PRESENTATION TO ANALYSTS

santam

100

YEARS OF INSURANCE
GOOD AND PROPER

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ANALYST PRESENTATION | 18

FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

PRESENTED BY LIZÉ LAMBRECHTS AND HENNIE NEL

CONTENTS

- The Santam business portfolio
- Market context
- Financial results
- Capital management
- Group strategy and priorities

THE SANTAM BUSINESS PORTFOLIO

Santam Commercial and Personal

Our multi-channel insurance business in South Africa and Namibia

- Intermediated
- Strategic partnerships
- Direct

Santam Specialist

Our specialist insurance business portfolio in Africa, India and SE Asia

- Agri
- Niche
- Centriq
- SSI

MiWay

Our direct insurance business in South Africa

- Personal
- Business
- Life

Santam re

Our reinsurance business in South Africa and international markets

- Group
- Non-group

Santam's Emerging Markets Investments

Our investments in emerging markets

- Africa
- India
- SE Asia

SANTAM GROUP

INSURANCE ACTIVITIES

Insurance operating segments	What is included?
Conventional insurance	Conventional insurance business written on insurance licences controlled by the group, consisting of: • Santam Commercial and Personal • Santam Specialist (niche and agriculture business) • Credit insurance written by Santam Structured Insurance (SSI) • Santam re • MiWay
Alternative risk transfer insurance	Alternative risk transfer insurance business written on insurance licences of Centriq and SSI
Sanlam Emerging Markets (SEM) partner businesses	Santam's share of the insurance results of the SEM general insurance businesses, including Saham Finances held through SAN JV

MARKET CONTEXT

INSURANCE MARKET OUTLOOK

ALL MARKETS

- Global non-life insurance growth driven by emerging markets, particularly China and India; premium growth forecast remains robust, slightly lower than in the recent past
- GWP growth in developing economies higher than developed economies
- Elevated commodity prices and infrastructure projects drive demand in Africa
- Intensifying competition
- Impact of technology, InsurTech offering and digital ecosystems will be felt
- Incentive based insurance, enabled by client expectations, analytics and data monetisation
- Cyber insurance to remain one of the fastest growing lines in an increasingly connected world
- Climate change (extreme weather and insurable interests)

INSURANCE MARKET OUTLOOK

SOUTH AFRICA

- Economic growth outlook weaker than originally anticipated – direct impact on our clients and us
- Mineral policy uncertainty and land redistribution concerns raise investment risks
- Increased pressure for BBBEE Transformation – supply chain
- Combination of rising fuel prices, higher taxes and lower harvests could see inflation trending higher over the coming quarters
- General insurance market is tightly coupled with GDP, inflation and country risk profile
- Very competitive market
- Lack of infrastructure development / maintenance

SANTAM JUNE 2018 KEY FACTS

- Group gross written premium growth of **13%**
- Conventional insurance gross written premium growth of **9%**
- Underwriting margin of **8.4%** (2017: **4.2%**) for conventional insurance business
- Headline earnings per share increased by **72%**
- Return on capital of **30.3%**
- Economic capital coverage ratio of **158%**
- Interim dividend of **363** cents per share, up **8%**

FINANCIAL RESULTS

santam

REPORTING ENVIRONMENT

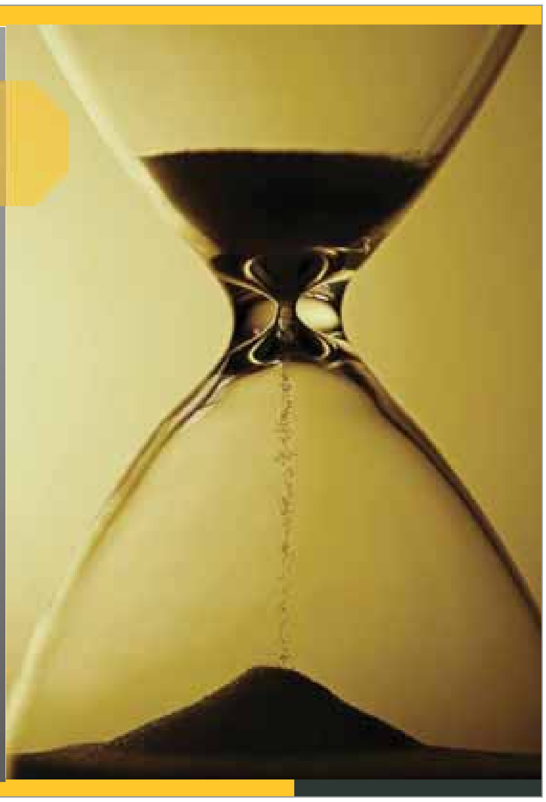
REPORTED RESULTS AFFECTED BY:

Insurance events

- Listeriosis outbreak resulted in net liability claims to date of R100 million
- Absence of significant catastrophe events in contrast with Knysna fire in June 2017
- Fewer commercial fire claims

Exchange rate volatility

- Stronger average Rand exchange rate for the period had a negative impact on foreign earnings
- Significant Rand weakness in June 2018 resulted in foreign currency gains of R230 million (2017: foreign currency losses of R70 million)



EXCHANGE RATE VOLATILITY

	CLOSING RATES			AVERAGE RATES		
Currency	Jun 2018	Dec 2017	Weakening/ (strengthening) %	H1 2018	H1 2017	Weakening/ (strengthening) %
United States Dollar	13.65	12.34	11%	12.30	13.20	(7%)
Pound Sterling	17.89	16.61	8%	16.92	16.59	2%
Moroccan Dirham	1.44	1.32	9%	1.33	1.34	(1%)
Malaysian Ringgit	3.41	3.07	11%	3.13	3.02	4%
Indian Rupee	0.20	0.19	5%	0.19	0.20	(5%)

CONVENTIONAL INSURANCE

NET INSURANCE RESULT

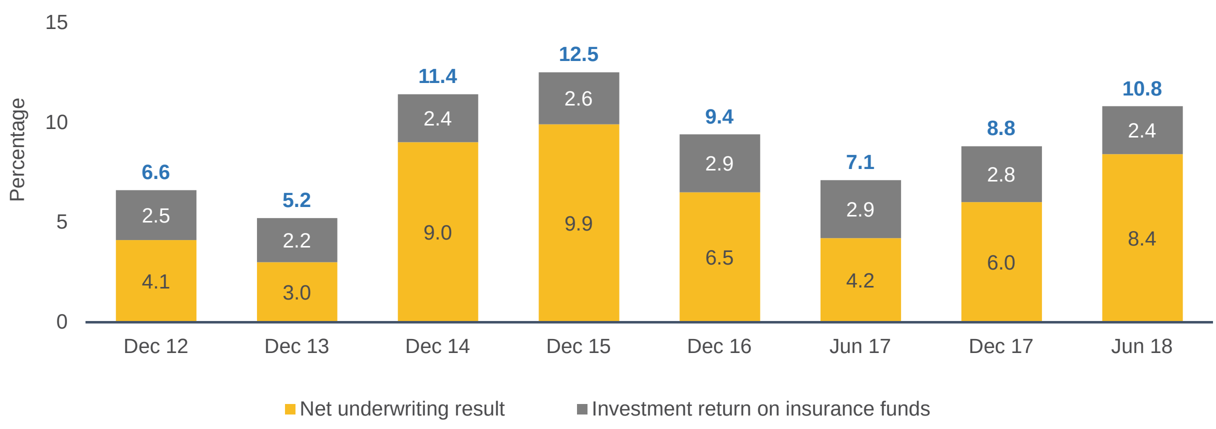
	Jun 2018 R'm	% of NEP	Jun 2017 R'm	% of NEP	2018/ 2017	5 Yr ave %	10 Yr ave %
Gross written premium	13 122		12 085		9%	8.9[1]	8.6[1]
Net earned premium	10 947	100.0	10 250	100.0	7%	100.0	100.0
Net claims incurred	6 795	62.0	7 003	68.3	(3%)	64.3	65.5
Net acquisition cost	3 236	29.6	2 819	27.5	15%	28.6	27.8
Net underwriting result	916	8.4	428	4.2	114%	7.1	6.7
Investment return on insurance funds	263	2.4	296	2.9	(11%)	2.6	2.8
Net insurance result	1 179	10.8	724	7.1	63%	9.7	9.5
Combined ratio		91.6		95.8		92.9	93.3

[1] Average growth

CONVENTIONAL INSURANCE

NET INSURANCE RESULT

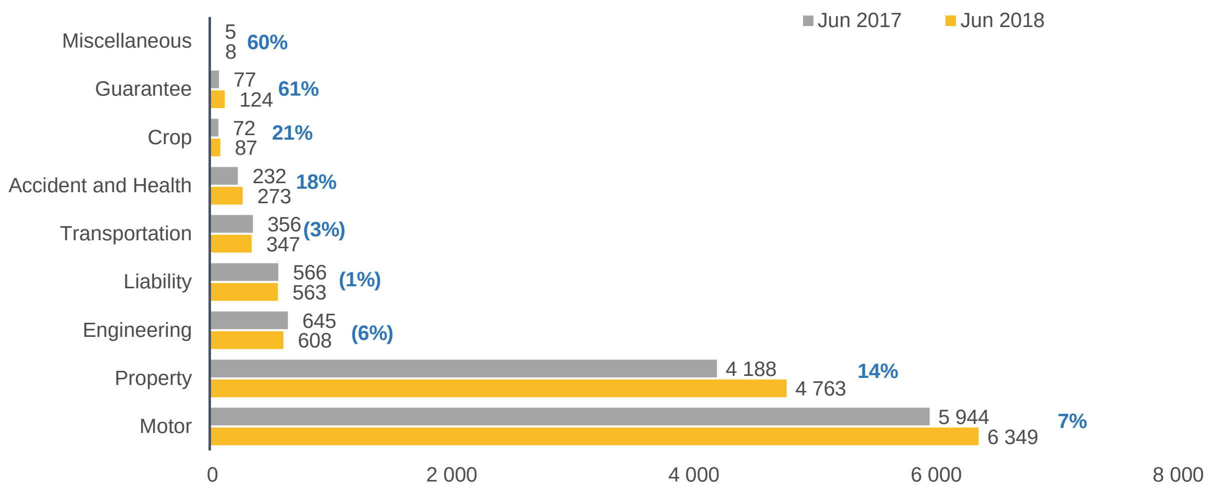
AS % OF NET EARNED PREMIUM



CONVENTIONAL INSURANCE

GROSS WRITTEN PREMIUM

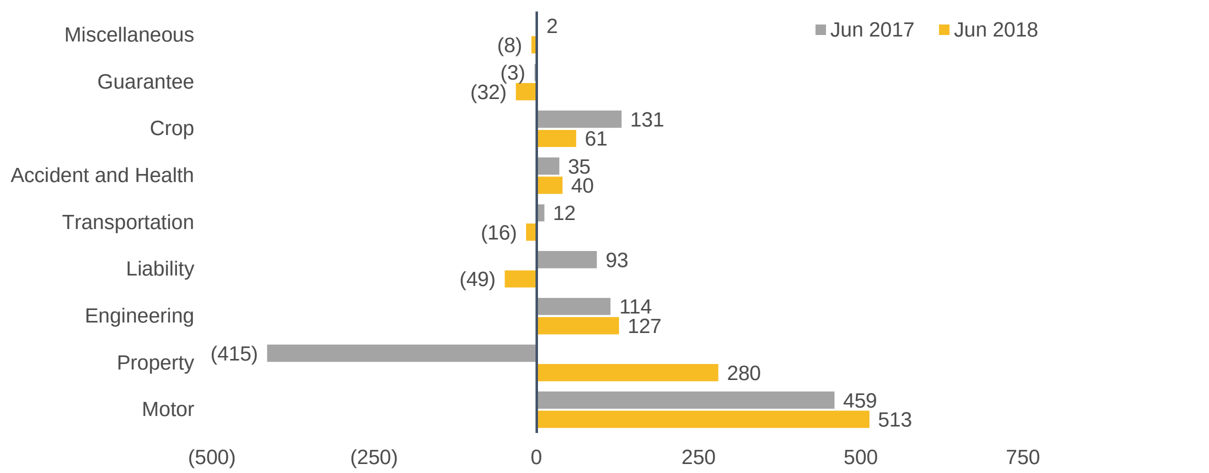
PER INSURANCE CLASS (R MILLION)



CONVENTIONAL INSURANCE

NET UNDERWRITING RESULT

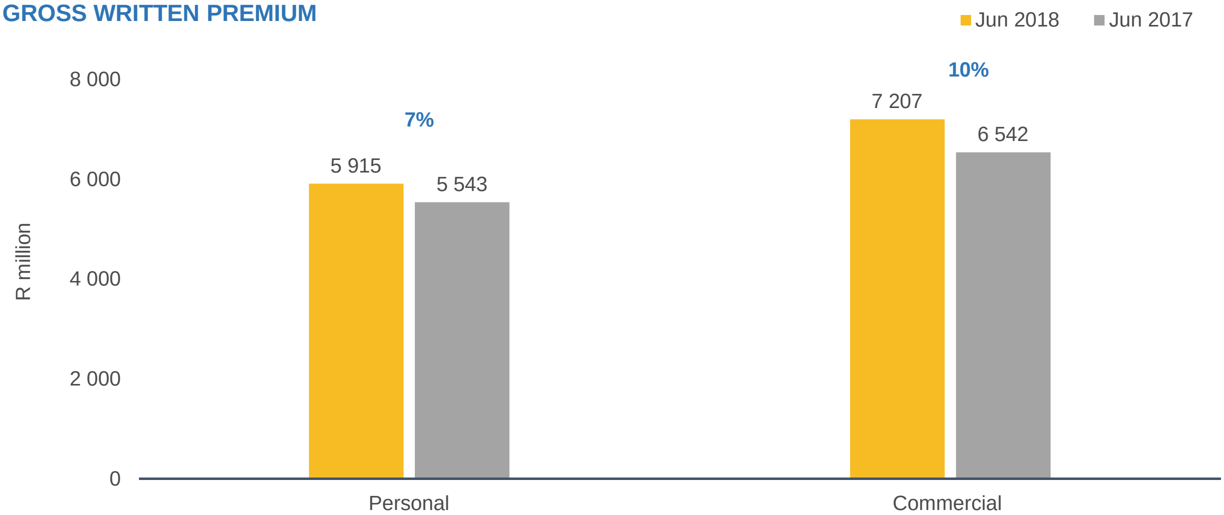
PER INSURANCE CLASS (R MILLION)



