2019 ANNUAL FINANCIAL STATEMENTS

Santam

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HOW TO NAVIGATE THE ANNUAL FINANCIAL STATEMENTS

The format of the annual financial statements for 2019 is consistent with that of 2018. All key information relating to a financial line item is grouped in one note.

PRIMARY STATEMENTS

The primary statements are included in the beginning of the annual financial statements and include note references to specific underlying detailed notes.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements consist of insurance-specific, financial instrument-specific and risk management notes first followed by less significant notes thereafter.

ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and company financial statements are included in the specific notes to which they relate and are indicated with a grey background.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated and company financial statements, are included in the specific notes to which they relate and are indicated with a yellow border.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF SANTAM LTD

Responsibility for and approval of the group and company annual financial statements

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

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

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

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

The financial statements were authorised for issue and publication by the board and signed on its behalf by:

VP Khanyile
Chairman

L Lambrechts
Chief executive officer
4 March 2020

PREPARATION AND PRESENTATION OF THE ANNUAL FINANCIAL STATEMENTS

The preparation of the annual financial statements was supervised by the chief financial officer of Santam Ltd, HD Nel.

SECRETARIAL CERTIFICATION

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

M Allie
Company secretary
4 March 2020

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SANTAM LIMITED

Report on the audit of the consolidated and separate financial statements

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly in all material respects, the consolidated and separate financial position of Santam Limited (the Company) and its subsidiaries (together the Group) as at 31 December 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

WHAT WE HAVE AUDITED

Santam Limited's consolidated and separate financial statements set out on pages 16 to 129 comprise:

- the consolidated and separate statements of financial position as at 31 December 2019;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

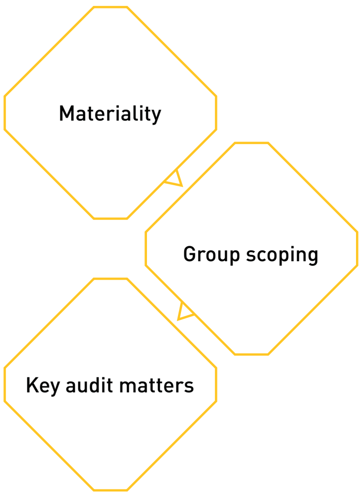
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

OUR AUDIT APPROACH

Overview



Overall group materiality

- Overall group materiality: R173.75 million, which represents 5% of consolidated profit before tax.

Group audit scope

- Full scope audits have been performed in respect of the Company and material subsidiaries based on their financial significance and the risks associated with these subsidiaries

Key audit matters

- The valuation of the Incurred But Not Reported (IBNR) liability; and
- The fair value of the unquoted equity investments in Sanlam Emerging Markets (SEM) target shares.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

INDEPENDENT AUDITOR'S REPORT

MATERIALITY

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R173.75 million
How we determined it	5% of consolidated profit before tax
Rationale for the materiality benchmark applied	We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

