from current year claims	14 315	(3 437)	10 878	13 807	(2 200)	11 607
– arising from foreign currency adjusted	49	(79)	(30)	40	–	40
Transfer to cell owners' interest	–	13	13	–	31	31
Total at the end of the year	7 780	(2 514)	5 266	6 972	(1 527)	5 445
Notified claims	6 240	(2 272)	3 968	5 523	(1 316)	4 207
Incurred but not reported	1 540	(242)	1 298	1 449	(211)	1 238
Total at the end of the year	7 780	(2 514)	5 266	6 972	(1 527)	5 445

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December	Gross R million	2014 Reinsurance R million	Net R million	Gross R million	2013 Reinsurance R million	Net R million
COMPANY						
Notified claims	5 038	(1 182)	3 856	4 523	(826)	3 697
Incurred but not reported	1 167	(133)	1 034	1 112	(114)	999
Total at the beginning of the year	6 205	(1 315)	4 890	5 635	(940)	4 696
Cash paid for claims settled in the year	(11 901)	1 880	(10 021)	(11 525)	1 079	(10 446)
Increase in liabilities						
– arising from current year claims	12 639	(2 792)	9 847	12 055	(1 454)	10 601
– arising from portfolio transfer	14	–	14			
– arising from foreign currency adjustments	50	(95)	(45)	40	–	40
Total at the end of the year	7 007	(2 322)	4 685	6 205	(1 315)	4 890
Notified claims	5 711	(2 155)	3 556	5 038	(1 182)	3 856
Incurred but not reported	1 296	(167)	1 129	1 167	(133)	1 034
Total at the end of the year	7 007	(2 322)	4 685	6 205	(1 315)	4 890

b) Provision for unearned premiums

Year ended 31 December

GROUP

At the beginning of the year	3 719	(817)	2 902	3 385	(583)	2 802
Charged to the statement of comprehensive income	532	(119)	413	334	(185)	149
Foreign currency movement	11	(11)	–	–	–	–
Transfer to cell owners' interest	–	(55)	(55)		(49)	(49)
Total at the end of the year	4 262	(1 002)	3 260	3 719	(817)	2 902

COMPANY

At the beginning of the year	2 272	(670)	1 602	1 929	(536)	1 393
Charged to the statement of comprehensive income	476	(251)	225	343	(136)	207
Foreign currency movement	15	(10)	5	–	2	2
Total at the end of the year	2 763	(931)	1 832	2 272	(670)	1 602

25.2 Movements in deferred acquisition costs and deferred reinsurance acquisition revenue

	Group		Company	
	2014 R million	2013 R million	2014 R million	2013 R million
a) Deferred acquisition costs				
At the beginning of the year	369	340	328	275
Movement for the period	78	29	80	53
Total at the end of the year	447	369	408	328
b) Deferred reinsurance acquisition revenue				
At the beginning of the year	171	147	155	131
Movement for the period (included in Income from reinsurance contracts ceded)	61	24	60	24
Total at the end of the year	232	171	215	155

NOTES TO THE FINANCIAL STATEMENTS

25. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

25.3 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.

PAYMENT DEVELOPMENT

GROUP	Claims paid in respect of									
	Total	2014	2013	2012	2011	2010	2009	2008	2007	2006 and prior
– General insurance claims – gross	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Reporting year										
Actual claims costs:										
– 2014	13 556	9 031	3 578	493	173	188	64	14	15	–
– 2013	13 148	–	9 152	3 411	250	154	106	47	18	10
– 2012	11 340	–	–	8 176	2 366	370	171	158	58	41
– 2011	10 327	–	–	–	7 767	2 141	247	52	54	66
– 2010	9 999	–	–	–	–	7 144	2 236	411	116	92
– 2009	10 016	–	–	–	–	–	7 702	1 959	197	158
– 2008	8 996	–	–	–	–	–	–	7 181	1 547	268
– 2007	7 971	–	–	–	–	–	–	–	6 219	1 752
– 2006	6 988	–	–	–	–	–	–	–	–	6 988
Cumulative payments to date		9 031	12 730	12 080	10 556	9 997	10 526	9 822	8 224	9 375

– General insurance claims – net										
Reporting year										
Actual claims costs:										
– 2014	11 040	7 927	2 489	323	131	108	50	7	5	–
– 2013	11 335	–	8 423	2 493	168	127	79	35	7	3
– 2012	9 904	–	–	7 616	1 743	250	116	137	36	6
– 2011	8 989	–	–	–	7 082	1 673	148	39	23	24
– 2010	8 710	–	–	–	–	6 401	1 816	323	103	67
– 2009	8 805	–	–	–	–	–	6 928	1 651	131	95
– 2008	7 727	–	–	–	–	–	–	6 172	1 381	174
– 2007	6 672	–	–	–	–	–	–	–	5 292	1 380
– 2006	6 020	–	–	–	–	–	–	–	–	6 020
Cumulative payments to date		7 927	10 912	10 432	9 124	8 559	9 137	8 364	6 978	7 769

COMPANY

– General insurance claims – gross

Reporting year

Actual claims costs:

– 2014	11 901	8 539	2 645	357	137	166	51	6	–	–
– 2013	11 525	–	8 539	2 576	184	107	84	29	6	–
– 2012	9 755	–	–	7 505	1 744	226	114	129	37	–
– 2011	8 917	–	–	–	7 106	1 575	160	33	22	21
– 2010	8 996	–	–	–	–	6 333	2 065	395	113	90
– 2009	8 833	–	–	–	–	–	6 777	1 779	154	123
– 2008	7 673	–	–	–	–	–	–	5 905	1 507	261
– 2007	6 740	–	–	–	–	–	–	–	5 039	1 701
– 2006	6 110	–	–	–	–	–	–	–	–	6 110
Cumulative payments to date		8 539	11 184	10 438	9 171	8 407	9 251	8 276	6 878	8 306

NOTES TO THE FINANCIAL STATEMENTS

COMPANY

– General insurance claims – net

Claims paid in respect of

2006

	Total	2014	2013	2012	2011	2010	2009	2008	2007	2006 and prior
	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Reporting year										
Actual claims costs:										
– 2014	10 021	7 354	2 118	284	122	91	47	5	–	–
– 2013	10 446	–	7 740	2 335	167	97	77	26	4	–
– 2012	9 157	–	–	7 173	1 563	157	103	124	37	–
– 2011	8 308	–	–	–	6 681	1 424	138	27	20	18
– 2010	8 199	–	–	–	–	6 010	1 719	308	99	63
– 2009	8 188	–	–	–	–	–	6 434	1 552	115	87
– 2008	7 124	–	–	–	–	–	–	5 609	1 345	170
– 2007	6 142	–	–	–	–	–	–	–	4 789	1 353
– 2006	5 614	–	–	–	–	–	–	–	–	5 614
Cumulative payments to date		7 354	9 858	9 792	8 533	7 779	8 518	7 651	6 409	7 305