CONVENTIONAL INSURANCE

SEGMENTAL ANALYSIS – PERSONAL AND COMMERCIAL

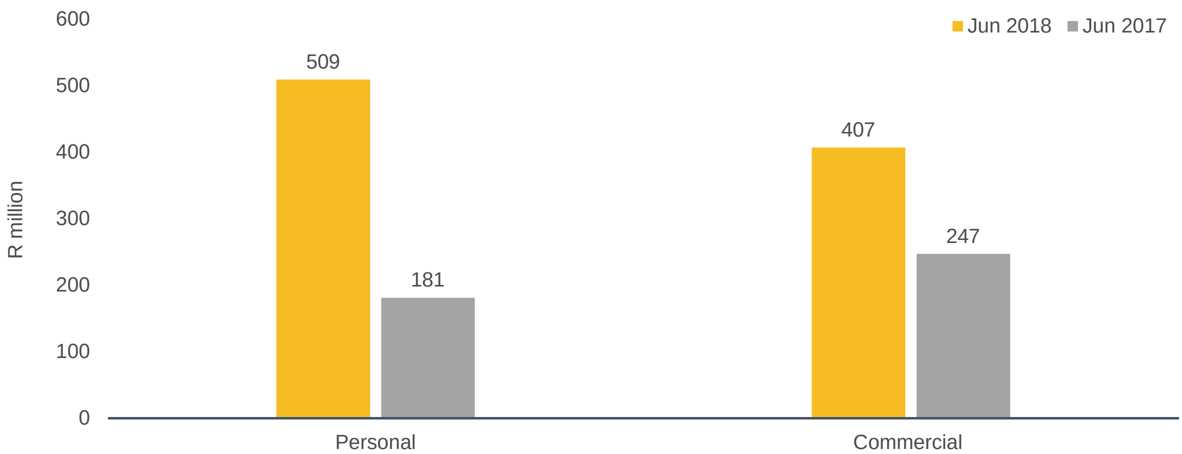
GROSS WRITTEN PREMIUM



CONVENTIONAL INSURANCE

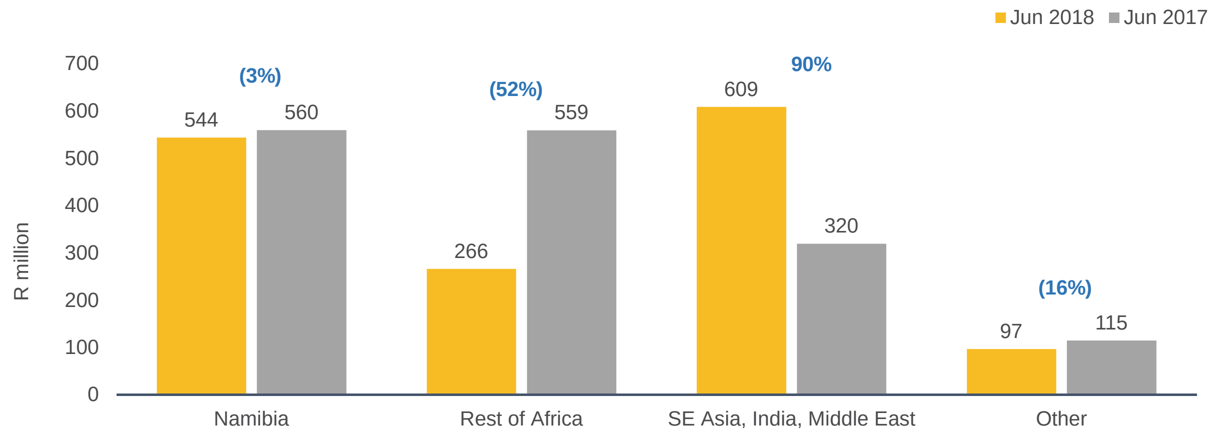
SEGMENTAL ANALYSIS – PERSONAL AND COMMERCIAL

NET UNDERWRITING RESULT



CONVENTIONAL INSURANCE

GROSS WRITTEN PREMIUM FROM OUTSIDE SA

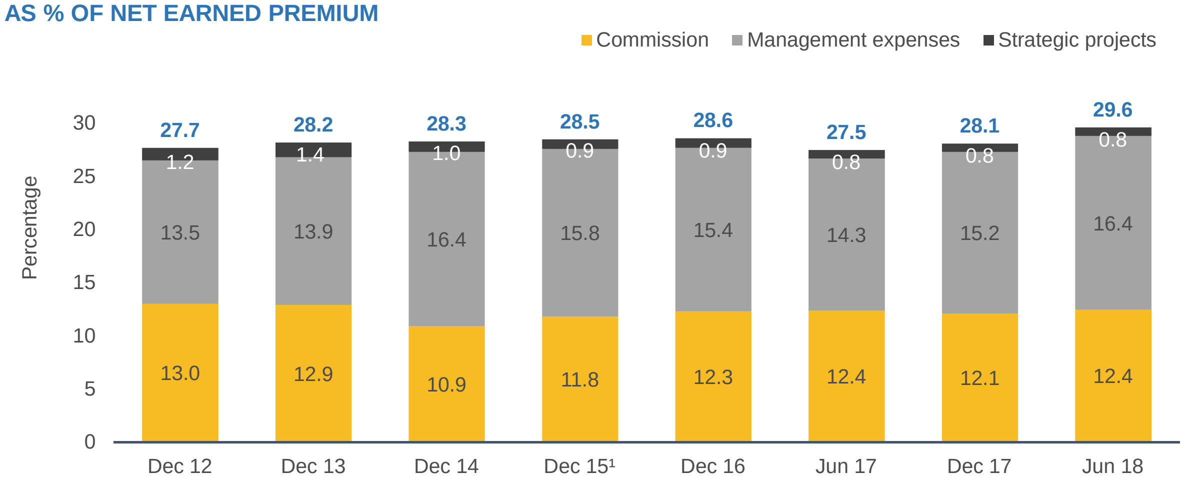


Excludes Santam's share of the gross written premium derived from its SEM investments and Saham Finances
"Other" includes Santam re participations which are mainly originating from Europe

CONVENTIONAL INSURANCE

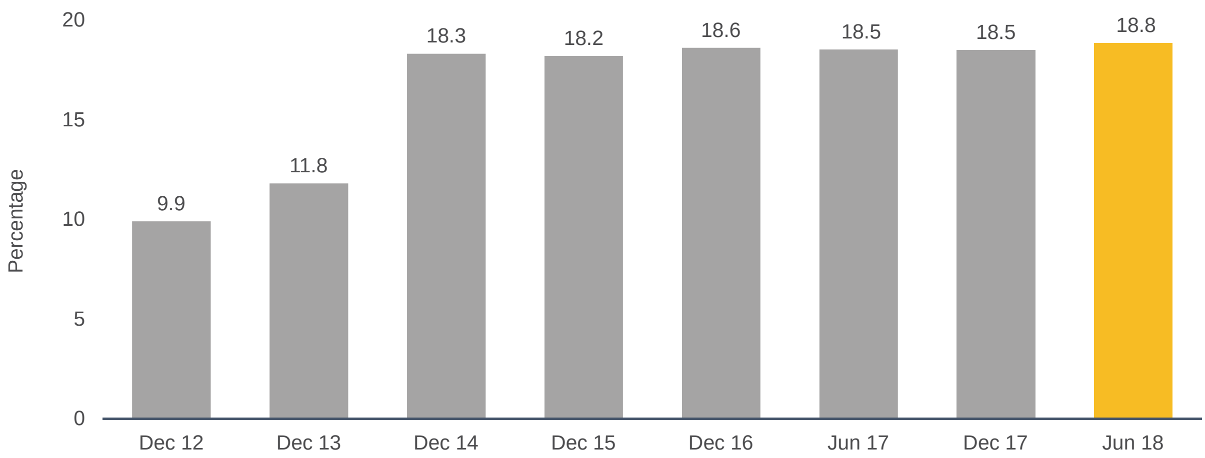
NET ACQUISITION COST RATIO

AS % OF NET EARNED PREMIUM

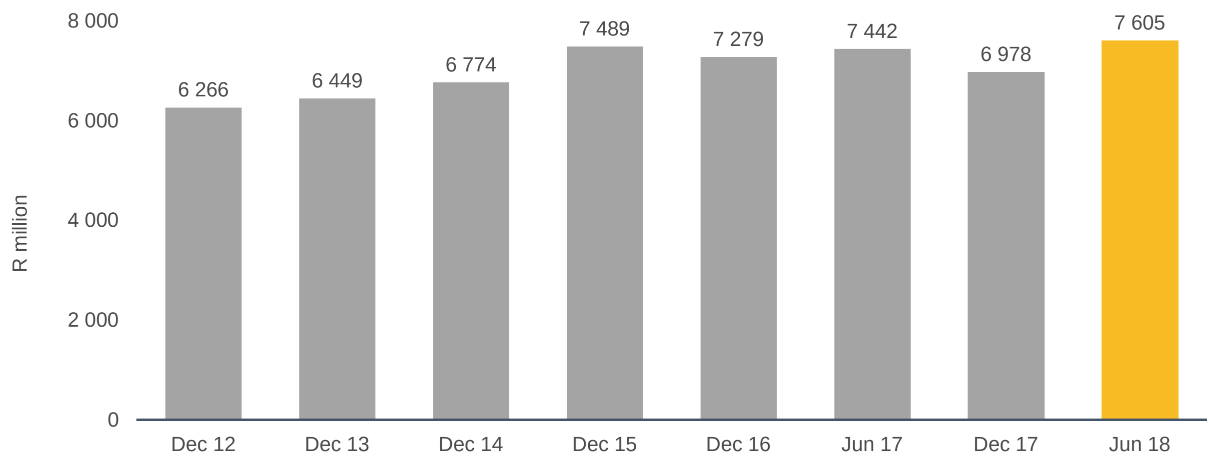


1. 2015 excludes the impact of Indwe

CONVENTIONAL INSURANCE
REINSURANCE AS % OF GROSS EARNED PREMIUM



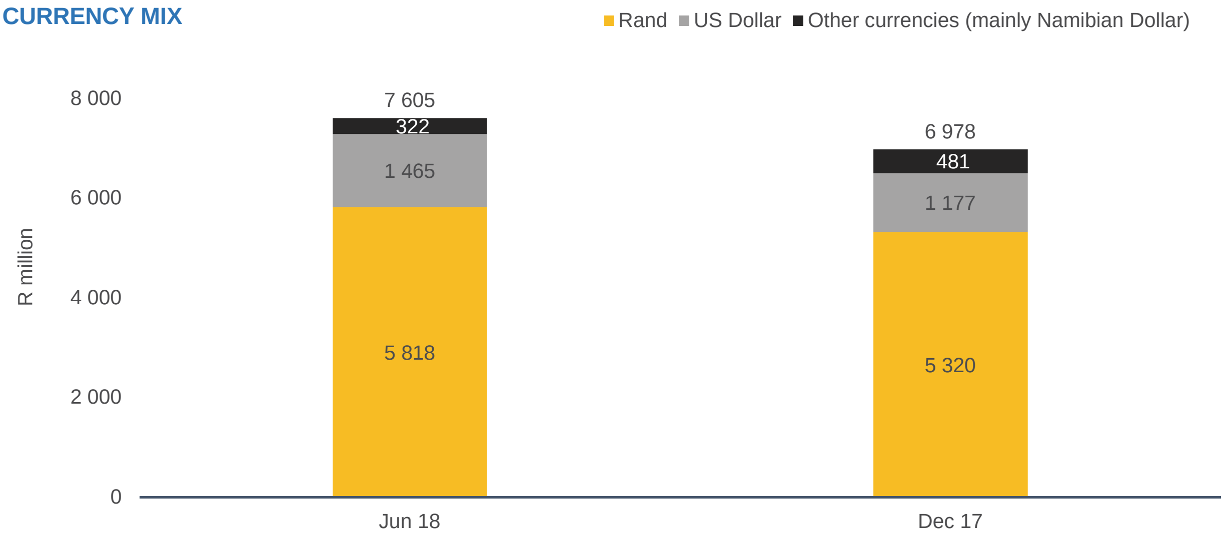
CONVENTIONAL INSURANCE
SIZE OF INSURANCE FUNDS



CONVENTIONAL INSURANCE

ASSETS BACKING NET INSURANCE FUNDS

CURRENCY MIX



CONVENTIONAL INSURANCE

MIWAY

	Jun 2018	Jun 2017	2018/2017
Gross written premium (R'm)	1 218	1 148	6%
Gross underwriting result, net of CAT recoveries (R'm)	159	179	(11%)
Gross claims ratio, net of CAT recoveries	55.7%	55.4%	
Gross acquisition cost ratio	31.1%	28.7%	
Gross underwriting margin	13.2%	16.0%	
Number of clients[1]	299 000	284 000	5%

[1] Excluding value added products

ALTERNATIVE RISK TRANSFER INSURANCE (ART)

Includes the results from:

- Centriq Insurance
- Santam Structured Insurance, excluding credit insurance business (acquired March 2017)

Types of business

- Risk finance
- Underwriting managers
- Affinity business
- Structured insurance

ALTERNATIVE RISK TRANSFER INSURANCE

CENTRIQ

	Jun 2018 R'm	Jun 2017 R'm	2018/ 2017
Gross written premium	1 658	1 307	27%
Net insurance result	32	35	(9%)
Investment income	11	9	22%
Income from associates	-	6	(100%)
Profit before tax	43	50	(14%)

ALTERNATIVE RISK TRANSFER INSURANCE

SANTAM STRUCTURED INSURANCE

	Jun 2018 R'm	Jun 2017 R'm	2018/ 2017
Gross written premium	811	418	94%
Net insurance result	31	2	1 450%
Investment income	11	5	120%
Profit before tax	42	7	500%

ALTERNATIVE RISK TRANSFER INSURANCE
COMBINED RESULTS

	Jun 2018 R'm	Jun 2017 R'm	2018/ 2017	5 Yr ave %	10 Yr ave %
Gross written premium	2 469	1 710	44%	21.5[1]	14.7[1]
Net insurance result	63	36	75%		
Investment income	22	14	57%		
Income from associates	-	6	(100%)		
Profit before tax	85	56	52%		

[1] Average growth

SEM PARTNER BUSINESS

SEM PARTNER BUSINESSES

Saham Finances

- Effective interest of 7% held through SAN JV
- Operates in 26 countries in Africa and the Middle East
- Main insurance business:
  - Morocco
  - Lebanon
  - Ivory Coast
  - Angola
  - Mauritius

SEM participation investments

- SGI (India)
- P&O (Malaysia)
- 12 investments in African partner businesses

SEM PARTNER BUSINESSES

		SANTAM EFFECTIVE HOLDING	
	Domicile	Jun 2018	Dec 2017
SAN JV (Saham Finances)	Morocco	7.0	7.0
Pacific and Orient Insurance Company Berhad	Malaysia	15.4	15.4
Shriram General Insurance Company Ltd	India	15.0	15.0
BIHL Insurance Company Ltd	Botswana	21.2	21.2
NICO Holdings general insurance subsidiaries	Malawi and Zambia	19.8	19.8
Sanlam General Insurance (Uganda) Ltd	Uganda	28.6	28.6
Sanlam General Insurance (Tanzania) Ltd	Tanzania	17.4	17.4
SORAS Assurances Générales Ltd	Rwanda	26.1	26.1
SOCAR s.a. Burundi	Burundi	8.6	8.6
FBN General Insurance Ltd	Nigeria	12.3	12.3
Sanlam General Insurance Ltd	Kenya	13.7	13.7
Botswana Insurance Company Ltd	Botswana	10.3	10.3
Zimnat Lion Insurance Company Ltd	Zimbabwe	14.0	14.0
Grand Reinsurance Company (Private) Ltd	Zimbabwe	14.0	14.0

SEM GENERAL INSURANCE

ANALYSIS OF SANTAM'S SHARE OF NET INSURANCE RESULT before taxation and minorities (excluding Saham Finances)