HOW WE TAILORED OUR GROUP AUDIT SCOPE

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Based on the relative contribution of the Company and each of the subsidiaries to the Group's profit before tax, we scoped in the Company and four subsidiaries with active insurance licenses. An additional group of entities was scoped in as there are balances in these entities that contribute to the significant risks of material misstatement of the consolidated financial statements. Full scope audits were performed on these entities. Furthermore, we included subsidiaries within our overall scope based on their contribution to consolidated net income, consolidated profit before tax or the consolidated total asset value of the Group.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, or component auditors from other PwC network firms or component auditors from other firms operating under our instructions. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis of our opinion on the consolidated financial statements as a whole.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
The valuation of the Incurred But Not Reported (IBNR) liability	
This key audit matter is applicable to both the consolidated and separate financial statements **Refer to notes 4.1 and 4.5 to the consolidated and separate financial statements** The total value of the Group's gross IBNR liability at 31 December 2019 was R3 064 million (Company – R2 524 million) as disclosed in note 4.1 – Insurance liabilities and reinsurance assets. The calculation of this insurance liability is subject to inherent uncertainty and significant estimation is required. We considered the valuation of the IBNR liability to be a matter of most significance to the current year audit due to the following: – The magnitude of the IBNR liability and sensitivity to the key assumptions; – Substantial uncertainty regarding the ultimate outcome of claims that have occurred but had not yet been reported by the reporting date; – The stochastic approach applied by management to determine the IBNR liability; and – The significance of estimation uncertainty as a result of actuarial assumptions and the assumption that the historical claims development pattern will occur again in the future.	We assessed the reasonability of management's estimate of claims reserves by comparing previous claim estimates to the runoff actually experienced between initial recognition of the claims and the ultimate settlement of the claims. Based on the work we performed, we accepted management's claim reserve estimates. On a sample basis, we tested the data used in calculating actuarial reserves by comparing the data to the claims information on the underlying system such as date of loss, gross claim amount paid and claim number. No material differences were noted. On a sample basis, we tested the claims information recorded on the system (such as loss event, claim estimate, and item being claimed) by tracing the claims to the relevant supporting documentation which detailed the loss event. We compared the claim values used by management to assessor reports. We also tested if the claims were valid claims by testing if the claims related to valid policies (e.g. if the item being claimed was included in the original policy and whether the premium has been paid up). No material differences were noted. We made use of our actuarial expertise to test the model used by management to calculate the IBNR by performing the following procedures: – We compared the methodology applied by management to the methodology applied by other companies in the industry. We found the methodology to be consistent with industry practice; – We recalculated the estimated claims development factors used in the model based on historical data. No material differences were noted; and – We performed independent stochastic simulations, taking into account the standard industry practice. We compared the results of our independent simulations to management's proposed estimates (i.e. best estimate plus margin). We noted that the methods used by management were in line with standard industry practice and no material differences were noted.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
The fair value of the unquoted equity investments in Sanlam Emerging Markets (SEM) target shares	
This key audit matter is applicable to both the consolidated and separate financial statements. The Company subscribes from time to time in separate classes of target shares issued by SEM in terms of a Participation Transaction, with each separate class linked to a participatory interest in target companies. The target companies with the unquoted SEM target shares are disclosed in note 5 to the consolidated and separate financial statements. The fair value of the SEM target shares (R1 474 million at 31 December 2019 for both the Group and the Company) as disclosed in note 5.1 – Financial assets at fair value through income is predominantly determined using a discounted cash flow model. As per note 5.3 - Financial Instruments measured at fair value on a recurring basis, the most significant assumptions used by management in these models are the discount rate and net insurance margin expectations. We considered the fair value of the unquoted equity investments in SEM target shares to be a matter of most significance to the current year audit due to the following: – The significant judgement and estimation uncertainties in the assumptions used by management; and – The magnitude of the unlisted investments.	We assessed managements discounted cash flow model (the model) used by management for appropriateness, taking into account the nature of the investments and comparing the model to industry norms and acceptable methodology. We found the model to be consistent with industry norms. We made use of our valuation expertise to test the assumptions used by management in the model by performing the following procedures: – On a sample basis, we compared the discount rates used by management in the model to a range of discount rates that we independently calculated based on the markets in which the target companies with the unquoted SEM target shares operate, taking into account the nature of the individual target companies. We found the discount rates used to be within a reasonable range of our independently calculated discount rates; – In order to assess the reasonability of the cash flow forecasts used by management in the model, we compared previous budgets to the actual experience of the target companies. Based on the work we performed, we accepted management's cash flow forecasts; – We tested the key drivers of the net insurance margin expectations by comparing them to our independent expectations, which were based on the historical experience, the actual insurance results of the target companies and the markets in which the individual target companies operate. No material differences were noted; and – We compared the fair value of the unquoted equity investments in the SEM target shares used by management to our independently recalculated range of fair values. No material differences were noted.

Other information
The directors are responsible for the other information. The other information comprises the information included in the document titled "Santam 2019 Annual Financial Statements", which includes the Directors' Report, the Report of the Audit Committee and the Secretarial Certification as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the document titled "Santam 2019 Integrated Report", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Santam Limited for 91 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: C van den Heever
Registered Auditor
Cape Town
4 March 2020

REPORT OF THE AUDIT COMMITTEE

COMPOSITION AND CHARTER

The Santam audit committee appointed to hold office until the conclusion of the annual general meeting (AGM) on 3 June 2020, comprises four independent non-executive directors of the company. Messrs MJ Reyneke, B Campbell and PE Speckmann were elected to the committee by the company's shareholders at the AGM on 29 May 2019. Mr MP Fandeso was appointed to the audit committee on 15 January 2020 to fill the vacancy on the committee following the resignation of Ms NV Mtetwa in August 2019. The qualifications of the members of the committee are listed on page 66 of the integrated report. The members possess the necessary expertise to direct the committee in the execution of its duties.