25.4 Reporting development

GROUP

Financial year in which claim occurred

– General insurance claims provision – gross

Reporting year

Provision raised:

	Total	2014	2013	2012	2011	2010	2009	2008	2007	2006
	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
– 2014	6 240	4 069	844	410	206	257	212	106	136	–
– 2013	5 523	–	3 267	788	376	462	195	175	151	109
– 2012	4 948	–	–	3 133	599	434	304	213	170	95
– 2011	4 192	–	–	–	2 448	652	333	303	191	265
– 2010	3 777	–	–	–	–	2 325	556	312	171	413
– 2009	4 288	–	–	–	–	–	2 617	712	401	558
– 2008	4 075	–	–	–	–	–	–	2 579	630	866
– 2007	3 774	–	–	–	–	–	–	–	2 804	970
– 2006	3 922	–	–	–	–	–	–	–	–	3 922

– General insurance claims provision – net

Reporting year

Provision raised:

	Total	2014	2013	2012	2011	2010	2009	2008	2007	2006
	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
– 2014	3 968	2 337	448	325	239	221	191	87	120	–
– 2013	4 207	–	2 459	568	331	298	172	146	132	101
– 2012	3 971	–	–	2 550	466	326	241	162	145	81
– 2011	3 273	–	–	–	1 919	509	260	220	149	216
– 2010	2 896	–	–	–	–	1 813	402	228	132	321
– 2009	2 952	–	–	–	–	–	1 861	435	280	376
– 2008	2 699	–	–	–	–	–	–	1 805	403	491
– 2007	2 444	–	–	–	–	–	–	–	1 807	637
– 2006	2 484	–	–	–	–	–	–	–	–	2 484

NOTES TO THE FINANCIAL STATEMENTS

25. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

COMPANY	Financial year in which claim occurred									
– General insurance claims provision – gross	Total R million	2014 R million	2013 R million	2012 R million	2011 R million	2010 R million	2009 R million	2008 R million	2007 R million	2006 and prior R million
Reporting year										
Provision raised:										
– 2014	5 711	3 768	741	375	231	203	206	114	73	–
– 2013	5 038	–	3 101	676	389	326	185	172	93	96
– 2012	4 523	–	–	2 915	586	370	265	202	109	76
– 2011	3 711	–	–	–	2 256	508	296	277	128	246
– 2010	3 360	–	–	–	–	2 023	487	291	161	398
– 2009	3 842	–	–	–	–	–	2 312	663	362	505
– 2008	3 492	–	–	–	–	–	–	2 030	616	846
– 2007	3 371	–	–	–	–	–	–	–	2 430	941
– 2006	2 961	–	–	–	–	–	–	–	–	2 961
– General insurance claims provision – net										
Reporting year										
Provision raised:										
– 2014	3 556	2 122	374	289	256	177	178	99	61	–
– 2013	3 865	–	2 279	502	354	245	159	155	82	89
– 2012	3 697	–	–	2 391	468	278	226	171	95	67
– 2011	2 953	–	–	–	1 795	404	236	220	102	196
– 2010	2 611	–	–	–	–	1 607	356	214	125	309
– 2009	2 681	–	–	–	–	–	1 666	404	255	356
– 2008	2 446	–	–	–	–	–	–	1 569	396	481
– 2007	2 261	–	–	–	–	–	–	–	1 631	630
– 2006	1 766	–	–	–	–	–	–	–	–	1 766

25.5 Liability adequacy test

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

	Group		Company	
	2014 R million	2013 R million	2014 R million	2013 R million
26. PROVISION FOR OTHER LIABILITIES AND CHARGES				
GROUP				
At the beginning of the year	84	161	15	12
Charged to statement of comprehensive income:				
– additional provisions	41	25	8	3
Used during the year	(34)	(102)	–	–
Year ended 31 December	91	84	23	15

The balance consists of the cash-settled share-based payment liability in Santam Ltd and the provision for the MiWay deferred bonus plans. Participants to the MiWay deferred bonus schemes (A and B) can redeem their units at any time from their respective vesting dates. In addition, there is a compulsory redemption of Scheme A units upon the completion of the seventh year from the date of issue, and upon the completion of the fifth year of issue for Scheme B units.

27. TRADE AND OTHER PAYABLES

Amounts due to subsidiaries	–	–	766	1 199
Trade payables and accrued expenses	1 290	986	753	530
Amounts due to intermediaries	329	314	296	295
Amounts due to reinsurers	933	1 123	913	1 021
Amounts due to policyholders	56	39	23	14
Employee benefits	109	99	72	63
Total	2 717	2 561	2 823	3 122

The carrying value of trade and other payables approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2014	2013	2014	2013
	R million	R million	R million	R million
28. INVESTMENT INCOME				
Dividend income	127	177	554	487
Quoted	101	116	95	110
Unquoted*	26	61	459	377
Interest income	609	514	514	422
Quoted	250	265	160	201
Unquoted	359	249	354	221
Foreign exchange differences	71	91	22	4
	807	782	1 090	913

* The 2013 company dividend income also includes a dividend of R277 million received from Santam Namibia Holdings (Pty) Ltd (refer note 8).

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

Net realised gains on financial assets	481	368	472	350
Net fair value (losses)/gains on financial assets at fair value through income	(79)	240	(63)	223
Net fair value (losses)/gains on financial assets held for sale	(3)	13	–	–
Net realised/fair value losses on derivatives	(93)	(209)	(93)	(209)
Net fair value losses on short-term money market instruments	(18)	(3)	(17)	(3)
Net fair value (losses)/gains on financial liabilities designated as at fair value through income	(2)	40	(2)	37
Net fair value (losses)/gains on debt securities	(2)	37	(2)	37
Net fair value gains on investment contracts	–	3	–	–
	286	449	297	398

	Gross R million	Reinsurance R million	Net R million
30. INSURANCE BENEFITS AND CLAIMS			
2014			
GROUP			
Claims paid	13 556	(2 516)	11 040
Movement in the expected cost of outstanding claims	759	(921)	(162)
Total claims and loss adjustment expense	14 315	(3 437)	10 878
COMPANY			
Claims paid	11 901	(1 880)	10 021
Movement in the expected cost of outstanding claims	738	(912)	(174)
Total claims and loss adjustment expense	12 639	(2 792)	9 847
2013			
GROUP			
Claims paid	13 148	(1 813)	11 335
Movement in the expected cost of outstanding claims	659	(387)	272
Total claims and loss adjustment expense	13 807	(2 200)	11 607
COMPANY			
Claims paid	11 525	(1 079)	10 446
Movement in the expected cost of outstanding claims	530	(375)	155
Total claims and loss adjustment expense	12 055	(1 454)	10 601