	Jun 2018 R'm	% of NEP	Jun 2017 R'm	% of NEP	2018/ 2017
Gross written premium	625		672		(7%)[1]
Net earned premium	430	100.0	434	100.0	(1%)
Net claims incurred	318	74.0	359	82.7	(11%)
Net acquisition cost	135	31.4	132	30.4	2%
Net underwriting result	(23)	(5.4)	(57)	(13.1)	60%
Investment return on insurance funds	85	19.8	96	22.1	(11%)
Net insurance result	62	14.4	39	9.0	59%

[1] Growth in constant currency adjusted for sale of EIC: 5%

SAHAM FINANCES

ANALYSIS OF SANTAM'S SHARE OF NET INSURANCE RESULT before taxation and minorities

	Jun 2018 R'm	% of NEP	Jun 2017 R'm	% of NEP	2018/ 2017
Santam interest	7.0%		7.3%		
Gross written premium	606		585		4%[1]
Net earned premium	447	100.0	436	100.0	3%
Net claims incurred	273	61.0	281	64.5	(3%)
Net acquisition cost	129	28.9	146	33.4	(12%)
Net underwriting result	45	10.1	9	2.1	400%
Investment return on insurance funds	35	7.8	53	12.1	(34%)
Net insurance result	80	17.9	62	14.2	29%

[1] Growth in constant currency of 10%

TOTAL SEM PARTNER BUSINESSES

ANALYSIS OF SANTAM'S SHARE OF NET INSURANCE RESULT before taxation and minorities

	Jun 2018 R'm	% of NEP	Jun 2017 R'm	% of NEP	2018/ 2017
Gross written premium	1 231		1 257		(2%)
Net earned premium	877	100.0	870	100.0	1%
Net claims incurred	591	67.4	640	73.5	(8%)
Net acquisition cost	264	30.1	278	32.0	(5%)
Net underwriting result	22	2.5	(48)	(5.5)	146%
Investment return on insurance funds	120	13.7	149	17.1	(19%)
Net insurance result	142	16.2	101	11.6	41%

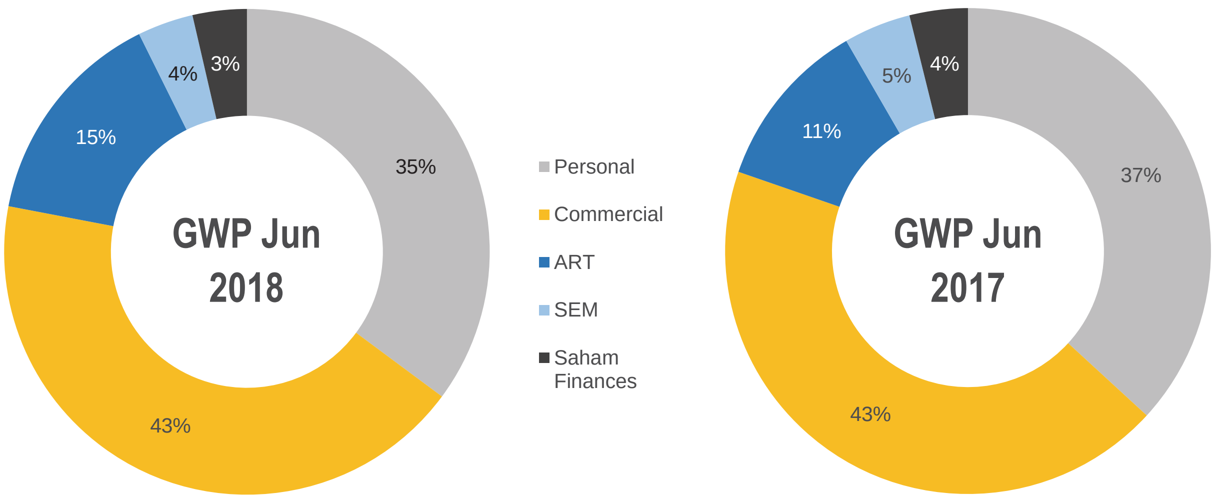
SANTAM GROUP
NET INSURANCE RESULT

R million	Jun 2018	Jun 2017	2018/2017
Conventional insurance	1 179	724	63%
Alternative risk transfer insurance	63	36	75%
SEM partner businesses	142	101	41%
Net insurance result	1 384	861	61%
SEM partner businesses	(142)	(101)	
Net insurance result	1 242	760	63%

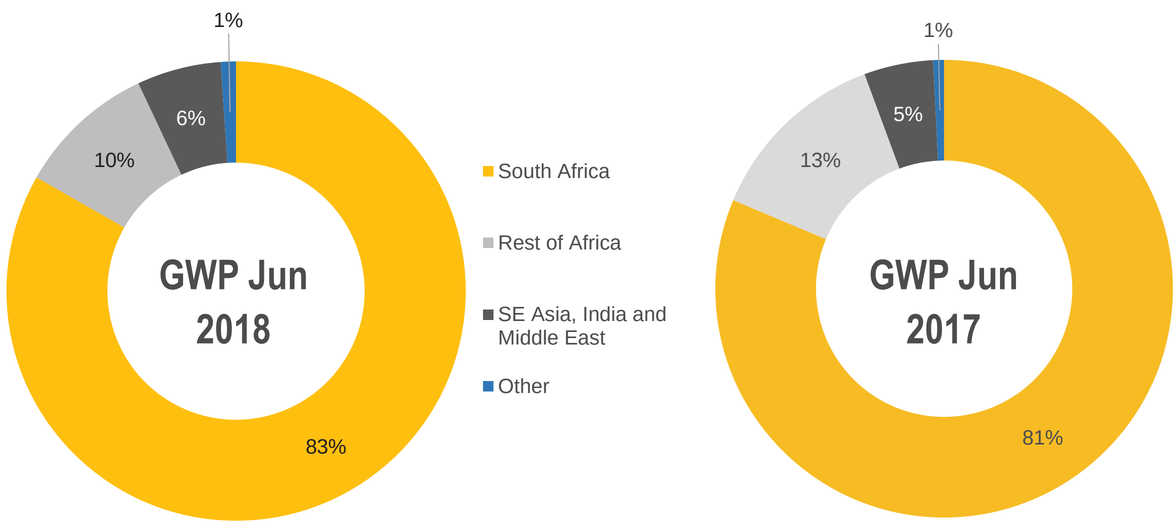
SANTAM GROUP
RECONCILIATION TO HEADLINE EARNINGS

R million	Jun 2018	Jun 2017	2018/2017
Net profit attributable to ordinary shareholders	1 124	753	49%
Per share (cents)	1 018	683	
Impairment of goodwill and other intangible assets	-	7	
Profit on disposal of associate (net of tax)	-	(3)	
Gain on dilution of associate	-	(18)	
Reclassification of foreign currency translation reserve on dilution of associate	-	90	
Foreign currency translation reserve reclassified to profit and loss	-	(175)	
Headline earnings	1 124	654	72%
Per share (cents)	1 018	593	

GROWTH DIVERSIFICATION
INCLUDING SEM PARTNER BUSINESSES

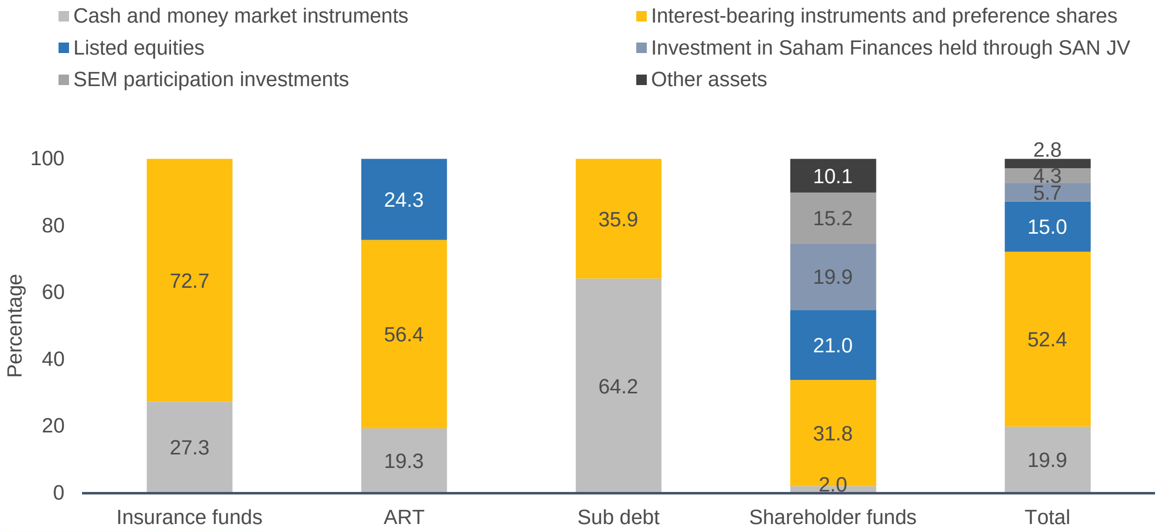


GEOGRAPHIC DIVERSIFICATION
INCLUDING SEM PARTNER BUSINESSES



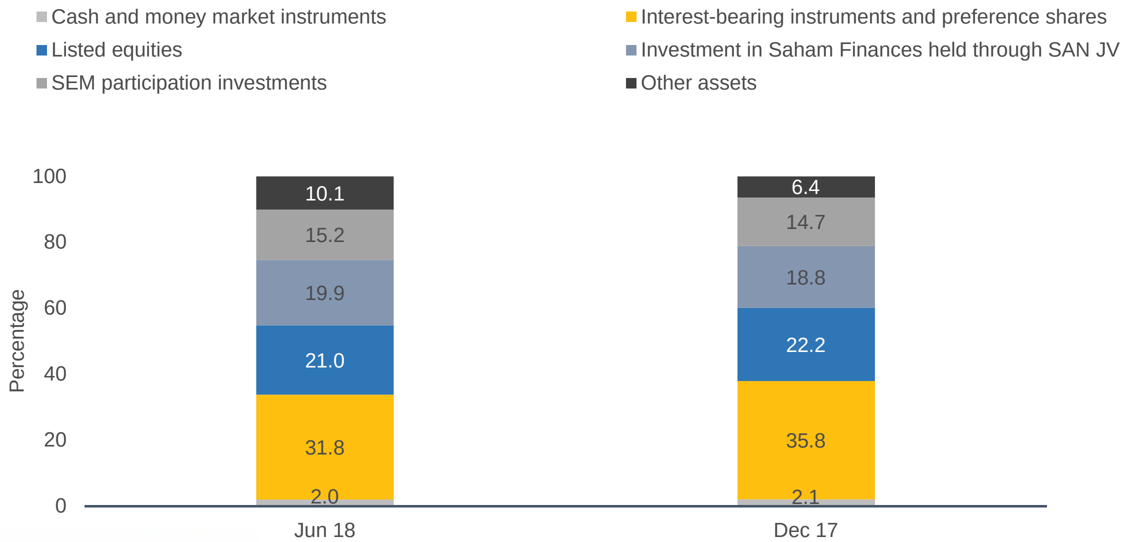
ASSET / LIABILITY MATCHING

GROUP CONSOLIDATED ASSETS AT 30 JUNE 2018

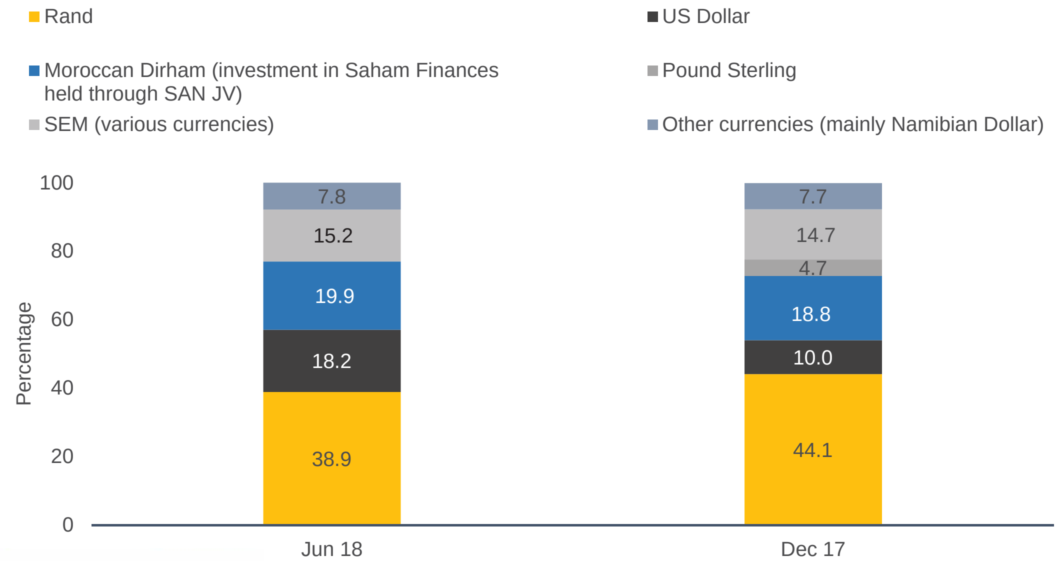


SHAREHOLDER FUNDS

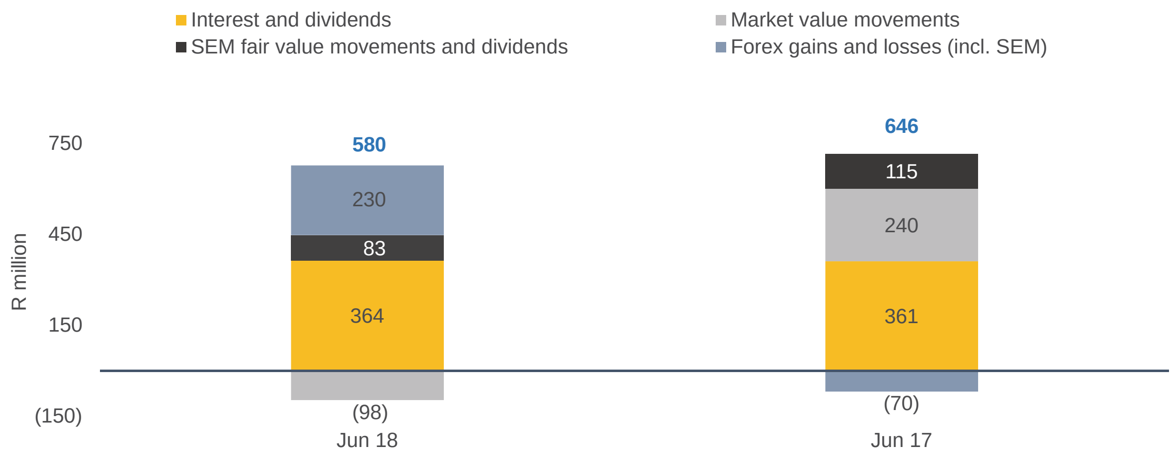
ASSET MIX



SHAREHOLDER FUNDS
CURRENCY MIX



INVESTMENT RETURN
ON SHAREHOLDERS' FUNDS[1]