The audit committee of Santam acts as such for the following companies of the group where an audit committee is required in terms of the Companies Act, 71 of 2008, as amended: Santam Ltd, MiWay Insurance Ltd, Centriq Insurance Company Ltd, Centriq Life Insurance Company Ltd, Nova Risk Partners Ltd, Santam Structured Insurance Ltd and Santam Structured Life Ltd. The committee has a charter, approved by the board, dealing, inter alia, with its membership, frequency of meetings and responsibilities. The charter is reviewed annually and was updated during November 2019. The committee has a formal work plan to structure the execution of its responsibilities. The committee reviews reports from the external and internal auditors and the chairman of the committee reports on the findings at board meetings.

FUNCTIONS

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

INTERNAL AND EXTERNAL AUDIT

The committee nominates the independent external auditor to the Santam group and its subsidiaries for appointment by the shareholders and approves the terms of engagement and remuneration for the external audit engagement. The committee has considered the latest IRBA inspection findings report in respect of the external auditor when assessing the suitability of the appointment of the audit firm and the designated audit partner. The head of internal audit functionally reports to the chairman of the audit committee and the audit committee is responsible to review and approve the internal audit charter, the internal audit coverage, as well as resource and financial plans of the internal audit department. The committee also evaluates and promotes the independence of internal audit. The committee ensures a combined assurance model is applied to provide a coordinated approach to all assurance activities in the Santam group.

MEETINGS

The committee held four scheduled meetings during the year under review. The required quorum was present at all meetings held. During the year the audit committee reviewed communication from the external auditors and, after conducting its own review, confirmed the independence of the auditors. The committee also considered and determined the fees and terms of engagement of the external auditors. Furthermore, the nature and extent of all non-audit services provided by PricewaterhouseCoopers Inc and the fees in connection therewith were reviewed and approved by the committee.

CHIEF FINANCIAL OFFICER

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

INTEGRATED REPORT AND ANNUAL FINANCIAL STATEMENTS

The audit committee reviewed the 2019 Santam Ltd integrated report and considered factors and risks that may impact on the integrity of the report. The audit committee also reviewed the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information. The audit committee has not recommended the engagement of an external assurance provider on material sustainability issues to the board as it is of the view that the assurance provided is adequate, given the maturity of the processes in place. The committee has recommended the integrated report and annual financial statements to the board for approval.

EFFECTIVENESS OF INTERNAL FINANCIAL CONTROLS

The audit committee has confirmed that effective systems of internal control and risk management are being maintained. There were no breakdowns in the functioning of the internal financial control systems during the year, which had a material impact on the Santam Ltd Group annual financial statements. The board is satisfied that the annual financial statements fairly present the financial position, changes in equity, the results of operations and cash flows for the group in accordance with International Financial Reporting Standards and supported by reasonable and prudent judgements consistently applied.

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

PE Speckmann
Chairman of the audit committee
4 March 2020

DIRECTORS' REPORT

ACTIVITIES

Santam Ltd (a public company incorporated in South Africa) and its subsidiaries transact all classes of general insurance. Certain licensed subsidiaries conduct individual life and investment linked business.

FINANCIAL REVIEW

The Santam group reported strong operational results for the year under difficult economic circumstances.

The group's conventional insurance book achieved gross written premium growth of 7% and a net underwriting margin of 7.7% (2018: 9.2%) of net earned premiums, at the high-end of the group's target range of 4% to 8%. The Alternative Risk Transfer (ART) business segment reported strong operating results of R171 million (2018: R96 million). The Sanlam Emerging Markets general insurance businesses (SEM) delivered overall acceptable operating results. Shriram General Insurance Company Ltd (SGI) in India achieved excellent net insurance results, which mainly offset continued high general insurance claims experienced in the Saham territories.