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2014	2013	2014	2013
	R million	R million	R million	R million
31. EXPENSES BY NATURE				
Auditor's remuneration	22	23	13	12
Audit fees				
– Current year	15	15	8	8
– Prior year	2	3	–	–
– Audit-related services	1	5	1	4
– Non-audit services	4	–	4	–
Depreciation	40	39	22	23
Amortisation of intangible assets	58	109	8	20
Impairment of intangible assets	72	5	–	–
Employee benefit expense	2 450	1 984	1 580	1 256
Operating lease rentals	339	323	271	261
– Offices	156	148	95	90
– Computer equipment	160	155	160	155
– Furniture and mechanical equipment	6	4	–	–
– Motor vehicles	17	16	16	16
Research and development costs	81	143	81	143
Commission expenses	2 983	2 721	3 327	2 941
Asset management services	31	29	24	22
Other expenses*	118	50	429	331
Total expenses	6 194	5 426	5 755	5 009
* Includes reallocation of claims handling costs to claims costs.				
32. EMPLOYEE BENEFIT EXPENSE				
Wages, salaries and bonus	2 047	1 680	1 270	1 005
Social security costs	102	94	93	91
Long-term incentive scheme costs	124	90	59	54
Pension costs – defined-contribution plans	96	91	77	77
BBBEE cost	81	29	81	29
	2 450	1 984	1 580	1 256
For directors' emoluments included above refer to note 42.				
33. FINANCE COSTS				
Interest expense				
– interest on collateral guarantee	5	5	5	5
– banks and other	4	29	2	23
– subordinated callable note	83	83	83	83
– revenue authorities	1	1	–	1
	93	118	90	112
34. INCOME TAX EXPENSE				
South African normal taxation				
Current year	684	259	520	165
– Charge for the year	684	258	520	164
– STC	–	1	–	1
Prior year	–	(4)	–	–
Recovered from cell owners	(77)	(66)	–	–
Foreign taxation – current year	43	40	–	–
Income taxation for the year	650	229	520	165
Deferred taxation	13	74	(5)	62
Current year	13	75	(5)	62
Prior year	–	(1)	–	–
Recovered from cell owners	(3)	(3)	–	–
Deferred taxation for the year	10	71	(5)	62
Total taxation as per the statement of comprehensive income	660	300	515	227

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2014	2013	2014	2013
Reconciliation of taxation rate (%)				
Normal South African taxation rate	28.0	28.0	28.0	28.0
Adjusted for				
– Disallowable expenses	1.9	0.9	1.0	0.8
– Foreign tax differential	0.3	0.2	–	–
– Exempt income	(1.6)	(3.4)	(6.8)	(8.5)
– Investment results	(0.6)	(2.0)	(0.5)	(5.9)
– Income from associates	(0.7)	(1.6)	(0.4)	(0.9)
– Previous years' under/(over) provision	–	(0.3)	–	–
– Other permanent differences	1.0	(1.5)	0.9	0.4
– Non-resident shareholders tax	0.1	0.1	–	0.1
Net increase/(reduction)	0.4	(7.6)	(5.8)	(14.0)
Effective rate (%)	28.4	20.4	22.2	14.0

35. EARNINGS PER SHARE

35.1 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	
	2014	2013
Basic earnings per share		
Profit attributable to the company's equity holders (R million)	1 579	1 120
Weighted average number of ordinary shares in issue (millions)	114.26	114.12
Earnings per share (cents)	1 382	982

35.2 Diluted earnings per share

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

Diluted earnings per share		
Profit attributable to the company's equity holders (R million)	1 579	1 120
Weighted average number of ordinary shares in issue (millions)	114.26	114.12
Adjusted for share options	0.83	1.00
Weighted average number of ordinary shares for diluted earnings per share	115.09	115.12
Diluted basic earnings per share (cents)	1 372	973

35.3 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)	1 579	1 120
Impairment of goodwill	72	5
Impairment of net investment and loans in associates	–	26
Net loss on sale of investment in associate	–	18
Tax charge and non-controlling interest	–	9
Headline earnings (R million)	1 651	1 178
Weighted average number of ordinary shares in issue (millions)	114.26	114.12
Headline earnings per share (cents)	1 446	1 033

NOTES TO THE FINANCIAL STATEMENTS

		Group	
		2014	2013
35.	EARNINGS PER SHARE (continued)		
35.4	Diluted headline earnings per share		
	Headline earnings (R million)	1 651	1 178
	Weighted average number of ordinary shares for diluted earnings per share (millions)	115.09	115.12
	Diluted headline earnings per share (cents)	1 435	1 023
36.	DIVIDENDS PER SHARE		
	Ordinary dividend per share		
	Interim of 262 cents per share (2013: 242 cps)	313	289
	Proposed final of 480 cents per share (2013: 433 cps)	573	517
		886	806
		Group	
		2014	2013
		R million	R million
37.	CASH GENERATED FROM OPERATIONS		
	Profit before tax	2 327	1 473
	Adjustments for:		
	Non-cash items	251	194
	– Profit on sale of associated companies	–	(16)
	– Release of foreign currency translation reserve	–	34
	– Share-based payment costs	139	83
	– Amortisation of intangible asset	58	109
	– Profit on sale of subsidiary	–	–
	– Impairment of goodwill	72	5
	– Depreciation	40	39
	– Impairment on net investments and loans in associated companies	–	26
	– Income from associated companies	(58)	(86)
	– Impairment of subsidiary	–	–
	Investment income, realised and fair value gains	(1 093)	(1 231)
	Finance costs	93	118
	Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)	102	307
	Reinsurance assets	(1 083)	(589)
	Deferred acquisition costs	(78)	(29)
	Loans and receivables including insurance receivables	(187)	(694)
	Insurance liabilities	1 292	1 033
	Deferred reinsurance acquisition revenue	61	24
	Provisions for other liabilities and charges	(4)	(77)
	Trade and other payables	101	639
	Investment income received in cash	762	755
	Dividends received	164	235
	Interest received	609	514
	Foreign exchange differences	15	1
	Movement in provision for investment income	(26)	5
	Cash generated from operations	2 443	1 616