[1] Net of finance costs and investment management expenses

SEM PARTNER BUSINESSES

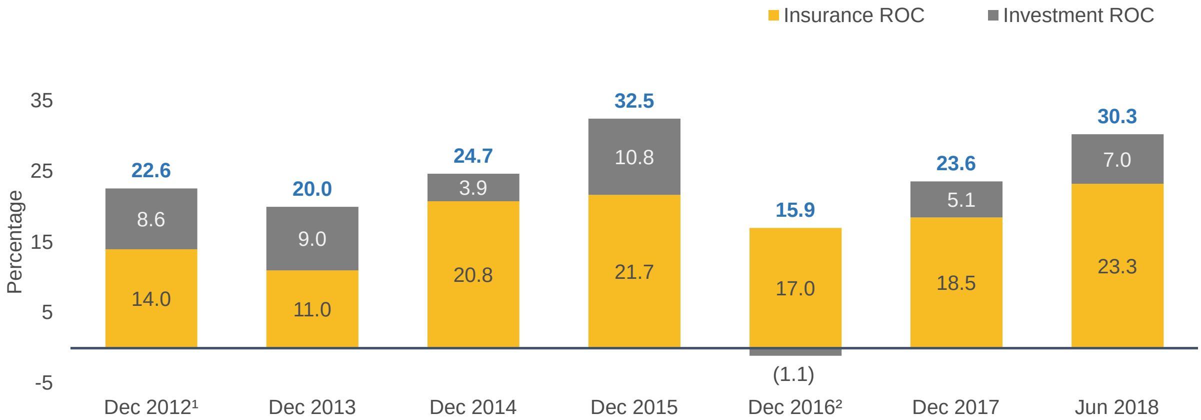
ANALYSIS OF SANTAM'S SHARE OF NET INVESTMENT

Region	Carrying value Dec 2017 R'm	Additions/ (disposals) R'm	Change in exchange rates R'm	Change in valuation R'm	Carrying value Jun 2018 R'm
Africa	226	-	20	9	255
Southeast Asia	187	-	22	(1)	208
India	676	-	24	47	747
Total	1 089	-	66	55	1 210

CAPITAL MANAGEMENT

RETURN ON CAPITAL

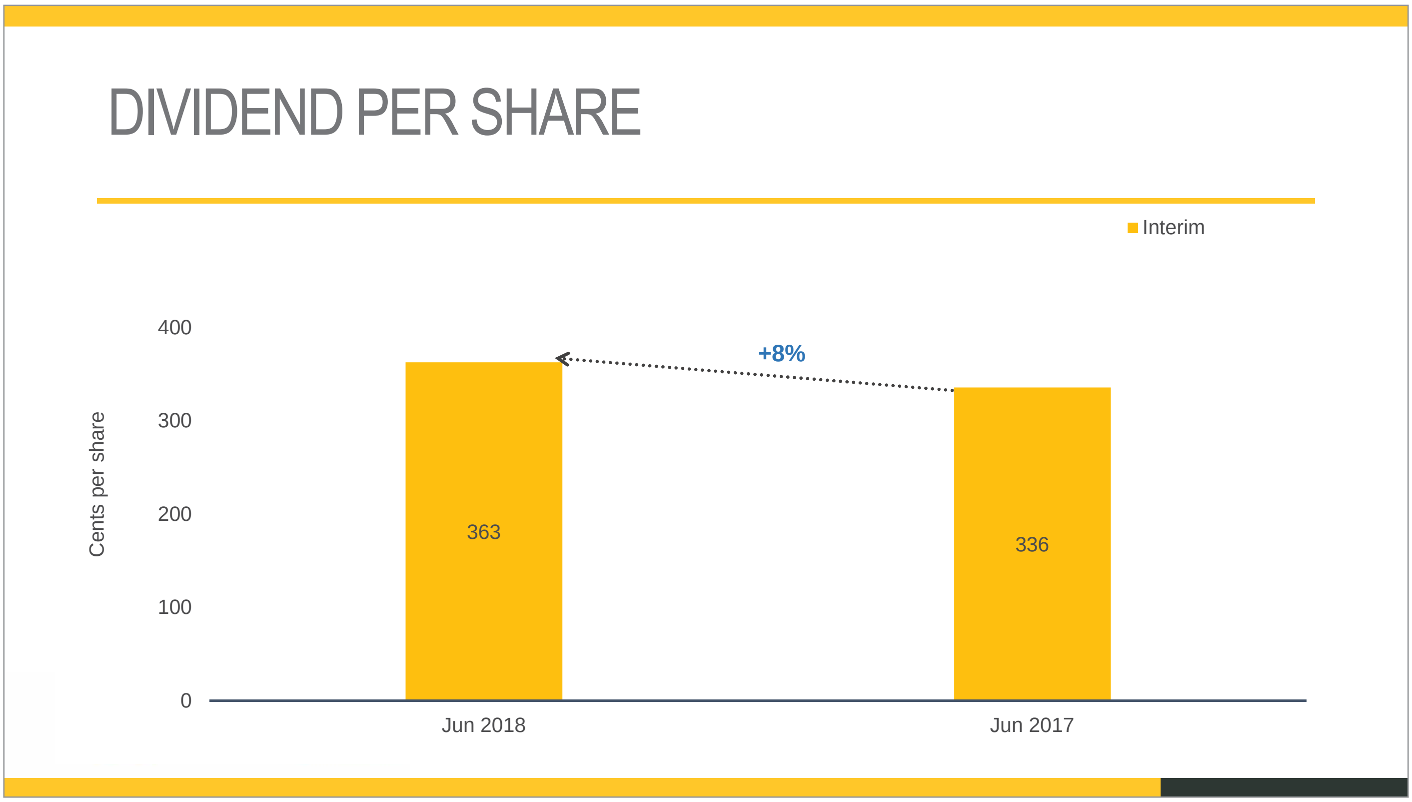
NET INCOME EXPRESSED AS % OF WEIGHTED AVERAGE SHAREHOLDERS' FUNDS



1. Tax adjusted for STC (R96m) and CGT inclusion rate change (R80m)
2. Tax adjusted for CGT inclusion rate change (R27m)

CAPITAL MANAGEMENT

- Group economic capital coverage ratio target of **130% - 170%**
- Economic capital coverage ratio for the Group as at 30 June 2018 of **158%**
- Capital requirements under SAM – will be confirmed through the Internal Model Approval Process (IMAP)
- Santam has submitted its internal model application pack to the Prudential Authority in July 2018 for approval


DIVIDEND PER SHARE
Interim
+8%
Cents per share
400
300
200
100
0
363
336
Jun 2018
Jun 2017


Santam
GROUP STRATEGY
AND PRIORITIES
Santam

2020 VISION:

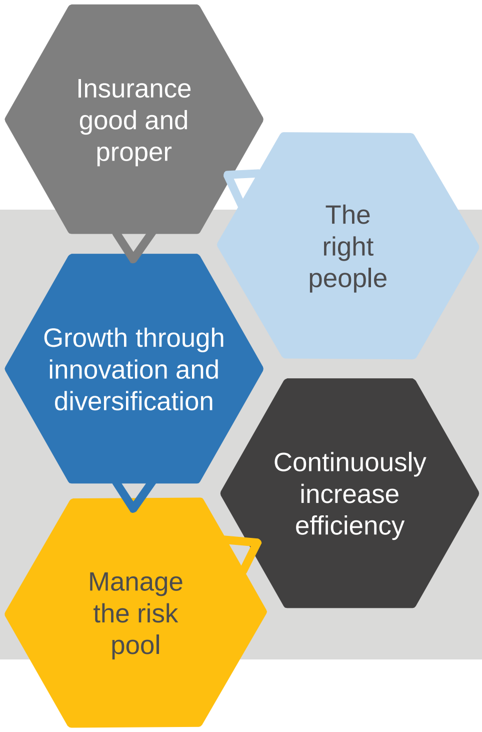
CONTINUED PROGRESS ON OUR 5 FOCUS AREAS FOR VALUE

OUR METRICS:

- Net insurance result and return on capital
- International diversification
- Citizenship and transformation

IN CONTEXT OF:

- The Santam Way
- Stakeholder value
- Long-term sustainability
- Reducing systemic risk and fulfilling our socio-economic responsibility



Increase effective interest in Saham Finances to 10%

Transaction details

- Successful partnership since 2016
- Sanlam to acquire 53.37% interest in Saham Finances it not already owns, subject to regulatory approvals
- Santam to increase its effective interest in Saham Finances from 7% to 10%
- Santam purchase consideration of R864 million
    - based on the same subscription price as SEM and hedged rate of $1 / R13.24
    - to be funded from available internal resources
- Santam to reduce its economic participation in the SEM general insurance businesses in Africa over time from 35% to 10%

Increase effective interest in Saham Finances to 10%

Strategic rationale

- Platform for Santam and Saham Finances to become the leading Pan-African specialist insurance provider, with significant growth potential
- Santam to take the lead in managing the combined Saham Finances and Santam specialist business in Africa in conjunction with SEM and Saham Finances
- An operating model agreed between the parties to ensure alignment
- Santam to obtain increased SAN JV shareholder rights
- Santam will play a more significant role in the reinsurance businesses of Saham Finances

STRATEGIC PRIORITIES

Continue to:

- Focus on profitable growth
- Work with industry on wider economic transformation
- Address regulatory requirements

Implement selected strategic pivots:

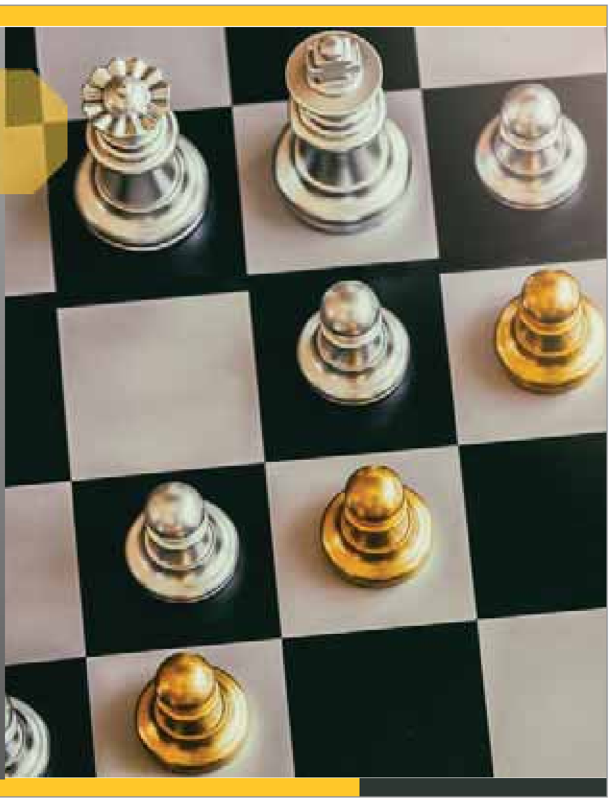
- Pan-African strategy in partnership with Sanlam
- Continue work on industry 4.0 innovation in business units

Complete the development of a "future fit" Santam Group strategy

- Clients, markets and business models
- People
- ESG factors

Further progress our partnerships to reduce risk and improve resilience

- Municipal flood and fire disaster risk (P4RR)
- Santam Resilient Investment Fund
- Promotion of a diverse intermediary and supplier base



MORE THAN JUST **SHORT-TERM INSURANCE**

Trusted by **85 of the JSE's top 100 companies**	Launched **Skills Development Academy**	Creating employment for more than **6 000 people**
Santam included in the **JSE Responsible Investment Top 30 index**	Which annually aims to train **120 young people** in scarce and critical skills	**Level 2 B-BBEE rating** according to the Financial Sector Charter (FSC)

We settled **R9bn in claims in the first half of 2018,** safeguarding our clients' valuables and standing true to insurance good and proper.

Rated by clients:
Santam rated top on South African Customer Satisfaction Index 2017 for short-term insurance.
Recognised by the 2017 Sunday Times Top Brands Survey as the top business insurer in South Africa.

Building Risk and Resilience in Municipalities
On track to reach 5 million people in 53 municipalities with the P4RR disaster management interventions.
Partnered with the Department of Cooperative Governance and Traditional Affairs (COGTA) and the South African Special Risks Insurance Association (SASRIA) to drive P4RR.

Santam has maintained R80 million in the Resilient Investment Fund, which invests in companies that have a direct impact on Environmental, Social and Governance (ESG) risks.

Building a Sustainable Insurance Environment
Supported the UN Environment's Principles for Sustainable Insurance (PSI) initiative in Africa:

- Hosted industry stakeholders in April 2018 on sustainable insurance.
- Active support for the survey on Environmental, Social and Governance (ESG) issues in general insurance – global guidelines forthcoming in 2019.

100 YEARS OF INSURANCE GOOD AND PROPER santam

Santam, Insurance good and proper **then**.
Insurance good and proper **now**.
Insurance good and proper **always**.


WE DO
INSURANCE
PROPERLY
INSURANCE
GOOD AND
PROPER

REVIEWED INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

18

Santam

100

YEARS OF INSURANCE
GOOD AND PROPER

TABLE OF CONTENTS

Group gross written premium growth 13%	Conventional insurance gross written premium growth 9%
Conventional insurance underwriting margin 8.4%	Economic capital coverage ratio 158%
Return on shareholders' funds 30.3%	Earnings per share increased 49%
Headline earnings per share increased 72%	Interim dividend of 363 cents per share, up 8%

FINANCIAL REVIEW

The Santam group reported strong gross written premium growth of 13% (9% excluding the impact of the Santam Structured Insurance acquisition in March 2017), and delivered excellent underwriting results under difficult economic circumstances.

The group's conventional insurance book achieved solid gross written premium growth of 9% and a net underwriting margin of 8.4% (2017: 4.2%), exceeding the group's target range of 4% to 8%. The Alternative Risk Transfer (ART) insurance segment grew gross written premium by 44% and increased its operating results to R63 million (2017: R35 million). The Sanlam Emerging Markets (SEM) general insurance businesses delivered improved operating results, with good contributions from the Saham Finances Group and Shriram General Insurance Company in India.

Investment income attributable to shareholders, inclusive of fair value movements on financial assets and liabilities, of R705 million (2017: R798 million) was reported. This excludes net investment return allocated to cell owners and policyholders. A positive movement in foreign exchange differences of R230 million was largely negated by fair value losses on the investment portfolio compared to fair value gains in the comparative period. The 2017 results included the release of the foreign currency translation reserve of R175 million relating to the unwinding of the Santam International investment.

Cash generated from operations increased to R2 billion (2017: R1.6 billion), positively impacted by the improved claims experience.

The key driver of the 72% increase in headline earnings per share from 593 cps in 2017 to 1 018 cps in 2018 was the significant improvement in the underwriting result.

A return on capital of 30.3% was achieved.

CONVENTIONAL INSURANCE

The conventional insurance business reported a net underwriting margin of 8.4% compared to the 4.2% reported in 2017. The underwriting results in the current period benefitted from the absence of significant catastrophe claims in contrast to the severe Knysna fire losses in June 2017. Fewer large commercial fire claims were also reported during this period.

Gross written premium growth

The intermediated personal and commercial lines business and MiWay experienced pressure on growth given the difficult economic conditions. Excellent growth in the specialist business and Santam re contributed to the 9% gross written premium growth reported for Conventional Insurance.