Net investment income attributable to shareholders, inclusive of investment return on insurance funds, of R1 396 million (2018: R1 105 million) was reported. Fair value gains on financial assets and increased interest income were key contributors to the improved performance. Negligible gains on foreign exchange differences were recognised in 2019 compared to R376 million reported in 2018. Equity-accounted earnings from associates amounted to a loss of R42 million (2018: gain of R291 million) and was negatively impacted by below par operating results and an impairment of goodwill recorded by SAN JV, the investment holding company of Saham.

Cash generated from operations increased to R5.8 billion (2018: R5.5 billion), due to better investment returns realised.

Headline earnings decreased to 2 069 cps compared to 2 099 cps in 2018. Increased investment income attributable to shareholders was partially offset by the lower underwriting results achieved.

A return on capital (ROC) of 22.2% was achieved, below the ROC threshold of 24%. The lower ROC was negatively impacted by foreign currency translation losses of R315 million, mainly relating to Saham's businesses in Angola and Lebanon. ROC was previously calculated as the profit attributable to equity holders of the company divided by the average equity balance (excluding non-controlling interests). Due to the impact of the foreign currency translation reserve movements relating to SAN JV, it was deemed more appropriate to use total comprehensive income attributable to equity holders of the company instead of only attributable profit. In addition the investment in Saham is included at fair value for purposes of the ROC calculation to better reflect the economic return on capital to shareholders. The seven-year review on page 104 of the integrated report reflects the restated percentages.

The economic capital coverage ratio was 160% – at the midpoint of the target range of 150% to 170%.

Conventional insurance

The conventional insurance business reported a net underwriting margin of 7.7% compared to the exceptional 9.2% reported in 2018. The underwriting results in the current period were negatively influenced by increased catastrophe claims compared to 2018, as well as losses incurred in the crop business due to hail and frost damage.

GROSS WRITTEN PREMIUM GROWTH

Conventional insurance reported satisfactory growth of 7%. The Santam Commercial and Personal intermediated business achieved growth in line with the nominal gross domestic product growth in a difficult economic climate. The Santam Specialist business experienced continued strong growth in the property, heavy haulage and engineering classes, with acceptable growth in the other specialist classes.

MiWay maintained its growth momentum from the first half of 2019 and reported gross written premium growth of 10%. Santam re achieved excellent growth in its third-party business.

Gross written premiums from outside South Africa written on the Santam Ltd and Santam Namibia Ltd licences amounted to R3 866 million (2018: R3 367 million), equating to 15% growth. Strong growth was achieved by the corporate property and engineering businesses in Africa, as well as in Santam re in Southeast Asia, India and the Middle East. Santam Namibia growth was negatively impacted by weak economic conditions. Continued progress was made in establishing a Pan-African specialist insurance business with Saham, and the benefits from this cooperation should start to realise from 2020 onwards.

The property class reported growth of 9% on the back of strong growth in the specialist property business following lower reinsurance capacity available in the market. Crop insurance gross written premiums grew by 22%, supported by weak competitor capacity, a change in the mix of farming crop types that increased insured values in South Africa, as well as reinsurance partner business.

The motor class grew by 4%, with MiWay reporting 10% growth (gross written premium of R2 751 million; 2018: R2 496 million). The commercial motor intermediated business experienced significant strain on growth due to difficult market conditions as well as loss of business due to underwriting actions.

The engineering class benefited from a number of large construction projects, mainly outside South Africa, and reported excellent growth of 20%.

The liability class continued to experience competitive pressure and focused on improved profitability, resulting in growth of 5% (2018: 2%) during the period.

The accident and health class reported growth of 9%, with pressure experienced in the travel insurance business offset by strong growth reported by Santam re.

DIRECTORS' REPORT

UNDERWRITING RESULT

Following a difficult start to 2019, with normalised catastrophe events (impact of R334 million compared to R114 million in 2018) and significant crop insurance losses, the business experienced a subdued claims environment for the remainder of the year, resulting in a strong underwriting performance.

The Santam Commercial and Personal intermediated business reported excellent underwriting results, although lower than its exceptional 2018 results. The business benefited from the new underwriting, administration and product platform as well as disciplined underwriting actions.