		Company	
		2014	2013
		R million	R million
	Profit before tax	2 327	1 615
	Adjustments for:		
	Non-cash items	238	(84)
	– Profit on sale of associated companies	–	(47)
	– Release of foreign currency translation reserve	–	–
	– Share-based payment costs	139	83
	– Amortisation of intangible asset	8	20
	– Profit on sale of subsidiary	–	(163)
	– Impairment of goodwill	–	–
	– Depreciation	22	23
	– Impairment on net investments and loans in associated companies	–	–
	– Income from associated companies	–	–
	– Impairment of subsidiary	69	–
	Investment income, realised and fair value gains	(1 387)	(1 311)
	Finance costs	90	112
	Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)	(312)	355
	Reinsurance assets	(1 161)	(509)
	Deferred acquisition costs	(80)	(53)
	Loans and receivables including insurance receivables	(145)	(623)
	Insurance liabilities	1 227	913
	Deferred reinsurance acquisition revenue	59	24
	Provisions for other liabilities and charges	8	2
	Trade and other payables	(220)	601
	Investment income received in cash	775	901
	Dividends received	274	487
	Interest received	514	422
	Foreign exchange differences	12	1
	Movement in provision for investment income	(25)	(9)
	Cash generated from operations	1 731	1 588

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2014	2013	2014	2013
	R million	R million	R million	R million
38. INCOME TAX PAID				
Amounts charged to the statement of comprehensive income	(660)	(300)	(515)	(227)
Income tax credited directly to equity	4	11	21	17
Movement in deferred taxation	9	71	(5)	62
Movement in taxation liability	227	(3)	219	11
	(420)	(221)	(280)	(137)

39. BUSINESS COMBINATIONS

2014

Additions

Brolink (Pty) Ltd and H & L Underwriting Managers (Pty) Ltd

On 15 May 2014, Swanvest 120 (Pty) Ltd, a wholly owned subsidiary of Santam Ltd, acquired the remaining 70% of the H & L Underwriting Managers (Pty) Ltd shareholding and on 1 July 2014, Swanvest 120 (Pty) Ltd acquired 100% of Brolink (Pty) Ltd (Brolink). The purchase price for these transactions amounted to R28 million. The goodwill of R25 million arises from a number of factors such as obtaining economies of scale and unrecognised assets such as the workforce. Key business relationships of R15 million, brandname of R1 million and an additional deferred tax liability of R4 million were also recognised on acquisition.

	R million
Details of the assets and liabilities acquired at fair value are as follows:	
Intangible assets	16
Loans and receivables	8
Cash and cash equivalents	3
Deferred taxation	(4)
Trade and other payables	(10)
Net asset value acquired	13
Goodwill	25
Less: Deferred purchase consideration*	(10)
Purchase consideration paid	28

* Amount is variable and will be impacted by returns achieved until February 2016 and August 2017.

2013

Additions

Travel Insurance Consultants (Pty) Ltd

Santam Ltd has acquired 100% of the shareholding in Travel Insurance Consultants (Pty) Ltd (TIC) with effect from 1 June 2013. TIC is one of the leading travel insurance underwriting managers and has been in operation for over 25 years. The purchase price amounted to R95 million. The goodwill of R76 million arises from a number of factors such as obtaining economies of scale and unrecognised assets such as the workforce. Key business relationships of R16 million, brandname of R1 million and an additional deferred tax liability of R6 million were also recognised on acquisition.

	R million
Details of the assets and liabilities acquired at fair value are as follows:	
Intangible assets	22
Loans and receivables	1
Cash and cash equivalents	15
Deferred taxation	(7)
Trade and other payables	(12)
Net asset value acquired	19
Goodwill	76
Purchase consideration paid	95

Beyonda Group (Pty) Ltd

Centriq Insurance Holdings Ltd acquired the additional 51% of the shareholding in Beyonda Group (Pty) Ltd for an amount of R8 million with effect 1 March 2013. Intangible assets of R15 million, net assets of R1 million as well as a profit on the sale of the investment in associate previously held of R1 million was recognised. The fair value of the investment in associate previously held was R7 million.

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2014	2013	2014	2013
	R million	R million	R million	R million
40. DIVIDENDS PAID				
Amounts paid for the year to company's shareholders	795	745	829	778
Amounts paid for the year to non-controlling interests	58	37	–	–
	853	782	829	778

41. 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.

42. 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 income statement during the year is disclosed in note 31.

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

	Up to 1 year R million	Between 1 to 5 years R million	More than 5 years R million	Total R million
2014				
Motor vehicles	13	17	–	30
Office equipment	1	2	–	3
Offices	122	370	162	654
	136	389	162	687
2013				
Motor vehicles	16	19	–	35
Office equipment	2	3	–	5
Offices	109	322	113	544
	127	344	113	584
2014				
Computer equipment	215	228	–	443
2013				
Computer equipment	210	215	–	425

43. RELATED-PARTY TRANSACTIONS

Major shareholders

Sanlam Ltd (incorporated in South Africa) is the ultimate holding company with a 59.21% shareholding in Santam Ltd. The balance of the shareholders (40.79%) 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 93 for detail).

Transactions with the Sanlam group

The company transact with the Sanlam group on various levels, predominantly insurance-related cover, provided to Sanlam group companies. Sanlam Investment Management acts as the largest investment fund manager for the group with its fees negotiated on a regular basis. Santam also subscribed to target shares in Santam Emerging Markets (SEM) as described in note 10.

NOTES TO THE FINANCIAL STATEMENTS

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 wholly owned subsidiaries are interest free and repayable on demand. These inter-Santam group balances have been eliminated on consolidation (for detail on balances, refer note 47).

The company has guaranteed liabilities of MiWay Group Holdings (Pty) Ltd with Absa Bank Ltd for an amount of R19 million (2013: R19 million). In 2013 the company also had a guarantee with IBM South Africa (Pty) Ltd for an amount of R13 million).

In 2013 Santam entered into a contingent capital facility with Centriq Insurance Company Ltd of R50 million. A facility fee of 0.5% of the contingent capital facility is charged. The capital facility ensures appropriate capital levels for the future implementation of the Financial Services Board's new solvency regime, Solvency Assessment and Management (SAM). The contingent capital facility remained in place for 2014.

Transactions with key management

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

Key management also have general insurance contracts with the company in their private capacity. Premiums on these contracts amounted to less than R1 million in total.