Gross written premium growth from the rest of Africa was strained. Santam Namibia reported a contraction in GWP of 3% in a low growth competitive market. Specialist Business benefitted from a once off construction project in 2017 which did not reoccur in 2018. Santam re, on the other hand, achieved strong growth in Southeast Asia, India and the Middle East through selective participations in these markets. The net effect was a contraction of 2% on premiums from outside of South Africa written on the Santam Ltd and Santam Namibia Ltd licences (2018: R1 516 million; 2017: R1 554 million).

The property class reported growth of 14% on the back of strong growth in the corporate property business following lower reinsurance capacity available in the market.

The motor class grew by 7%, with MiWay reporting 6% growth (gross written premium of R1 218 million; 2017: R1 148 million). MiWay saw a slowdown in growth from the second half of 2017 due to an increased focus on profitability, as well as the impact of the economic strain on consumers. The commercial and personal lines intermediated business similarly experienced a slowdown in growth of the motor book.

The liability class continued to experience significant competitive pressure, resulting in no growth reported during the period. The engineering class reported a gross written premium contraction of 6%, reflecting the impact of fewer large construction projects and the uncertainties impacting the construction sector.

The accident and health class reported growth of 18%, mainly driven by growth in the travel insurance business. The transportation class reported negative gross written premium growth of 3% following Santam's continued focus on profitability.

Underwriting result

The property class saw a significant turnaround from the R415 million net underwriting loss reported in 2017 to R280 million net underwriting profit in 2018 following the absence of significant catastrophe claims, as well as fewer large commercial fire claims. The underwriting results were positively impacted by the underwriting actions implemented during the second half of 2017.

The motor class reported strong underwriting performance in both the intermediated and direct distribution channels. MiWay reported acceptable results with a claims ratio of 55.7% (2017: 55.4%), however negatively impacted by lower premium growth and increased management expenses, contributing an underwriting profit of R159 million (2017: R179 million).

The engineering class of business achieved excellent underwriting results with limited claims activity during the period, while the guarantee class of business was negatively impacted by the difficult economic environment. A number of large claims, including net claims of R100 million incurred to date relating to the listeriosis outbreak, reduced the underwriting results of the liability class. Estimate adjustments on previously reported claims further contributed to a net underwriting loss of R49 million (2017: net underwriting profit of R93 million).

The crop insurance business reported strong underwriting results, although lower than the excellent results reported in the comparative period. Santam re was negatively impacted by claims activity on the foreign book of business.

Following the significant losses incurred by the global and South African reinsurance market during 2017, Santam's deductible per catastrophe event increased to R150 million (2017: R100 million) for the 2018 financial year. It also resulted in increased reinsurance rates.

The net acquisition cost ratio of 29.6% increased from 27.5% in 2017. The management expense ratio increased from 15.1% in 2017 to 17.2% in 2018, mainly due to an increased incentive cost provision in 2018, timing differences in marketing spend, as well as growth initiatives at MiWay.

Strategic project costs, included as part of management expenses, amounted to 0.8% of net earned premium (2017: 0.8%). These costs mainly relate to the continued development of a new core underwriting, administration and product management platform for the Santam intermediated business, compliance projects, data enhancement and future digital solutions. The new core underwriting platform project is progressing according to plan, with most of personal lines policies now being managed on the new platform, as well as majority of new business quotes for commercial business products. The migration process for commercial business products is also well underway and is expected to be completed during the first half of 2019. Santam will continue to invest in strategic projects to optimise the use of technology in the group.

The net commission ratio remained unchanged at 12.4% (2017: 12.4%).

Investment return on insurance funds

The investment return on insurance funds was negatively impacted by lower returns on the investment portfolios backing the insurance funds following lower interest rates compared to 2017 and limited growth in the insurance funds following the improved claims ratio.

ALTERNATIVE RISK TRANSFER INSURANCE (ART)

The ART business reported growth of 44% with gross written premiums of R2 469 million (2017: R1 710 million). Centriq reported excellent growth of 27%. Santam Structured Insurance also reported good growth over the comparative period. The 2017 reporting period included the results of Santam Structured Insurance for three months following the acquisition of the business in March 2017.

The ART business reported solid operating results before tax and minority interests of R63 million (2017: R35 million).

SANLAM EMERGING MARKETS (SEM) GENERAL INSURANCE BUSINESSES (INCLUDING SAHAM FINANCES HELD THROUGH SAN JV)

The emerging markets general insurance business portfolio includes investments in the Saham Finances Group in Morocco (with subsidiaries in 26 countries in Africa and the Middle East), Pacific & Orient Insurance Co. Berhad (P&O) in Malaysia, Shriram General Insurance Company Ltd (SGI) in India and a further 12 general insurance businesses throughout Africa which are held in conjunction with SEM, excluding South Africa and Namibia.

Santam's share of the gross written premiums of these businesses decreased by 2% to R1 231 million (2017: R1 257 million) following the dilution of Santam's effective shareholding in Saham Finances from 7.5% to 7% in May 2017 and the disposal of Enterprise Insurance Company in June 2017.

SGI reported a decrease in gross written premiums following a decision to reduce exposure on the Indian crop business, while P&O's gross written premiums were on par with 2017 in local currency terms.

Saham Finances delivered in line with its business plan. Organic growth in gross written premium amounted to 10% in constant currency, with net earned premiums increasing by 13%. All regions contributed satisfactory growth in gross written premiums apart from Lebanon, which reflected the impact of a challenging operating environment and negatively affected profitability. Currency weakness in Angola resulted in pressure on this region's cost base and underwriting performance. This was, however, more than offset by overall good performances from the other regions and particularly strong growth in reinsurance profits.

Santam's share of the net insurance result of these businesses increased to R142 million compared to R101 million in 2017, mainly due to improved profitability from Saham Finances and SGI. The portfolio of businesses achieved a net insurance margin of 16.2% (2017: 11.6%). The SGI results were positively impacted by reserve releases on third-party claims while P&O reported a marginal improvement in net insurance results at acceptable underwriting margins.

INVESTMENT RESULTS

Listed equities produced a negative return of 3% for the six months ended 30 June 2018, relative to the portfolio's SWIX-related benchmark return of -5.8%. Over the past quarter, the equity portfolio's benchmark was revised from the SWIX index to 60% SWIX and 40% Capped SWIX index.

The Santam group's fixed income exposure is managed in enhanced cash and active income portfolios. The fixed income portfolios performed close to their STeFI-related benchmarks.

Exchange rate volatility due to the weakening of the rand in 2018 compared to December 2017 resulted in a foreign exchange gain of R230 million (2017: foreign currency loss of R70 million), inclusive of the currency movements on Santam's interest in SEM's general insurance businesses in Africa, India and Southeast Asia.

Positive fair value movements (excluding the impact of currency movements) of R55 million (2017: R104 million) in Santam's interest in SEM's general insurance businesses also contributed to the improved investment performance.

Net earnings from associated companies of R81 million (2017: R54 million) included R63 million from Saham Finances. The other key contributor to earnings from associated companies was Western Group Holdings Ltd.

PROSPECTS

Trading conditions remain very competitive in a low-growth South African economic environment, which translates into limited growth of insurable assets for the insurance industry. GDP contracted in the first quarter of 2018 and the South African Reserve Bank reduced its growth forecast for 2018 to 1.2%. It is expected that economic activity will in the near term be constrained by weak consumer spending linked to the recent increase in value added tax and by unemployment, which is at near record levels. Inflation (annual CPI) of 5.1% was reported at the end of July 2018.

The group's focus remains on growing profitably in South Africa and increasing its international diversification through the Santam Specialist Business and Santam re. International diversification is supported by close collaboration with the SEM general insurance businesses. In South Africa, continued focus is being placed on the development of Santam's full multichannel capability and refocused MiWay growth initiatives.

The focus will remain on appropriate underwriting actions to manage the risk associated with weak economic conditions, also taking the increased reinsurance rates into account. Santam continues to work with local municipalities to reduce risk and improve resilience.

The group remains focused on optimising efficiency by balancing management costs and underwriting profitability as well as the use of technology to improve underwriting results.

FINANCIAL REVIEW

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

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

The group economic capital requirement at 30 June 2018, based on the Santam internal economic model, amounted to R6.4 billion (2017: R5.9 billion). This resulted in an economic capital coverage ratio of 158% (2017 normalised: 151%), somewhat above the midpoint of the target range of 130% to 170%. Santam has submitted its internal model application pack to the Prudential Authority in July 2018 for approval.

We remain committed to efficient capital management.

EVENTS AFTER THE REPORTING PERIOD

The Santam Board announced on 30 August 2018, Santam's intention to participate in a transaction with Sanlam to increase its effective interest in Saham Finances to 10% by subscribing for further shares in SAN JV to the extent of R864 million, plus its share of transaction costs. Post implementation of the transaction, Santam's effective interest in Saham Finances, held indirectly through SAN JV, will increase from 7% to 10%.

Santam will fund its share of the purchase consideration and transaction costs from available internal resources.

Santam, Sanlam and SEM have in principle reached an agreement for Santam to reduce over time its economic participation in the SEM general insurance businesses in Africa (excluding Namibia) from 35% to 10% to align with the effective 10% interest that Santam will have in Saham Finances.

The transaction is subject to a number of conditions precedent, including regulatory approvals.

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

DECLARATION OF ORDINARY DIVIDEND (NUMBER 129)

Notice is hereby given that the board has declared a gross interim dividend of 363.00 cents per share (2017: 336.00 cents per share), 290.40 cents net of dividend withholding taxation, where applicable, per ordinary share for the six months ended 30 June 2018 to those members registered on the record date, being Friday, 21 September 2018.

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

Share code:	SNT
ISIN:	ZAE000093779
Company registration number:	1918/001680/06
Company tax reference number:	9475/144/71/4
Gross cash dividend amount per share:	363.00 cents
Net dividend amount per share:	290.40 cents
Issued shares at 30 August 2018:	115 131 417
Declaration date:	30 August 2018
Last day to trade cum dividend:	Tuesday, 18 September 2018
Shares trade ex dividend:	Wednesday, 19 September 2018
Record date:	Friday, 21 September 2018
Payment date:	Tuesday, 25 September 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 19 September 2018 and Friday, 21 September 2018, both days inclusive.

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

APPRECIATION

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

PREPARATION AND PRESENTATION OF THE INTERIM FINANCIAL STATEMENTS

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

VP Khanyile
Chairman

L Lambrechts
Chief executive officer

30 August 2018

TO THE SHAREHOLDERS OF SANTAM LIMITED

We have reviewed the condensed consolidated interim financial statements of Santam Limited in the accompanying interim report, which comprise the condensed consolidated statement of financial position as at 30 June 2018 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-months then ended, and selected explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE INTERIM FINANCIAL STATEMENTS

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with the International Financial Reporting Standard, (IAS) 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council 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 interim financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a conclusion on these interim financial statements. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Santam Limited for the six months ended 30 June 2018 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
Director: Zuhdi Abrahams
Registered Auditor
Cape Town

30 August 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Reviewed at 30 June 2018 R million	Audited at 31 December 2017 R million
ASSETS			
Non-current assets			
Property and equipment		133	135
Intangible assets		817	841
Deferred income tax		91	91
Investment in associates and joint ventures		2 007	1 789
Financial assets at fair value through income	6	19 959	17 554
Reinsurance assets	7	544	202
Deposit with cell owners		120	129
Total non-current assets		23 671	20 741
Current assets			
Cell owners' and policyholders' interest		8	10
Financial assets at fair value through income	6	2 288	2 182
Reinsurance assets	7	5 502	5 622
Deposit with cell owners		42	45
Deferred acquisition costs		519	537
Loans and receivables including insurance receivables	6	5 321	5 253
Income tax assets		26	17
Cash and cash equivalents		3 212	4 321
Total current assets		16 918	17 987
Total assets		40 589	38 728
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital		103	103
Treasury shares		(465)	(470)
Other reserves		(89)	(214)
Distributable reserves		8 410	7 999
		7 959	7 418
Non-controlling interest		490	506
Total equity		8 449	7 924
LIABILITIES			
Non-current liabilities			
Deferred income tax		101	87
Financial liabilities at fair value through income			
Debt securities	6	2 025	2 031
Investment contracts	6	1 552	1 583
Cell owners' and policyholders' interest		3 208	3 227
Insurance liabilities	7	2 151	1 789
Reinsurance liability relating to cell owners		120	129
Total non-current liabilities		9 157	8 846
Current liabilities			
Financial liabilities at fair value through income			
Debt securities	6	24	25
Investment contracts	6	61	120
Financial liabilities at amortised cost			
Collateral guarantee contracts	6	137	130
Insurance liabilities	7	16 429	16 059
Reinsurance liability relating to cell owners		42	45
Deferred reinsurance acquisition revenue		317	326
Provisions for other liabilities and charges		124	106
Trade and other payables including insurance payables	6	5 585	4 953
Current income tax liabilities		264	194
Total current liabilities		22 983	21 958
Total liabilities		32 140	30 804
Total shareholders' equity and liabilities		40 589	38 728

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Reviewed Six months ended 30 June 2018 R million	Reviewed Six months ended 30 June 2017 R million	Change
Gross written premium		15 591	13 795	13%
Less: reinsurance written premium		4 571	3 709	
Net written premium		11 020	10 086	9%
Less: change in unearned premium				
Gross amount		478	(257)	
Reinsurers' share		(579)	(208)	
Net insurance premium revenue		11 121	10 551	5%
Interest income on amortised cost instruments	9	103	63	
Interest income on fair value through income instruments	9	620	543	
Other investment income/(losses)	9	278	(16)	
Income from reinsurance contracts ceded		899	698	
Net (losses)/gains on financial assets and liabilities at fair value through income	9	(140)	153	
Investment income and fair value losses on financial assets held for sale	9	–	175	
Other income		88	64	
Net income		12 969	12 231	6%
Insurance claims and loss adjustment expenses		8 906	10 700	
Insurance claims and loss adjustment expenses recovered from reinsurers		(1 988)	(3 448)	
Net insurance benefits and claims		6 918	7 252	(5%)
Expenses for the acquisition of insurance contracts		2 191	1 952	
Expenses for marketing and administration		2 040	1 674	
Expenses for investment-related activities		23	24	
Amortisation and impairment of intangible assets		33	37	
Impairment of loans		5	–	
Investment return allocated to cell owners and structured insurance products		156	120	
Total expenses		11 366	11 059	3%
Results of operating activities		1 603	1 172	37%
Finance costs		(102)	(127)	
Net income from associates and joint ventures		81	54	
Profit on sale of associates	11	–	5	
Gain on dilution of associate	11	–	18	
Reclassification of foreign currency translation reserve on dilution of associate	11	–	(90)	
Income tax recovered from cell owners and structured insurance products	10	44	–	
Profit before tax		1 626	1 032	
Tax expense allocated to shareholders	10	(400)	(224)	
Tax expense allocated to cell owners and structured insurance products		(44)	–	
Total tax expense		(444)	(224)	
Profit for the period		1 182	808	46%
Other comprehensive income, net of tax				
Items that may subsequently be reclassified to income:				
Currency translation differences		–	(161)	
Share of associates' currency translation differences		125	83	
Hedging reserve movement		–	5	
Total comprehensive income for the period		1 307	735	78%
Profit attributable to:				
– equity holders of the company		1 124	753	49%
– non-controlling interest		58	55	
		1 182	808	
Total comprehensive income attributable to:				
– equity holders of the company		1 249	680	84%
– non-controlling interest		58	55	
		1 307	735	
Earnings attributable to equity shareholders				
Earnings per share (cents)	12			
Basic earnings per share		1 018	683	49%
Diluted earnings per share		1 009	677	49%