The motor class reported strong underwriting performance in the intermediated and direct distribution channels. The MiWay underwriting results were not significantly impacted by the catastrophe events during the period, resulting in an improved loss ratio of 54.2% (2018: 55.2%) and an underwriting profit of R393 million (2018: R334 million).

The property class reported an underwriting result of R212 million, compared to the R519 million reported in 2018, negatively impacted by catastrophe events in South Africa. Santam re also experienced claims from natural disasters in territories outside of South Africa.

The Specialist business benefited from the strong underwriting results achieved by the property and engineering classes of business. The liability results improved significantly from the 2018 position, which was negatively impacted by the product recall claims relating to the listeriosis outbreak.

The Specialist business results were negatively impacted by the continued underwriting losses reported by the Trade Credit Business that is in run-off since August 2019. The crop insurance class was negatively impacted by significant hail and frost-related claims resulting in a net underwriting loss of R87 million (2018: net underwriting profit of R54 million).

Santam re achieved acceptable net underwriting results, despite the impact of international catastrophes.

The net acquisition cost ratio of 30.2% decreased from 30.4% in 2018. The net commission ratio was 12.5% compared to 12.4% in 2018.

The management expense ratio of 17.7% reduced from the 18.1% reported in 2018. The 2019 expenses increased by R46 million following the adoption of the new International Financial Reporting Standard on leases (IFRS 16 *Leases*). The 2018 expense ratio was negatively impacted by a provision raised to account for the liquidity concerns at a third-party premium-collection agency that went into voluntary curatorship.

Strategic project costs, included as part of management expenses, amounted to 1% (2018: 1%) of net earned premium. These costs relate to the final phase of migration to a new core underwriting, administration and product management platform for the Santam intermediated business, the development of a new claims platform, project costs relating to IFRS 17, data enhancements and future digital solutions.

INVESTMENT RETURN ON INSURANCE FUNDS

The investment return on insurance funds of 2.4% of net earned premium was on par with 2018. More than 20% of the insurance funds are held in foreign currency investments (mainly US dollar denominated) to ensure appropriate asset liability matching. Good progress was made during 2019 to improve the investment returns on the dollar denominated investments.

Alternative risk transfer business (ART)

The ART business reported excellent operating results of R171 million (2018: R96 million). Centriq and Santam Structured Insurance benefited from increased fee income and improved investment margins. Strong growth was achieved in the risk finance and alternative distribution businesses.

SEM general insurance business

The emerging markets general insurance business portfolio includes investments in Saham (based in Morocco with subsidiaries in 26 countries in Africa and the Middle East); Pacific & Orient Insurance Co. Berhad (P&O) in Malaysia; SGI in India; and a further 11 general insurance businesses throughout Africa which are held in conjunction with SEM, excluding South Africa and Namibia.

Effective 1 January 2019, Santam's economic participation via the SEM African Target Share portfolio was amended to reduce the participation percentage from 35% to 10%. Santam increased its effective interest in Saham from 6.97% to 10% on 1 October 2018.

GROSS WRITTEN PREMIUM GROWTH

The Saham general insurance portfolio achieved overall gross written premium growth on a comparable basis of 13%, broadly in line with the target for the year. SGI experienced strong growth of 18% in gross written premiums, while P&O contributed 7% growth, which was below expectations.

NET INSURANCE RESULT

Saham

The Saham portfolio had a difficult year with claims experience remaining elevated across the general insurance portfolio. A net underwriting margin of 2% was achieved, well below the 5% to 9% target range. Good return on insurance funds, in particular in Morocco, supported a net insurance margin of 13.8%, which exceeded the lower end of the net insurance result target range of 12% to 18%.

DIRECTORS' REPORT

High motor claims experience persisted in Morocco, in line with industry experience. Repricing and claims management improvement processes implemented during the year will take some time to reflect in the underwriting margin. The return on insurance funds exceeded targets for the year, with the equity and bond portfolios outperforming benchmarks. This contributed to a net insurance margin of 17%, well within the target range, despite a below par underwriting margin of 0.8%. The Moroccan life business performed well in excess of its target for the year, benefiting from good group life mortality profit and positive investment variances.