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

	2014 R million	2013 R million
a) Insurance contracts and other services		
– Sanlam Ltd and related parties (for insurance premiums)	13	10
– MiWay Group Holdings Ltd (for insurance premiums)	1 335	1 154
– Centriq Insurance Holdings Ltd (for insurance premiums)	171	113
– Santam Namibia (for insurance premiums)	83	66
– other subsidiaries (for insurance premiums)	17	17
– associates (for administration services)	(83)	(72)
– associates (for outward reinsurance contracts)	(157)	(125)
– associates (for outward reinsurance claims covered)	94	77
– associates (for outward reinsurance commissions covered)	17	14
– associates (for inward reinsurance contracts)	61	–
– associates (for inward reinsurance claims covered)	(37)	–
– associates (for inward reinsurance commissions covered)	(14)	–
– subsidiaries (for administration services)	(382)	(408)
– subsidiaries (for brokerage commission)	(647)	(538)
– Sanlam Ltd and related parties (for investment management services)	(31)	(29)
– Sanlam Ltd and related parties (for IT infrastructure costs)	(208)	(202)
– Sanlam Ltd and related parties (for insurance claims paid)	–	–
– MiWay Group Holdings Ltd (for insurance claims paid)	(817)	(725)
– Centriq Insurance Holdings Ltd (for insurance claims paid)	(54)	(78)
– Santam Namibia (for insurance claims paid)	(24)	–
– Sanlam Ltd and related parties (for commission paid)	–	–
– Sanlam Ltd (for insurance services)	(4)	(5)
– Santam Namibia (for reinsurance services)	(72)	–
– Santam Namibia (for reinsurance claims)	43	–
– Santam Namibia (for reinsurance commission)	24	–

NOTES TO THE FINANCIAL STATEMENTS

	2014 R million	2013 R million
43. RELATED-PARTY TRANSACTIONS (continued)		
b) Investment income and net realised/unrealised (gains)/losses received from:		
– Sanlam Ltd and related parties	(144)	(46)
c) Key management compensation		
Salaries and other short-term employee benefits	28	29
Share-based payments	18	11
d) Dividends paid		
– to Sanlam group	(472)	(442)
e) Year-end balances with related parties		
Sanlam group: Santam Emerging Markets		
– target shares acquired (Refer note 10)	807	528
– target shares issued (Refer note 17)	(295)	(277)
Sanlam Alternative Income Fund		
– investment	250	287
Sanlam Property Fund		
– investment	64	74
Sanlam Capital Markets		
– Sanlam note	51	53
– money market instruments	189	65
Sanlam Life Insurance Ltd		
– bond	–	–
– trade payable	(10)	(10)
– shares	1	1
Simhedgo (Pty) Ltd		
– Gen-X Enhanced Cash Fund	–	275
Western National Insurance	(6)	34

Transaction with directors and prescribed officers

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

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

Directors' and prescribed officers' emoluments

The group human resources committee considers the remuneration of all executive directors as well as the fees paid to all non-executive directors. Fees payable to directors are recommended by the board to the annual general meeting for approval. The financial statements accompanying this report reflect the total of executive and non-executive directors' earnings and other benefits in accordance with the requirements of the Companies Act and listing requirements introduced by the JSE Ltd.

	Salary R000	Performance bonus* R000	Other benefits** R000	Total R000
Executive directors and prescribed officers				
2014				
<i>Paid by the company</i>				
IM Kirk	3 519	7 000	793	11 312
HD Nel	2 174	2 750	457	5 381
Y Ramiah***	860	750	54	1 664
	6 553	10 500	1 304	18 357
2013				
<i>Paid by the company</i>				
IM Kirk	3 337	2 300	691	6 328
HD Nel	2 085	1 100	389	3 574
Y Ramiah	2 321	500	12	2 833
	7 743	3 900	1 092	12 735

* Bonus in respect of 2014 paid in 2015 (2013 paid in 2014).

** Includes retirement funding benefits. During 2014 R670 300 was paid in respect of IM Kirk and R421 000 was paid in respect of HD Nel.

*** Total TGP recharged by Sanlam Ltd for services provided to Santam Ltd.

NOTES TO THE FINANCIAL STATEMENTS

	Directors' fees	
	2014 R000	2013 R000
Non-executive directors		
<i>Paid by the company</i>		
B Campbell	465	456
MD Dunn	539	509
MP Fandesio	408	439
BTPKM Gamedze*	447	350
GG Gelink	795	683
VP Khanyile**	–	322
MLD Marole	409	404
JP Möller*	465	438
MJ Reyneke***	1 608	1 583
J van Zyl*	372	351
	5 508	5 535
Total directors' remuneration	23 865	18 270

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

** Resigned 29 May 2013.

*** Fees include amounts paid by subsidiaries of the group.

Shares granted under the deferred share plan to executive directors and prescribed officers

The deferred share plan (DSP), has been implemented during 2007, in terms of which shares are granted to employees on a deferred delivery basis over a five-year period (refer to note 18).

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

	As at 31 December 2013	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2014
Santam shares						
IM Kirk	16 441	–	(16 441)	217.91	01/06/09	–
	5 018	–	(2 509)	217.91	01/06/10	2 509
	10 481	–	(4 210)	217.91	01/06/11	6 271
	6 551	–	–		01/06/12	6 551
	19 092	–	–		01/06/13	19 092
	–	11 263	–		01/06/14	11 263
	57 583	11 263	(23 160)			45 686
HD Nel	15 174	–	–		17/09/12	15 174
	625	–	–		01/06/13	625
	–	941	–		01/06/14	941
	15 799	941	–			16 740
Y Ramiah	13 594	–	(6 797)	217.91	01/06/10	6 797
	1 733	–	(693)	217.91	01/06/11	1 040
	659	–	–		01/06/12	659
	15 986	–	(7 490)			8 496
TOTAL	89 368	12 204	(30 650)			70 922

NOTES TO THE FINANCIAL STATEMENTS

43. RELATED-PARTY TRANSACTIONS (continued)

	As at 31 December 2012	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2013
2013						
IM Kirk	2 747		(2 747)	176.20	01/06/08	–
	32 882		(16 441)	176.20	01/06/09	16 441
	8 364		(3 346)	176.20	01/06/10	5 018
	10 481				01/06/11	10 481
	6 551				01/06/12	6 551
		19 092			01/06/13	19 092
	61 025	19 092	(22 534)			57 583
MJ Reyneke*	904	–	(904)	169.69	01/06/08	–
	17 862	–	(17 862)	180.37	01/06/09	–
	1 195	–	(1 195)	182.49	01/06/10	–
	930	–	(930)	191.05	01/06/11	–
	20 891	–	(20 891)	–	–	–
HD Nel	15 174				17/09/12	15 174
		625			01/06/13	625
	15 174	625	–	–	–	15 799
Y Ramiah	22 655		(9 061)	176.20	01/06/10	13 594
	1 733				01/06/11	1 733
	659				01/06/12	659
	25 047	–	(9 061)			15 986
TOTAL	122 137	19 717	(52 486)			89 368

* Resigned as executive director and became non-executive director on 17 September 2012. It was agreed that all unvested shares will vest at the end of June 2013.