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company					Non-controlling interest	
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	Total R million	Non-controlling interest R million	Total R million
Balance as at 1 January 2017	103	(472)	(41)	7 286	6 876	469	7 345
Profit for the year	–	–	–	1 667	1 667	140	1 807
Other comprehensive income:							
Currency translation differences	–	–	(3)	–	(3)	–	(3)
Release of translation differences on financial assets held for sale	–	–	(175)	–	(175)	–	(175)
Share of associates' currency translation differences	–	–	(41)	–	(41)	–	(41)
Reclassification of foreign currency translation reserve on dilution of associate	–	–	90	–	90	–	90
Hedging reserve movement	–	–	6	–	6	–	6
Total comprehensive income for the year ended 31 December 2017	–	–	(123)	1 667	1 544	140	1 684
Issue of treasury shares in terms of share option schemes	–	78	–	(78)	–	–	–
Purchase of treasury shares	–	(76)	–	–	(76)	–	(76)
Release of contingency reserve	–	–	(50)	50	–	–	–
Share-based payment costs	–	–	–	77	77	–	77
Dividends paid	–	–	–	(1 003)	(1 003)	(103)	(1 106)
Balance as at 31 December 2017	103	(470)	(214)	7 999	7 418	506	7 924
Profit for the period	–	–	–	1 124	1 124	58	1 182
Other comprehensive income:							
Share of associates' currency translation differences	–	–	125	–	125	–	125
Total comprehensive income for the period ended 30 June 2018	–	–	125	1 124	1 249	58	1 307
Issue of treasury shares in terms of share option schemes	–	69	–	(69)	–	–	–
Purchase of treasury shares	–	(64)	–	–	(64)	–	(64)
Share-based payment costs	–	–	–	38	38	–	38
Dividends paid	–	–	–	(682)	(682)	(74)	(756)
Balance as at 30 June 2018	103	(465)	(89)	8 410	7 959	490	8 449
Balance as at 1 January 2017	103	(472)	(41)	7 286	6 876	469	7 345
Profit for the period	–	–	–	753	753	55	808
Other comprehensive income:							
Currency translation differences	–	–	(161)	–	(161)	–	(161)
Share of associates' currency translation differences	–	–	83	–	83	–	83
Hedging reserve movement	–	–	5	–	5	–	5
Total comprehensive income for the period ended 30 June 2017	–	–	(73)	753	680	55	735
Issue of treasury shares in terms of share option schemes	–	74	–	(74)	–	–	–
Purchase of treasury shares	–	(65)	–		(65)	–	(65)
Transfer to reserves	–	–	1	(1)	–	–	–
Share-based payment costs	–	–	–	41	41	–	41
Dividends paid	–	–	–	(631)	(631)	(49)	(680)
Balance as at 30 June 2017	103	(463)	(113)	7 374	6 901	475	7 376

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Reviewed Six months ended 30 June 2018 R million	Restated[1] Reviewed Six months ended 30 June 2017 R million
Cash flows from operating activities			
Cash generated from operations		**1 968**	1 637
Interest paid		**(172)**	(94)
Income tax paid		**(369)**	(210)
Acquisition of financial assets		**(10 804)**	(7 706)
Proceeds from sale of financial assets		**9 137**	6 649
Net cash (used in)/from operating activities		**(240)**	276
Cash flows from investing activities			
Acquisition of financial assets		**(536)**	(68)
Proceeds from sale of financial assets		**488**	150
Cash acquired through acquisition of business, net of cash paid	11	**–**	852
Purchases of equipment		**(24)**	(20)
Purchases of intangible assets		**(13)**	(12)
Proceeds from sale of equipment		**1**	1
Acquisition of associates and joint ventures	11	**–**	(152)
Capitalisation of associates	11	**(11)**	(14)
Proceeds from sale of associates	11	**–**	23
Net cash (used in)/from investing activities		**(95)**	760
Cash flows from financing activities			
Purchase of treasury shares		**(64)**	(65)
Proceeds from issue of unsecured subordinated callable notes		**–**	1 000
Increase in investment contract liabilities[2]		**–**	5
Increase in collateral guarantee contracts[2]		**–**	6
Dividends paid to company's shareholders		**(682)**	(631)
Dividends paid to non-controlling interest		**(74)**	(49)
Decrease in cell owners' and policyholders' interest[2]		**–**	(38)
Net cash (used in)/from financing activities		**(820)**	228
Net (decrease)/increase in cash and cash equivalents		**(1 155)**	1 264
Cash and cash equivalents at beginning of period		**4 321**	2 887
Exchange gains/(losses) on cash and cash equivalents		**46**	(33)
Cash and cash equivalents at end of period		**3 212**	4 118

[1] *Refer to note 14 for detail.*
[2] *Cash flows relating to investment contract liabilities, collateral guarantee contracts and cell owners' and policyholders' interest have previously been included as part of financing activities in the statement of cash flows. As a result of the acquisition of SSI, management has reassessed the classification of these cash flows and determined that these cash flows relate to operating activities. This change in classification has been applied prospectively, as these cash flows were previously considered immaterial.*

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. **Basis of preparation**

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards, IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

In line with the minimum requirements of IAS 34 Interim Financial Reporting, and in order to align with Sanlam, the comparative period information presented has been limited to:

- the statement of financial position information as at the end of the full financial year (31 December 2017); and
- the statement of comprehensive income and the statement of cash flows with comparative information for the equivalent period in the previous financial year (30 June 2017).

With the acquisition of SSI in the 2017 financial year, the tax on cell owners and structured insurance products is more significant. As a result, the tax on cell owners and structured insurance products in the current period has been separately disclosed in the statement of comprehensive income. In the prior periods, this tax was disclosed as part of tax expense (refer to note 10 for detail).

2. **Accounting policies**

The accounting policies applied in the preparation of the condensed consolidated interim financial statements are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except for:

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

- Amendment to IFRS 2 – *Classification and measurement of share-based payment transactions*
- Amendments to IFRS 4 – *Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts*
- IFRS 9 – *Financial Instruments*
- IFRS 15 – *Revenue from contracts with customers*
- Amendment to IAS 40 – *Transfers of Investment Property*
- Annual improvements 2014-16 cycle
- IFRIC 22 – *Foreign currency transactions and advance consideration*

There was no material impact on the condensed consolidated interim financial statements identified. Specifically regarding IFRS 9, the assessment of the impact of implementation included the following:

Classification and measurement – Financial assets

- Debt instruments, previously measured at FVPL (fair value through profit and loss), are also measured at FVPL under IFRS 9. A key input in the assessment of the classification of debt instruments held was the business model applied to manage the financial assets. Financial assets that are held to sell and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVPL because they are neither held to collect contractual cash flows nor held to collect contractual cash flows and to sell.
- Loans and receivables, previously measured at amortised cost, continue to be measured at amortised cost under IFRS 9 as the business model is hold to collect and their cash flows represent solely payments of principal and interest.
- Equity instruments, previously measured at FVPL, are also measured as FVPL under IFRS 9. Management has not taken the irrevocable election to present changes through FVOCI (fair value through other comprehensive income) for equities not held for trading.

Classification – Financial liabilities

- Debt securities issued by Santam are measured at FVPL under IFRS 9 as these instruments are managed at fair value in terms of the related business model. The amount of changes in fair value attributable to changes in own credit risk of these liabilities were considered immaterial.
- Investment contract liabilities predominantly consist of unit-linked contracts where the value of the liability is directly derived from the performance of the related assets. Based on the principle of eliminating an accounting mismatch in the financial statements, investment contracts are designated to be measured at FVPL.

Impairment of financial assets

The majority of financial assets in the Santam group are measured at FVPL. All insurance and reinsurance receivables are recognised and measured in terms of IFRS 4 Insurance contracts and the group has not amended its policies for the measurement of IFRS 4. The insurance and reinsurance receivables are therefore excluded from the scope of IFRS 9's expected credit loss (ECL) impairment. The most significant class of financial asset subject to an ECL impairment is loans and receivables. Applying the expected credit loss model to loans and receivables at amortised costs, did not result in material additional provisions for impairment.

IFRS 15 Revenue from Contracts with Customers introduces a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 does not apply to insurance contracts within the scope of IFRS 4 Insurance Contracts. Based on management's assessment, the impact on the net results was not material.

Of the standards that are not yet effective, management expects IFRS 17 Insurance contracts to have an impact on the group. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021. The group is currently facilitating a programme to review the impact of the implementation and ensure a seamless transition.

3. **Estimates**

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated annual financial statements for the year ended 31 December 2017.

4. **Risk management**

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

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

The condensed consolidated interim financial statements do not include all risk management information and disclosures required in the annual financial statements and should be read in conjunction with the group's annual financial statements for the year ended 31 December 2017.

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

5. **Segment information**

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

The group conducts mainly insurance and investment activities.

Insurance activities:

The group presents its insurance results in the following segments:

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

Conventional insurance is further analysed by insurance class. Operating segments are aggregated based on quantitative and/or qualitative significance. The performance of insurance activities is based on gross written premium as a measure of growth, with operating result as measure of profitability.

Growth is measured for SEM GI businesses based on the gross written premium generated by the underlying businesses. With regard to the SEM and SAN JV (Saham Finances) insurance business, this information is considered to be a reallocation of fair value movements recognised on the SEM target shares as well as equity-accounted earnings on the investments in associates and joint ventures. It is also included as reconciling items in order to reconcile to the consolidated statement of comprehensive income. Overall profitability is measured based on net investment income and fair value movements from SEM target share investments and net income from associates for the investment in SAN JV.

Insurance business denominated in foreign currencies is covered by foreign denominated bank accounts and investment portfolios. Foreign exchange movements on underwriting activities are therefore offset against the foreign exchange movements recognised on the bank accounts and investment portfolios.

Investment activities:

Investment activities are all investment-related activities undertaken by the group. Due to the nature of the activities conducted, investment activities are considered to be one operating segment. Investment activities are measured based on net investment income.

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

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

The Santam BEE transaction costs are unrelated to the core underwriting and investment performance of the group. Therefore, these costs are disclosed as unallocated activities.

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

5. **Segment information** (continued)

5.1 **For the six months ended 30 June 2018 (reviewed)**

	Insurance			
Business activity	**Conventional R million**	**Alternative risk R million**	**Santam's share of SEM R million**	**Total R million**
Revenue	**13 122**	**2 469**	**1 231**	**16 822**
Net earned premium	10 947	174	877	**11 998**
Net claims incurred	6 795	123	591	**7 509**
Net commission	1 361	(69)	71	**1 363**
Management expenses (excluding BEE costs)[1]	1 875	95	193	**2 163**
Net underwriting result	**916**	**25**	**22**	**963**
Investment return on insurance funds	263	38	120	**421**
Net insurance result	**1 179**	**63**	**142**	**1 384**
Other income[2]	41	20	–	**61**
Other expenses[2]	(41)	(20)	–	**(61)**
Operating result before non-controlling interest and tax	**1 179**	**63**	**142**	**1 384**
Reallocation of operating result[3]	–	–	(142)	**(142)**
Investment income net of investment-related fees	–	156	121	**277**
Investment return allocated to cell owners and structured insurance products	–	(156)	–	**(156)**
Finance costs	–	–	–	**–**
Income from associates and joint ventures	–	–	63	**63**
Santam BEE costs	–	–	–	**–**
Amortisation and impairment of intangible assets[1]	(12)	(1)	–	**(13)**
Impairment of loans	(5)	–	–	**(5)**
Profit before tax attributable to shareholders	**1 162**	**62**	**184**	**1 408**

[1] *Amortisation of computer software included as part of management expenses. Santam's share of the costs to manage the SEM portfolio of R15.3 million has been included in management expenses.*

[2] *Includes other operating income and expenses not related to underwriting activities.*

[3] *Reconciling items consist of the reallocation of net insurance results relating to the underlying investments SEM and SAN JV (Saham Finances) for management reporting purposes.*

For the six months ended 30 June 2017 (reviewed)

	Insurance			
Business activity	**Conventional R million**	**Alternative risk R million**	**Santam's share of SEM R million**	**Total R million**
Revenue	**12 085**	**1 710**	**1 257**	**15 052**
Net earned premium	10 250	301	870	**11 421**
Net claims incurred	7 003	249	640	**7 892**
Net commission	1 273	(18)	59	**1 314**
Management expenses (excluding BEE costs)[1, 4]	1 546	76	219	**1 841**
Net underwriting result	**428**	**(6)**	**(48)**	**374**
Investment return on insurance funds[4]	296	42	149	**487**
Net insurance result	**724**	**36**	**101**	**861**
Other income[2]	41	22	–	**63**
Other expenses[2]	(42)	(23)	–	**(65)**
Operating result before non-controlling interest and tax	**723**	**35**	**101**	**859**
Reallocation of operating result[3]	–	–	(101)	**(101)**
Investment income net of investment-related fees	–	120	88	**208**
Investment return allocated to cell owners and structured insurance products	–	(120)	–	**(120)**
Finance costs	–	–	–	**–**
Income from associates and joint ventures including profit on sale and impairment	–	–	26	**26**
Gain on dilution of associate	–	–	18	**18**
Reclassification of foreign currency translation reserve on dilution of associate	–	–	(90)	**(90)**
Santam BEE costs	–	–	–	**–**
Amortisation and impairment of intangible assets[1]	(18)	–	–	**(18)**
Profit before tax	**705**	**35**	**42**	**782**

[1] *Amortisation of computer software included as part of management expenses. Santam's share of the costs to manage the SEM portfolio of R17.3 million has been included in management expenses.*

[2] *Includes other operating income and expenses not related to underwriting activities.*

[3] *Reconciling items consist of the reallocation of net insurance results relating to the underlying investments SEM and SAN JV (Saham Finances) for management reporting purposes.*

[4] *A reclassification of R26 million between management expenses and investment return on insurance funds was made as a result of alignment with Sanlam.*

Investment R million	Total R million	Reconciling and unallocated R million	IFRS Total R million
301	17 123	(1 532)	15 591
–	11 998	(877)	11 121
–	7 509	(591)	6 918
–	1 363	(71)	1 292
–	2 163	(193)	1 970
–	963	(22)	941
–	421	(120)	301
–	1 384	(142)	1 242
–	61	–	61
–	(61)	–	(61)
–	1 384	(142)	1 242
–	(142)	142	–
260	537	–	537
–	(156)	–	(156)
(102)	(102)	–	(102)
18	81	–	81
–	–	(2)	(2)
–	(13)	–	(13)
–	(5)	–	(5)
176	1 584	(2)	1 582

Investment R million	Total R million	Reconciling and unallocated R million	IFRS Total R million
404	15 456	(1 661)	13 795
–	11 421	(870)	10 551
–	7 892	(640)	7 252
–	1 314	(59)	1 255
–	1 841	(219)	1 622
–	374	48	422
–	487	(149)	338
–	861	(101)	760
–	63	–	63
–	(65)	–	(65)
–	859	(101)	758
–	(101)	101	–
347	555	–	555
–	(120)	–	(120)
(127)	(127)	–	(127)
33	59	–	59
–	18	–	18
–	(90)		(90)
–	–	(3)	(3)
–	(18)	–	(18)
253	1 035	(3)	1 032