	As at 31 December 2013	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2014
2014						
Sanlam shares						
IM Kirk	27 820	–	(27 820)	59.50	01/06/09	–
	8 626	–	(4 313)	59.50	01/06/10	4 313
	19 536	–	(7 814)	59.50	01/06/11	11 722
	14 221	–	–		01/06/12	14 221
	32 099	–	–		01/06/13	32 099
	–	16 991	–		01/06/14	16 991
	102 302	16 991	(39 947)			79 346
HD Nel	32 028	–	–		01/10/12	32 028
	1 051	–	–		01/06/13	1 051
	–	1 420	–		01/06/14	1 420
	33 079	1 420	–			34 499
Y Ramiah	23 362	–	(11 681)	59.50	01/06/10	11 681
	3 217	–	(1 287)	59.50	01/06/11	1 930
	26 579	–	(12 968)			13 611
TOTAL	161 960	18 411	(52 915)			127 456

NOTES TO THE FINANCIAL STATEMENTS

	As at 31 December 2012	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2013
2013						
IM Kirk	55 640	–	(27 820)	47.04	01/06/09	27 820
	14 375	–	(5 749)	47.04	01/06/10	8 626
	19 536	–	–		01/06/11	19 536
	14 221	–	–		01/06/12	14 221
		32 099	–		01/06/13	32 099
	103 772	32 099	(33 569)			102 302
MJ Reyneke*	1 504	–	(1 504)	46.0	01/06/08	–
	30 224	–	(30 224)	46.0	01/06/09	–
	31 728	–	(31 728)			
HD Nel	32 028	–	–		01/10/12	32 028
	–	1 051	–		01/06/13	1 051
	32 028	1 051	–			33 079
Y Ramiah	38 937	–	(15 575)	47.04	01/06/10	23 362
	3 217	–	–		01/06/11	3 217
	42 154	–	(15 575)			26 579
TOTAL	209 682	33 150	(80 872)			161 960

* Resigned as executive director and became non-executive director on 17 September 2012. It was agreed that all unvested shares will vest at the end of June 2013.

OUTPERFORMANCE PLAN (OPP)

The five-year measurement period for the OPP extended to the Chief Executive Officer ended on 31 December 2014. A final assessment based on the required criteria was performed and it was concluded that no payment was due in terms of the OPP. The OPP had stretch hurdles related to real growth in net insurance result over a five-year period, which was negatively impacted by the 2012 and 2013 underwriting results.

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

At 31 December 2014 the directors of the company held direct and indirect interests, including family interests, in 28 795 of the company's issued ordinary shares (2013: 28 965). Details of shares held per individual director are listed below. A total of 70 922 (2013: 89 368) conditional rights, share appreciation rights, performance shares and bonus shares are allocated to directors in terms of the company's employee share schemes.

NOTES TO THE FINANCIAL STATEMENTS

43. RELATED-PARTY TRANSACTIONS (continued)

	Direct		Indirect		
	Beneficial	Non-beneficial	Beneficial	Non-beneficial	Total
2014					
Executive directors and prescribed officers					
IM Kirk	2 265	–	–	–	2 265
HD Nel	–	–	–	–	–
Y Ramiah	100	–	–	–	100
Non-executive directors					
B Campbell	100	–	–	–	100
MD Dunn	100	–	–	–	100
MP Fandesio	103	–	–	–	103
BTPKM Gamedze	200	–	–	–	200
GG Gelink	–	–	–	–	–
MLD Marole	–	–	–	–	–
JP Möller	108	–	–	–	108
MJ Reyneke	–	–	25 711	–	25 711
J van Zyl	108	–	–	–	108
	3 084	–	25 711	–	28 795
2013					
Executive directors and prescribed officers					
IM Kirk	2 265	–	–	–	2 265
HD Nel	–	–	–	–	–
Y Ramiah	100	–	–	–	100
Non-executive directors					
B Campbell	100	–	–	–	100
MD Dunn	100	–	–	–	100
MP Fandesio	103	–	–	–	103
BTPKM Gamedze	200	–	–	–	200
GG Gelink	–	–	–	–	–
VP Khanyile (resigned on 29 May 2013)	–	–	110	–	110
MLD Marole	–	–	–	–	–
JP Möller	108	–	–	–	108
MJ Reyneke	–	–	25 771	–	25 771
J van Zyl	108	–	–	–	108
	3 084	–	25 881	–	28 965

Remuneration received by Santam directors from other Sanlam group companies for services provided to these companies (disclosed in accordance with section 30(5)(b) of the Companies Act.

Emoluments for the year ended 31 December 2014

	Salary R000	Performance bonus* R000	Other benefits R000	Total R000
2014				
JP Möller	3 717	4 000	708	8 425
Y Ramiah**	2 820	2 000	180	5 000
J van Zyl	4 452	–	848	5 300
MJ Reyneke	–	–	–	–
BTPKM Gamedze	3 131	1 700	–	4 831
	14 120	7 700	1 736	23 556
2013				
JP Möller	3 475	3 700	662	7 837
Y Ramiah	2 597	300	166	3 063
J van Zyl	4 452	–	848	5 300
MJ Reyneke	450	–	–	450
BTPKM Gamedze	2 500	2 000	–	4 500
	13 474	6 000	1 676	19 150

* Performance bonus in respect of 2013 paid in 2014 (2013 paid in 2012).

** Total TGP includes amounts recharged by Sanlam Ltd to Santam Ltd for services provided.

NOTES TO THE FINANCIAL STATEMENTS

Deferred share plan *Sanlam shares*

	Balance 31 December 2013	Awarded in 2014	Shares vested	Balance 31 December 2014
J van Zyl	57 706	–	(57 307)	399
JP Möller	164 075	25 948	(56 556)	133 467
Y Ramiah	34 391	16 484	–	50 875
BTPKM Gamedze	61 823	2 782	–	64 605
Total	317 995	45 214	(113 863)	249 346

	Balance 31 December 2012	Awarded in 2013	Shares vested	Balance 31 December 2013
J van Zyl	163 930	1 975	(108 199)	57 706
JP Möller	189 442	31 271	(56 638)	164 075
Y Ramiah	–	34 391	–	34 391
BTPKM Gamedze	–	61 823	–	61 823
Total	353 372	129 460	(164 837)	317 995

Performance deferred share plan

	Balance 31 December 2013	Awarded in 2014	Shares vested	Balance 31 December 2014
J van Zyl	222 681	–	(117 209)	105 472
JP Möller	190 705	27 802	(58 595)	159 912
Y Ramiah	32 940	7 807	–	40 747
Total	446 326	35 609	(175 804)	306 131

	Balance 31 December 2012	Awarded in 2013	Shares vested	Balance 31 December 2013
J van Zyl	373 750	4 501	(155 570)	222 681
JP Möller	210 681	34 803	(54 779)	190 705
Y Ramiah	–	32 940	–	32 940
Total	584 431	72 244	(210 349)	446 326

Restricted share plan

	Balance 31 December 2013	Awarded in 2014	Shares vested	Balance 31 December 2014
J van Zyl	469 672	–	(251 477)	218 195
JP Möller	274 727	56 327	(96 528)	234 526
Y Ramiah	–	–	–	–
BTPKM Gamedze	–	18 776	–	18 776
Total	744 399	75 103	(348 005)	471 497

	Balance 31 December 2012	Awarded in 2013	Shares vested	Balance 31 December 2013
J van Zyl	908 824	–	(439 152)	469 672
JP Möller	384 963	41 850	(152 086)	274 727
Y Ramiah	–	–	–	–
Total	1 293 787	41 850	(591 238)	744 399

NOTES TO THE FINANCIAL STATEMENTS

43. RELATED-PARTY TRANSACTIONS (continued)

The Sanlam board entered into a five-year employment arrangement with the Sanlam chief executive officer, Johan van Zyl, with effect from 1 January 2011. The objective of the arrangement is to address the leadership requirements for the Sanlam group in order to deliver strategic objectives determined by the board.

The chief executive officer's annual fixed cash remuneration package was fixed at R5.3 million (based on the 2010 remuneration level) for the full period until 31 December 2015, with no other variable cash incentives for the implement period. He was allocated five million restricted Sanlam shares of which three million was transferred and delivered during 2011 and two million during 2012. During 2013 a further 281 209 shares were transferred in lieu of dividends not received on the 2 million shares that were only transferred during 2012. The vesting of these shares will be measured over a six-year period until 31 December 2016, the shares being grouped into various distinct components – each with its own measurement period and detailed group and individual performance hurdles.

44. 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 allows only approved reinsurance, as defined in the Short-term Insurance Act, to be taken into account.

	Group	
	2014	2013
Group capital and reserves attributable to equity holders (R million)	7 010	6 132
Debt securities	1 023	1 021
	8 033	7 153
Net written premium (R million)	17 635	16 900
Group solvency margin (%)	45.6%	42.33%

45. BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

The Santam BBBEE scheme is hosted in a special-purpose company (BEE structured entity) and consists of three components:

- The Emthunzini Black Economic Empowerment Staff Trust (the Staff Trust)
- The Emthunzini Black Economic Empowerment Business Partners Trust (the Business Partners Trust)
- The Emthunzini Broad-based Black Economic Empowerment Community Trust (the Community Trust)

The estimated value in the scheme at 31 December 2014 was R1 017 million (2013: R959 million). The value in the scheme is proportionally allocated to these three trusts. Of the current value in the scheme, 49% (R498 million) (2013: R470 million) is attributable to the Business Partners Trust, 26% (R265 million) (2013: R249 million) to the Staff Trust and 25% (R254 million) (2013: R240 million) to the Community Trust. During 2014 the dividend income received by the BEE structured entity was sufficient to fully service the senior debt facility and make a proportional payment towards servicing of the mezzanine debt.

During 2014, the scheme made further unit allocations to new black employees that joined the Santam group and to black employees that were promoted since the previous allocation.

In total, 25% of the value in the scheme will be allocated to specific projects within previously disadvantaged communities. The scheme allocated R7.1 million (2013: R6.8 million) to the Community Trust for distribution to identified beneficiaries during 2014. More information on the scheme can be found in our sustainability report on our website at www.santam.co.za.

Within the trusts, allocations were made to beneficiaries in accordance with the provisions of the respective trust deeds. Santam scheme shares were effectively locked-in to the scheme until 28 February 2015, after which the unwinding of the scheme commenced in accordance with the provisions of the respective trust deeds, the funding agreements and the other BBBEE scheme transaction documents.

46. EVENTS AFTER THE REPORTING PERIOD

There have been no material changes in the affairs or financial position of the company and its subsidiaries since the statement of financial position date.

NOTES TO THE FINANCIAL STATEMENTS

47. 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 2014	Proportion held by the company 2013	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	268	–
Centriq Insurance Holdings Ltd	Holding co.	RSA	102 330 000	100.0%	100.0%	150	–	22
Guardian National Insurance Company Ltd	Insurance	RSA	178 603 840	100.0%	100.0%	624	–	5
Indwe Broker Holdings Group (Pty) Ltd	Intermediary	RSA	28 552 225	100.0%	100.0%	63	–	–
Main Street 409 (Pty) Ltd	Holding co.	RSA	850	100.0%	100.0%	84	–	–
Mirabilis Engineering Underwriting Managers (Pty) Ltd	Underwriting	RSA	84 000 850	55.0%	55.0%	84	–	–
Santam International Ltd	Holding co.	Guernsey	692 505 672	100.0%	100.0%	538	465	–
Santam Namibia Holdings (Pty) Ltd	Holding co.	RSA	445 000 001	100.0%	100.0%	168	–	–
Sentinel Insurance Corporation Ltd	Investments	RSA	1 000 000	100.0%	100.0%	–	1	–
Swanvest 120 (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	1	–	597
Thebe Risk Services Holdings (Pty) Ltd	Holding co.	RSA	1 000	100.0%	100.0%	47	–	–
Travest Investments (Pty) Ltd*****	Investments	RSA	1824 825 681	100.0%	100.0%	16	28	–
						2 037	762	624
Indirect								
Admiral Professional Underwriting Agency (Pty) Ltd	Underwriting	RSA	2 270 403	100.0%	100.0%	12	–	–
Africa Group Financial Services (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	–	–	–
Beyonda Group (Pty) Ltd*****	Insurance	RSA	200	100.0%	100.0%	16	–	–
Brolink (Pty) Ltd**	Admini- stration co.	RSA	1 000	100.0%	0.0%	26	–	–
Centriq Insurance Company Ltd	Insurance	RSA	55 000 084	100.0%	100.0%	102	–	–
Centriq Life Insurance Company Ltd	Insurance	RSA	21 000 000	100.0%	100.0%	24	–	–
C-Sure Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	100.0%	100.0%	–	–	4
Echelon Private Client Solutions (Pty) Ltd	Underwriting	RSA	1 000	60.0%	60.0%	–	–	12
Emerald Risk Transfer (Pty) Ltd	Underwriting	RSA	2 000 174	100.0%	100.0%	94	–	–
H & L Underwriting Managers (Pty) Ltd*	Underwriting	RSA	100	100.0%	30.0%	1	–	–
Insurance Broker Resource Centre (Pty) Ltd	Underwriting	RSA	85 000	100.0%	100.0%	–	–	38
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	0.0%	70.0%	1	–	–
Misty Sea Trading 267 (Pty) Ltd	Investments	RSA	11 200 952	100.0%	100.0%	–	–	–
MiWay Group Holdings (Pty) Ltd	Holding co.	RSA	211 101 111	100.0%	100.0%	257	–	–
Namibian National Insurance Company Ltd	Insurance	Namibia	3 100 000	100.0%	100.0%	3	3	–
Nautical Underwriting Managers (Pty) Ltd****	Underwriting	RSA	200	87.0%	68.5%	1	–	–
Nova Risk Partners Ltd	Insurance	RSA	3 000 000	100.0%	100.0%	3	–	–
Riscor Underwriting Managers (Pty) Ltd	Underwriting	RSA	100	100.0%	100.0%	–	–	–
Santam Namibia Ltd	Insurance	Namibia	445 000 001	60.0%	60.0%	5	1	–
Santam UK Ltd	Holding co.	United Kingdom	100 006 588	100.0%	100.0%	75	–	–
Stalker Hutchison Admiral (Pty) Ltd	Underwriting	RSA	7 914 393	100.0%	100.0%	53	–	–
Travel Insurance Consultants (Pty) Ltd*****	Underwriting	RSA	13 988 239	100.0%	100.0%	–	–	–
Wheatfields Investments no 136 (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	–	–	–
						673	4	54
TOTAL INVESTMENTS IN SUBSIDIARIES						2 711	766	678

* On 15 May 2014, Swanvest 120 (Pty) Ltd acquired the remaining 70% of the shareholding in H & L Underwriting Managers (Pty) Ltd.