5. **Segment information** (continued)

5.2 **Additional information on insurance activities**

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

	30 June 2018 (reviewed)		30 June 2017 (reviewed)	
	Gross written premium R million	**Underwriting result R million**	Gross written premium R million	Underwriting result R million
Accident and health	**273**	**40**	232	35
Crop	**87**	**61**	72	131
Engineering	**608**	**127**	645	114
Guarantee	**124**	**(32)**	77	(3)
Liability	**563**	**(49)**	566	93
Miscellaneous	**8**	**(8)**	5	2
Motor	**6 349**	**513**	5 944	459
Property	**4 763**	**280**	4 188	(415)
Transportation	**347**	**(16)**	356	12
Total	**13 122**	**916**	12 085	428
Comprising:				
Commercial insurance	**7 207**	**407**	6 542	247
Personal insurance	**5 915**	**509**	5 543	181
Total	**13 122**	**916**	12 085	428

5.3 **Additional information on investment activities**

	30 June 2018 Reviewed R million	30 June 2017 Reviewed R million
The group's return on investment-related activities can be analysed as follows:		
Investment income	**359**	308
Net (losses)/gains on financial assets and liabilities at fair value through income	**(76)**	63
Income from associates and joint ventures	**18**	33
Investment-related revenue	**301**	404
Expenses for investment-related activities	**(23)**	(24)
Finance costs	**(102)**	(127)
Net total investment-related transactions	**176**	253

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

5. **Segment information** (continued)

5.4 **Additional information on Santam's share of SEM**

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

For the six months ended 30 June 2018 (reviewed)

	SEM R million	SAN JV (Saham Finances)[3] R million	Total R million
Revenue	**625**	**606**	**1 231**
Net earned premium	430	447	**877**
Net claims incurred	318	273	**591**
Net commission	24	47	**71**
Management expenses (excluding BEE costs)	111	82	**193**
Net underwriting result	**(23)**	**45**	**22**
Investment return on insurance funds	85	35	**120**
Net insurance result/operating result before non-controlling interest and tax[2]	**62**	**80**	**142**
Reallocation of operating result[1]	(62)	(80)	**(142)**
Investment income net of investment-related fees	121	–	**121**
Income from associates and joint ventures	–	63	**63**
Profit before tax	**121**	**63**	**184**

1 Reconciling items consist of the reallocation of net insurance results relating to the underlying investments SEM and SAN JV (Saham Finances) for management reporting purposes.

2 Santam's share of SAN JV's non-controlling interest and tax of R36 million resulted in net results of R44 million.

3 Santam held an effective interest of 7%.

For the six months ended 30 June 2017 (reviewed)

	SEM R million	SAN JV (Saham Finances)[4] R million	Total R million
Revenue	**672**	**585**	**1 257**
Net earned premium	434	436	**870**
Net claims incurred	359	281	**640**
Net commission	14	45	**59**
Management expenses (excluding BEE costs)[2]	118	101	**219**
Net underwriting result	**(57)**	**9**	**(48)**
Investment return on insurance funds[2]	96	53	**149**
Net insurance result/operating result before non-controlling interest and tax[3]	**39**	**62**	**101**
Reallocation of operating result[1]	(39)	(62)	**(101)**
Investment loss net of investment-related fees	88	–	**88**
Income from associates including profit on sale	–	26	**26**
Gain on dilution of associate	–	18	**18**
Reclassification of foreign currency translation reserve on dilution of associate	–	(90)	**(90)**
Profit before tax	**88**	**(46)**	**42**

1 Reconciling items consist of the reallocation of net insurance results relating to the underlying investments SEM and SAN JV (Saham Finances) for management reporting purposes.

2 A reclassification of R26 million between management expenses and investment return on insurance funds was made as a result of alignment with Sanlam.

3 Santam's share of SAN JV's non-controlling interest and tax of R30 million resulted in net results of R32 million.

4 Santam held an effective interest of 7.3%.

5.5 **Geographical analysis**

	Gross written premium		Non-current assets	
	30 Jun 2018 Reviewed R million	30 Jun 2017 Reviewed R million	**30 Jun 2018 Reviewed R million**	31 Dec 2017 Audited R million
South Africa	**14 075**	12 241	**1 111**	1 125
Rest of Africa[1]	**1 650**	1 960	**2 101**	1 967
Southeast Asia, India, Middle East	**1 000**	737	**955**	886
Other	**97**	115	**–**	–
	16 882	15 053	**4 167**	3 978
Reconciling items[2]	**(1 231)**	(1 258)	**–**	–
Group total	**15 591**	13 795	**4 167**	3 978

1 Includes gross written premium relating to Namibia of R544 million (Jun 2017: R560 million).

2 Reconciling items relate to the underlying investments included in SEM and Saham activities for management reporting purposes.

5. **Segment information** (continued)

5.6 **Geographical analysis of SAN JV (Saham)'s results (reviewed)**

Analysis of Santam's average effective interest of 7% (2017: 7.3%)

Analysis of Santam's share of gross written premium	Life insurance 30 June 2018 R million	Life insurance 30 June 2017 R million	General insurance 30 June 2018 R million	General insurance 30 June 2017 R million	Reinsurance 30 June 2018 R million	Reinsurance 30 June 2017 R million	Total 30 June 2018 R million	Total 30 June 2017 R million
Morocco	**58**	54	**224**	230	**–**	–	**282**	284
Lebanon	**24**	25	**22**	25	**–**	–	**46**	50
Mauritius (Saham Re)	**–**	–	**–**	–	**47**	38	**47**	38
Ivory Coast	**19**	18	**59**	54	**–**	–	**78**	72
Angola	**2**	3	**51**	49	**–**	–	**53**	52
Other	**14**	11	**92**	87	**41**	41	**147**	139
Consolidation adjustment	**(1)**	(7)	**(5)**	(2)	**(41)**	(41)	**(47)**	(50)
	116	104	**443**	443	**47**	38	**606**	585

Analysis of Santam's share of net underwriting results	Life insurance 30 June 2018 R million	Life insurance 30 June 2017 R million	General insurance 30 June 2018 R million	General insurance 30 June 2017 R million	Reinsurance 30 June 2018 R million	Reinsurance 30 June 2017 R million	Total 30 June 2018 R million	Total 30 June 2017 R million
Morocco	**5**	–	**18**	9	**–**	–	**23**	9
Lebanon	**–**	–	**–**	–	**–**	–	**–**	–
Mauritius (Saham Re)	**–**	–	**–**	–	**20**	19	**20**	19
Ivory Coast	**(2)**	(5)	**5**	4	**–**	–	**3**	(1)
Angola	**–**	–	**–**	(1)	**–**	–	**–**	(1)
Other	**(3)**	(3)	**5**	(3)	**(3)**	(11)	**(1)**	(17)
	–	(8)	**28**	9	**17**	8	**45**	9

Analysis of SAN JV (Saham)'s results (100%)

Analysis of SAN JV (Saham)'s gross written premium	Life insurance 30 June 2018 Reviewed R million	Life insurance 30 June 2017 Reviewed R million	General insurance 30 June 2018 Reviewed R million	General insurance 30 June 2017 Reviewed R million	Reinsurance 30 June 2018 Reviewed R million	Reinsurance 30 June 2017 Reviewed R million	Total 30 June 2018 Reviewed R million	Total 30 June 2017 Reviewed R million
Morocco	**831**	742	**3 213**	3 162	**–**	–	**4 044**	3 904
Lebanon	**337**	341	**311**	341	**–**	–	**648**	682
Mauritius	**–**	–	**–**	–	**674**	527	**674**	527
Ivory Coast	**274**	244	**839**	739	**–**	–	**1 113**	983
Angola	**30**	35	**730**	667	**–**	–	**760**	702
Other	**196**	150	**1 319**	1 193	**589**	567	**2 104**	1 910
Consolidation	**(16)**	(99)	**(75)**	(32)	**(586)**	(567)	**(677)**	(698)
Gross written premium	**1 652**	1 413	**6 337**	6 070	**677**	527	**8 666**	8 010

Analysis of SAN JV (Saham)'s underwriting result	Life insurance 30 June 2018 R million	Life insurance 30 June 2017 R million	General insurance 30 June 2018 R million	General insurance 30 June 2017 R million	Reinsurance 30 June 2018 R million	Reinsurance 30 June 2017 R million	Total 30 June 2018 R million	Total 30 June 2017 R million
Morocco	**62**	5	**254**	126	**–**	–	**316**	131
Lebanon	**2**	(1)	**2**	(1)	**–**	–	**4**	(2)
Mauritius	**–**	–	**–**	–	**290**	256	**290**	256
Ivory Coast	**(26)**	(68)	**61**	48	**–**	–	**35**	(20)
Angola	**–**	(1)	**7**	(10)	**–**	–	**7**	(11)
Other	**(43)**	(38)	**72**	(39)	**(36)**	(155)	**(7)**	(232)
Underwriting result	**(5)**	(103)	**396**	124	**254**	101	**645**	122

	Reviewed at 30 June 2018 R million	Audited at 31 December 2017 R million
6. Financial assets and liabilities		
The group's financial assets are summarised below by measurement category.		
Financial assets		
Financial assets at fair value through income	**22 247**	19 736
Loans and receivables		
Receivables arising from insurance and reinsurance contracts	**4 315**	4 279
Loans and receivables excluding insurance receivables	**1 006**	974
	27 568	24 989
Financial liabilities		
Financial liabilities at fair value through income	**3 662**	3 759
Financial liabilities at amortised cost	**137**	130
Trade and other payables	**5 585**	4 953
	9 384	8 842

Financial instruments measured at fair value on a recurring basis

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Input other than quoted prices included within level 1 that is observable for the asset or liability, either directly (that is, by prices) or indirectly (that is, derived from prices). The fair value of level 2 instruments are determined as follows:
  - Quoted equity securities are valued using quoted prices with the main assumption that quoted prices might require adjustments due to an inactive market.
  - Unquoted equity securities are valued using the discounted cash flow (DCF) or net asset value method based on market input.
  - Quoted debt securities are valued using yield of benchmark bond, DCF benchmarked against similar instruments with the same issuer, price quotations of JSE interest rate market or issue price of external valuations based on market input.
  - Unquoted debt securities are valued using DCF, real interest rates, benchmark yield plus fixed spread or deposit rates based on market input.
  - Quoted unitised investments with underlying equity securities are valued using quoted prices with the main assumption that quoted prices might require adjustments due to an inactive market.
  - Quoted unitised investments with underlying debt securities are valued using DCF, external valuations and published price quotations on the JSE equity and interest rate market or external valuations that are based on published market input with the main assumptions being market input, uplifted with inflation.
  - Derivatives are valued using the Black-Scholes model, net present value of estimated floating costs less the performance of the underlying index over contract term, DCF (using fixed contract rates and market related variable rates adjusted for credit risk, credit default swap premiums, offset between strike price and market projected forward value, yield curve of similar market-traded instruments) with the main assumptions being market input, credit spreads and contract inputs.
- Level 3: Input for the asset or liability that is not based on observable data (that is, unobservable input).

There were no significant transfers between level 1 and level 2 during the current period.

6. **Financial assets and liabilities** (continued)

Reviewed at 30 June 2018 **Financial assets at fair value through income**	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	2 112	18	–	**2 130**
Irredeemable preference shares	1	–	–	**1**
Unquoted	–	34	1 266	**1 300**
Total equity securities	**2 113**	**52**	**1 266**	**3 431**
Debt securities				
Quoted				
Government and other bonds	–	4 051	–	**4 051**
Collateralised securities	–	531	–	**531**
Money market instruments more than one year	–	3 252	–	**3 252**
Unquoted				
Government and other bonds	–	634	–	**634**
Money market instruments more than one year	–	4 589	–	**4 589**
Redeemable preference shares	–	118	25	**143**
Total debt securities	**–**	**13 175**	**25**	**13 200**
Unitised investments				
Quoted				
Underlying equity securities	–	1 972	–	**1 972**
Underlying debt securities	–	1 355	–	**1 355**
Total unitised investments	**–**	**3 327**	**–**	**3 327**
Derivative instruments				
Exchange traded futures[1]	–	–	–	**–**
Interest rate swaps	–	1	–	**1**
Total derivative instruments	**–**	**1**	**–**	**1**
Short-term money market instruments	**–**	**2 288**	**–**	**2 288**
Total financial assets at fair value through income	**2 113**	**18 843**	**1 291**	**22 247**

[1] *Carrying value as at 30 June 2018 is less than R1 million.*

Financial liabilities at fair value through income				
Debt securities	**–**	**2 049**	**–**	**2 049**
Investment contracts	**–**	**1 613**	**–**	**1 613**
Total financial liabilities at fair value through income	**–**	**3 662**	**–**	**3 662**

6. **Financial assets and liabilities** (continued)

Audited at 31 December 2017 **Financial assets at fair value through income**	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	2 086	9	–	**2 095**
Irredeemable preference shares	2	–	–	**2**
Unquoted	–	36	1 143	**1 179**
Total equity securities	**2 088**	**45**	**1 143**	**3 276**
Debt securities				
Quoted				
Government and other bonds	–	3 776	–	**3 776**
Collateralised securities	–	541	–	**541**
Money market instruments more than one year	–	4 094	–	**4 094**
Unquoted				
Government and other bonds	–	184	–	**184**
Money market instruments more than one year	–	3 367	–	**3 367**
Redeemable preference shares	–	157	25	**182**
Total debt securities	**–**	**12 119**	**25**	**12 144**
Unitised investments				
Quoted				
Underlying equity securities	–	1 765	–	**1 765**
Underlying debt securities	–	369	–	**369**
Total unitised investments	**–**	**2 134**	**–**	**2 134**
Derivative instruments				
Exchange traded futures	–	8	–	**8**
Interest rate swaps[1]	–	–	–	**–**
Total derivative instruments	**–**	**8**	**–**	**8**
Short-term money market instruments	**–**	**2 174**	**–**	**2 174**
Total financial assets at fair value through income	**2 088**	**16 480**	**1 168**	**19 736**

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

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

The following table presents the changes in level 3 instruments:

30 June 2018 (reviewed)	Equity securities R million	Debt securities R million	Derivatives R million	Total R million
Opening balance	1 143	25	–	**1 168**
Gains recognised in profit or loss	123	–	–	**123**
Closing balance	**1 266**	**25**	**–**	**1 291**
31 December 2017 (audited)				
Opening balance	1 181	29	–	**1 210**
Acquisitions	2	–	–	**2**
Business combination	–	(4)	–	**(4)**
Disposals	(106)	–	–	**(106)**
Settlements	–	–	58	**58**
Gains/(losses) recognised in profit or loss	66	–	(58)	**8**
Closing balance	**1 143**	**25**	**–**	**1 168**

6. **Financial assets and liabilities** (continued)

The unquoted equity instruments recognised as level 3 instruments consist mainly of the participation target shares issued by Sanlam Emerging Markets (Pty) Ltd (SEM). The Sanlam group entered into agreements in June 2017 to dispose of its various interests in the Enterprise Group in Ghana. In terms of the co-investment arrangement with SEM, Santam, which had an economic interest of 14% in Enterprise Insurance Company Ltd (EIC), disposed of its interest in EIC for R105 million.