** On 1 July 2014, Swanvest 120 (Pty) Ltd acquired 100% of the shareholding in Brolink (Pty) Ltd.

*** On 1 June 2014, Swanvest 120 (Pty) Ltd sold its shareholding of 70% in Legal Exchange Corporation (Pty) Ltd.

**** On 1 November 2014, Centriq Insurance Holdings Ltd acquired an additional 18.5% of the shareholding in Nautical Underwriting Managers (Pty) Ltd.

***** On 1 June 2013, Santam Ltd acquired a 100% interest in Travest Investments (Pty) Ltd and Travel Insurance Consultants (Pty) Ltd.

***** On 1 March 2013, Centriq Insurance Holdings Ltd acquired an additional 15% interest in Beyonda Group (Pty) Ltd.

NOTES TO THE FINANCIAL STATEMENTS

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

Investment in associated companies

Unlisted companies

	Nature of business	Country of incorporation	Issued capital R	Proportion held by the company 2014	Proportion held by the company 2013	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%	217	–	–
South African Nuclear Pool Administrators (Pty) Ltd	Insurance	RSA	120	25.0%	25.0%	–	–	–
						217	–	–
Indirect								
Censeo (Pty) Ltd	Claim assessment	RSA	3 000	37.5%	37.5%	4	–	–
STRIDE South Africa (RF) (Pty) Ltd	IT Company	RSA	25 140 000	33.3%	33.3%	–	–	–
Paladin Underwriting Managers (Pty) Ltd	Insurance	RSA	3 008 000	40.0%	40.0%	11	–	–
Vulindlela Underwriting Management (Pty) Ltd	Underwriting	RSA	800	31.4%	31.4%	–	–	–
Western Group Holdings Ltd	Insurance	Namibia	31 919 643	40.0%	40.0%	123	–	–
						138	–	–
TOTAL INVESTMENTS IN ASSOCIATED COMPANIES						355	–	–

(I) ANALYSIS OF SHAREHOLDERS

Analysis of shareholders	Number of shareholders	% of total shareholders	Number of shares	% Interest
1 – 100 shares	888	16.86%	63 367	0.05%
101 – 1 000 shares	2 725	51.73%	1 144 752	0.96%
1 001 – 50 000 shares	1 573	29.86%	8 365 836	7.01%
50 001 – 100 000 shares	35	0.66%	2 439 544	2.04%
100 001 – 10 000 000 shares	45	0.85%	27 354 846	22.93%
More than 10 000 000 shares	2	0.04%	79 978 072	67.01%
Total	5 268	100.00%	119 346 417	100.00%

Type of shareholder				
Individuals	3 554	67.45%	3 644 853	3.05%
Companies	410	7.78%	90 105 612	75.50%
Growth funds/unit trusts	137	2.60%	11 550 077	9.68%
Nominee companies or trusts	1 095	20.79%	3 495 661	2.93%
Pension and retirement funds	72	1.38%	10 550 214	8.84%
Total	5 268	100.00%	119 346 417	100.00%

Shareholder spread	Shareholders in South Africa		Shareholders other than in South Africa		Total shareholders	
	Nominal number	% Interest	Nominal number	% Interest	Nominal number	% Interest
Public shareholders	5 054	19.54%	200	100.00%	5 254	22.32%
Directors	10	0.14%	–	–	10	0.14%
Trustees of employees' share scheme	–	0.00%	–	–	–	0.00%
Holdings of 5% or more	4	80.32%	–	–	4	77.54%
Sanlam Ltd	1	59.76%	–	–	1	57.69%
Central Plaza Investments 112 (Pty) Ltd*	1	9.69%	–	–	1	9.35%
Government Employees Pension Fund	1	6.78%	–	–	1	6.55%
Guardian National Insurance Ltd**	1	4.09%	–	–	1	3.95%
Total	5 068	100.00%	200	100.00%	5 268	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

Analysis of debt security holders	Number of debt security holders	% of total debt security holders	Number of units	% Interest
1 – 50 000 units	2	2.06%	85 600	0.01%
50 001 – 100 000 units	2	2.06%	197 366	0.02%
100 001 – 1 000 000 units	34	35.05%	19 280 000	1.93%
1 000 000 – 10 000 000 units	45	46.40%	162 828 767	16.28%
More than 10 000 000 units	14	14.43%	817 608 267	81.76%
Total	97	100.00%	1 000 000 000	100.00%

Type of debt security holder				
Brokers	2	2.06%	53 597 366	5.36%
Endowment funds	5	5.15%	11 958 600	1.20%
Insurance companies	10	10.31%	213 492 800	21.35%
Investment companies	4	4.12%	157 203 500	15.72%
Medical aid schemes	2	2.06%	1 150 000	0.12%
Mutual funds	40	41.24%	229 485 067	22.95%
Nominees and trusts	2	2.06%	1 490 000	0.15%
Pension funds	29	29.91%	291 512 667	29.15%
Private companies	3	3.09%	40 110 000	4.01%
Total	97	100.00%	1 000 000 000	100.00%

Debt security holder spread	Debt security holders in South Africa	
	Nominal number	% Interest
Government Employees Pension Fund	215 996 877	21.60%
Old Mutual Life Assurance Company (South Africa) Ltd	145 051 400	14.51%
MMI Group Ltd	125 000 000	12.50%
RMB Capital Markets	53 500 000	5.35%
Other	460 451 723	46.04%
Total	1 000 000 000	100.00%

NON-EXECUTIVE DIRECTORS

B Campbell, MD Dunn, MP Fandesio, T Fubu, BTPKM Gamedze, GG Gelink (chairman), IM Kirk, MLD Marole, JP Möller, MJ Reyneke, J van Zyl

EXECUTIVE DIRECTORS

L Lambrechts (chief executive officer), HD Nel (chief financial officer), Y Ramiah

SPONSOR

Investec Bank Ltd

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JSE share code: SNT

NSX share code: SNM

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