Of the R123 million gain (Dec 2017: R66 million gain) recognised on equity securities, a R121 million gain (Dec 2017: R65 million gain) relates to the SEM target shares, of which R66 million (Dec 2017: R57 million loss) relates to foreign exchange gains, and R55 million to an increase (Dec 2017: R122 million) in fair value in local currency terms. Key drivers of the fair value movements of Santam's share of the SEM investment portfolio were:

– An increase in the value of Shriram General Insurance Company Ltd of R47 million, in local currency terms, was mainly attributed to good performance achieved in the Indian insurance market.

The fair value of the SEM target shares is determined using predominantly discounted cash flow (DCF) models, with the remainder valued at or within close proximity of the latest available net asset value of the underlying company. The most significant assumptions used in these DCF models are the discount rate, exchange rate and net insurance margin expectations. Should the discount rates increase or decrease by 10%, the cumulative value of the most significant target shares valued by way of DCF models would decrease by R159 million (Dec 2017: R140 million) or increase by R239 million (Dec 2017: R211 million), respectively. If the relative foreign exchange rates increase or decrease by 10%, the cumulative fair values will increase or decrease by R95 million (Dec 2017: R86 million). Should the net insurance margin profile (projected over a period of 10 years) increase or decrease by 10%, the cumulative fair values will increase by R79 million (Dec 2017: R93 million) or decrease by R79 million (Dec 2017: R93 million), respectively. The remaining target shares are mostly impacted by changes in exchange rates.

At 30 June 2018, the group had exchange traded futures with an exposure value of R0.07 million (Dec 2017: R235 million). The group also had interest rate derivative assets as part of the international bond portfolio with a gross exposure asset and liability at 30 June 2018 of R37 million (Dec 2017: R33 million) and R36 million (Dec 2017: R33 million) respectively.

During 2007, the company issued unsecured subordinated callable notes to the value of R1 billion in two tranches. The fixed effective rate for the R600 million issue was 8.6% and 9.6% for the second tranche of R400 million, representing the R203 companion bond plus an appropriate credit spread at the time of the issues. The fixed coupon rate, based on the nominal value of the issues, amounts to 8.25% and for both tranches the optional redemption date was 15 September 2017. Between the optional redemption date and final maturity date of 15 September 2022, a variable interest rate (JIBAR-based plus additional margin) would have applied. Both tranches were, however, redeemed on 15 September 2017, resulting in the realisation of the initial discount of R45 million.

During April 2016, the company issued additional unsecured subordinated callable notes to the value of R1 billion in two equal tranches of fixed and floating rate notes. The effective rate for the floating rate notes represents the three-month JIBAR plus 245 basis points, while the rate for the fixed rate notes amounted to 11.77%. The floating rate notes have an optional redemption date of 12 April 2021 with a final maturity date of 12 April 2026, and the fixed rate notes an optional redemption date of 12 April 2023 with a final maturity date of 12 April 2028.

During June 2017, the company issued additional unsecured subordinated callable floating rate notes to the value of R1 billion in anticipation of the redemption of the R1 billion subordinated debt issued in 2007. The effective interest rate for the floating rate notes represents the three-month JIBAR plus 210 basis points. The notes have an optional redemption date of 27 June 2022 with a final maturity date of 27 June 2027.

Per the conditions set by the Prudential Authority, Santam is required to maintain liquid assets equal to the value of the callable notes until maturity. The callable notes are therefore measured at fair value to minimise undue volatility in the statement of comprehensive income. The fair value of the fixed rate notes is calculated using the yield provided by BESA and adding accrued interest. The fair value of the floating rate notes is calculated using the price provided by BESA and adding accrued interest.

On 31 July 2017, a zero cost collar structure on equities to the value of R1.2 billion was entered into based on the SWIX 40, providing full downside protection from the implementation level of 10 972, with upside participation (excluding dividends) of 2.2%. The structure matured on 21 December 2017 (resulting in a realised loss of R58 million) and was not renewed.

	Reviewed at 30 June 2018 R million	Audited at 31 December 2017 R million
7. Insurance liabilities and reinsurance assets		
Gross insurance liabilities		
Long-term insurance contracts		
– claims reported and loss adjustment expenses	88	75
– claims incurred but not reported	60	62
General insurance contracts		
– claims reported and loss adjustment expenses	8 219	8 273
– claims incurred but not reported	2 507	2 310
– unearned premiums	7 706	7 128
Total gross insurance liabilities	18 580	17 848
Non-current liabilities	2 151	1 789
Current liabilities	16 429	16 059
Recoverable from reinsurers		
Long-term insurance contracts		
– claims reported and loss adjustment expenses	14	18
– claims incurred but not reported	14	15
General insurance contracts		
– claims reported and loss adjustment expenses	3 850	3 918
– claims incurred but not reported	602	496
– unearned premiums	1 566	1 377
Total reinsurers' share of insurance liabilities	6 046	5 824
Non-current assets	544	202
Current assets	5 502	5 622
Net insurance liabilities		
Long-term insurance contracts		
– claims reported and loss adjustment expenses	74	57
– claims incurred but not reported	46	47
General insurance contracts		
– claims reported and loss adjustment expenses	4 369	4 355
– claims incurred but not reported	1 905	1 814
– unearned premiums	6 140	5 751
Total net insurance liabilities	12 534	12 024

	Reviewed at 30 June 2018 R million	Audited at 31 December 2017 R million

8. Non-current assets held for sale

Non-current assets held for sale relates to the winding up of the Santam International group. The winding up also resulted in the release of the foreign currency translation reserve relating to the investment of R175 million (refer to note 9).

Assets that are classified as held for sale		
Financial assets at fair value through income		
Opening balance	–	8
Settlements	–	(8)
Closing balance	–	–

		Reviewed Six months ended 30 June 2018 R million	Reviewed Six months ended 30 June 2017 R million
9.	**Investment income and net (losses)/gains on financial assets and liabilities**		
	Investment income	**1 001**	590
	Interest income derived from assets measured at	**723**	606
	Amortised cost	**103**	63
	Fair value through income	**620**	543
	Other investment income/(losses)	**278**	(16)
	Dividend income	**85**	37
	Foreign exchange differences	**193**	(53)
	Net (losses)/gains on financial assets and liabilities at fair value through income	**(140)**	153
	Net realised gains on financial assets	**65**	21
	Net fair value (losses)/gains on financial assets designated as at fair value through income	**(204)**	143
	Net realised/fair value (losses)/gains on derivative instruments	**(3)**	5
	Net fair value losses on short-term money market instruments	**–**	(2)
	Net fair value losses on financial liabilities designated as at fair value through income	**2**	(14)
	Net fair value gains/(losses) on debt securities	**6**	(14)
	Net realised losses on investment contracts	**(6)**	–
	Net realised gains on debt securities	**2**	–
	Investment income and net losses on financial assets held for sale[1]	**–**	175
	Foreign exchange differences	**–**	175
		861	918

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

10.	**Income tax**		
	Normal taxation		
	Current period	**393**	118
	Recovered from cell owners[1]	**–**	(41)
	Other taxes	**1**	–
	Foreign taxation – current period	**33**	28
	Total income taxation for the period	**427**	105
	Deferred taxation		
	Current period	**17**	121
	Prior period	**–**	(2)
	Total deferred taxation for the period	**17**	119
	Total taxation as per statement of comprehensive income	**444**	224
	Income tax recovered from cell owners and structured insurance products[1]	**(44)**	–
	Total tax expense attributable to shareholders	**400**	224
	Profit before taxation per statement of comprehensive income	**1 626**	1 032
	Adjustment for income tax recovered from cell owners and structured insurance products[1]	**(44)**	–
	Total profit before tax attributable to shareholders	**1 582**	1 032

[1] *As part of the alternative risk transfer business, the Santam Group incurs taxation on behalf of cell owners and policyholders of certain structured insurance products which are fully recovered from these parties. With the acquisition of SSI in the 2017 financial year, the tax on cell owners and structured insurance products is more significant. As a result, the tax on cell owners and structured insurance products in the current period has been separately disclosed in the financial statements. In the prior periods, this tax was disclosed as part of tax expense.*

	Reviewed Six months ended 30 June 2018 R million	Reviewed Six months ended 30 June 2017 R million
10. Income tax (continued)		
Reconciliation of taxation rate (%)		
Normal South African taxation rate	**28.0**	28.0
Adjusted for:		
Disallowable expenses	**0.1**	0.2
Foreign tax differential	**0.2**	0.4
Exempt income	**(1.3)**	(1.3)
Investment results	**–**	(1.3)
Income from associates and joint ventures	**(1.4)**	(1.9)
Exempt foreign currency translation	**–**	(2.3)
Other permanent differences	**(0.3)**	(0.2)
Other taxes	**–**	0.1
Net reduction	**(2.7)**	(6.3)
Effective rate attributable to shareholders (%)	**25.3**	21.7

11. Corporate transactions

2018

Acquisitions

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

During March and June 2018, pro rata recapitalisations took place in terms of which Santam injected a further total of R11 million into the company.

2017

Acquisitions

Santam Structured Insurance (Pty) Ltd

During March 2017, the Santam group acquired a shareholding of 100% in RMB-SI Investments (Pty) Ltd (now Santam Structured Insurance (Pty) Ltd (SSI)) for R193 million in cash. Key SSI management obtained a 10% economic participation interest in SSI at the acquisition date for R20 million. The 10% participatory interest is included as a liability under provisions.

	R million
Details of the assets and liabilities acquired (based on provisional purchase price allocation) are as follows:	
Property and equipment	15
Investment in associates and joint ventures	17
Financial assets at fair value through income	4 341
Reinsurance assets	391
Deferred acquisition costs	9
Loans and receivables including insurance receivables	519
Cash and cash equivalents	1 045
Deferred income tax	(86)
Cell owners' and policyholders' interest	(1 849)
Financial liabilities at fair value through income	(1 551)
Insurance liabilities	(2 242)
Deferred reinsurance acquisition revenue	(2)
Provisions for other liabilities and charges	(30)
Trade and other payables including insurance payables	(350)
Current income tax liabilities	(14)
Net asset value acquired	**213**
Long-term incentive provision	(20)
Purchase consideration paid	**193**

SAN JV (RF) (Pty) Ltd

Effective 10 May 2017, SEM and Santam, through its investment in SAN JV (RF) (Pty) Ltd (SAN JV), acquired a further 16.6% interest in Saham Finances via a subscription for new shares for US$351 million (R4.8 billion). Santam's share of the purchase price, including transaction costs, was US$11 million (R152 million). Santam's interest in SAN JV therefore diluted to 15% (previously 25%). As a result of the dilution, R90 million of the foreign currency translation reserve relating to SAN JV was released to profit or loss. An R18 million gain on dilution was also recognised.

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

During March, June, September and December 2017, pro rata recapitalisations took place in terms of which Santam injected a further total of R23 million into the company.

Disposals

Paladin Underwriting Managers (Pty) Ltd

During January 2017, the group sold its 40% shareholding in Paladin Underwriting Managers (Pty) Ltd for R23 million. The net profit realised was R5 million and capital gains tax of R2 million was recognised.

		Reviewed Six months ended 30 June 2018	Reviewed Six months ended 30 June 2017
12.	**Earnings per share**		
	Basic earnings per share		
	Profit attributable to the company's equity holders (R million)	**1 124**	753
	Weighted average number of ordinary shares in issue (million)	**110.38**	110.26
	Earnings per share (cents)	**1 018**	683
	Diluted earnings per share		
	Profit attributable to the company's equity holders (R million)	**1 124**	753
	Weighted average number of ordinary shares in issue (million)	**110.38**	110.26
	Adjusted for share options	**1.07**	1.02
	Weighted average number of ordinary shares for diluted earnings per share (million)	**111.45**	111.28
	Diluted basic earnings per share (cents)	**1 009**	677
	Headline earnings per share		
	Profit attributable to the company's equity holders (R million)	**1 124**	753
	Adjusted for:		
	Impairment of goodwill and other intangible assets	**–**	7
	Reclassification of foreign currency translation reserve on dilution of associate	**–**	90
	Gain on dilution of associate	**–**	(18)
	Profit on sale of associates	**–**	(5)
	Tax charge on profit on sale of associates	**–**	2
	Foreign currency translation reserve reclassified to profit and loss	**–**	(175)
	Headline earnings (R million)	**1 124**	654
	Weighted average number of ordinary shares in issue (million)	**110.38**	110.26
	Headline earnings per share (cents)	**1 018**	593
	Diluted headline earnings per share		
	Headline earnings (R million)	**1 124**	654
	Weighted average number of ordinary shares for diluted headline earnings per share (million)	**111.45**	111.28
	Diluted headline earnings per share (cents)	**1 009**	588
13.	**Dividend per share**		
	Dividend per share (cents)	**363**	336

14. Restatement of statement of cash flows

As part of management's consideration of the impact of IFRS 9 on the classification and measurement of financial assets, the way in which the investment portfolios are managed and how actively they are traded was assessed. As a result of this assessment it was concluded that it is more appropriate to classify the cash flows relating to the investment portfolios as part of operating activities rather than investing activities. The acquisition of and proceeds from sales relating to strategic investments, equity portfolios and portfolios backing subordinated debt will remain as part of investing activities as these portfolios are not considered part of the operations of the business. Comparative numbers have been restated.

The table below shows the impact of the change:

	Previously reported Six months ended 30 June 2017 R million	Restatement 30 June 2017 R million	Restated Six months ended 30 June 2017 R million
Net cash (used in)/from operating activities			
– Acquisition of financial assets	–	(7 706)	(7 706)
– Proceeds from sale of financial assets	–	6 649	6 649
Net cash (used in)/from investing activities			
– Acquisition of financial assets	(7 774)	7 706	(68)
– Proceeds from sale of financial assets	6 799	(6 649)	150
Net impact	(975)	–	(975)

15. Events after the reporting period

The Santam Board announced on 30 August 2018, Santam's intention to participate in a transaction with Sanlam to increase its effective interest in Saham Finances to 10% by subscribing for further shares in SAN JV to the extent of R864 million, plus its share of transaction costs. Post implementation of the transaction, Santam's effective interest in Saham Finances, held indirectly through SAN JV, will increase from 7% to 10%.

Santam will fund its share of the purchase consideration and transaction costs from available internal resources.

Santam, Sanlam and SEM have in principle reached an agreement for Santam to reduce over time its economic participation in the SEM general insurance businesses in Africa (excluding Namibia) from 35% to 10% to align with the effective 10% interest that Santam will have in Saham Finances.

The transaction is subject to a number of conditions precedent, including regulatory approvals.

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

ADMINISTRATION

NON-EXECUTIVE DIRECTORS
B Campbell, BTPKM Gamedze,
VP Khanyile (chairman), IM Kirk,
MLD Marole, NV Mtetwa, JJ Ngulube,
MJ Reyneke, PE Speckmann, HC Werth

EXECUTIVE DIRECTORS
L Lambrechts (chief executive officer),
HD Nel (chief financial officer)

COMPANY SECRETARY
M Allie

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JSE share code: SNT
NSX share code: SNM

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