Operating earnings from Côte d'Ivoire disappointed. A number of mid-size fire claims, elevated medical inflation and a strengthening in reserves impacted on the Côte d'Ivoire general insurance underwriting results. The life insurance business also experienced lower than expected profitability due to negative investment variances, the combination of negative equity market returns and an underperformance against benchmark.

Angola had a weak 2019 with a combined ratio in excess of 100%. The significant devaluation of the Angolan currency resulted in increased cost of imported motor parts and medical inflation, placing significant pressure on claims experience. Repricing and a stabilisation in the currency should improve earnings in 2020.

A deterioration in Saham Re's claims ratio reflected the second order impact of the elevated claims experience in Morocco, Angola and Côte d'Ivoire.

Operating conditions deteriorated significantly in Lebanon towards the end of 2019 in the face of a major slowdown in the economy and widespread social unrest. Positive claims experience enabled the general insurance business, which contributes some 80% of the Lebanese profit, to outperform its target for the year, despite the economic challenges. Given the difficult operating environment, these results are not regarded as sustainable. Attractive interest rates offered by local banks and pressure on disposable income contributed to low new life business volumes and weak persistency. Life insurance profits were commensurately under pressure.

Other SEM general insurance businesses

SGI delivered exemplary performance with a net insurance result margin of 48% (2018: 24%). This is due to a major improvement in the performance of the third-party motor book. This line of business benefited from lower claims frequency (an improving trend over the last few years) as well as strategic focus on claims management that is yielding results through better fraud detection and faster settlement of claims at a lower ultimate cost per claim. This contributed to a lower reserving basis in 2019.

High claims experience persisted at P&O. Management expenses grew due to increased marketing expenditure and system development costs incurred to support an expansion in the number of agents in pursuit of its motor strategy. This contributed to a decline in net insurance result.

Investment results

Santam's listed equity portfolio achieved a return of 10% for the year ended 31 December 2019, relative to the SWIX benchmark (60% SWIX and 40% Capped SWIX) which delivered a return of 8.3%.

The Santam group's interest exposure is managed in enhanced cash and active income portfolios. The interest portfolios delivered good results and exceeded their STeFI-related benchmarks.

An exchange rate loss of R82 million, relating to currency movements on Santam's interest in SEM's general insurance businesses in Africa, India and Southeast Asia was incurred compared to a R104 million gain reported in 2018.

During June 2019 Santam used the opportunity to lock in some of the foreign currency gains on R500 million worth of exposure against the US dollar, which realised a profit of R5 million on 12 December 2019. A further foreign currency collar on R500 million worth of exposure was entered into on 19 August 2019 at a spot rate of 15.25 against the US dollar. As at 31 December 2019, the instrument's valuation amounted to R34 million. The maturity date for the collar is 19 May 2020.

Positive fair value movements (excluding the impact of currency movements) of R393 million (2018: R130 million) in Santam's interest in SEM's general insurance businesses in Africa, India and Southeast Asia contributed to the improved investment performance. The main driver of the fair value movements was an increase in the value of SGI of R436 million which was mainly attributed to improved loss ratios and a decrease in the corporate tax rate.

Net losses from associated companies of R42 million included operating profit of R33 million, amortisation of value of business acquired (VOBA) of R42 million and an IFRS impairment of goodwill of R80 million from Saham (held through SAN JV). The other key contributor to earnings from associated companies was Western National Insurance Ltd. The 2018 net earnings from associated companies of R291 million included a profit on deemed disposal of associate of R164 million from Saham.

Capital

The group economic capital requirement at 31 December 2019, based on the internal model, amounted to R7.3 billion (2018: R6.9 billion). This equates to an economic capital coverage ratio of 160%.

The Santam Ltd licence received approval from the Prudential Authority on 27 August 2019 to use its partial internal model for determining regulatory capital. A condition attached to the approval is that Santam will, initially, be required to hold a capital add-on equal to 20% of the benefit obtained from using the partial internal model instead of the standard formula. Santam will be able to reduce the capital add-on over time by complying with the requirements of the Prudential Authority.

As at 31 December 2019, the capital requirement under the regulatory internal model, after allowing for the capital add-on, was R1.2 billion lower than required under the standard formula.

DIRECTORS' REPORT

Following the partial internal model approval (including the capital add-on), Santam has revised its group economic coverage ratio band to be between 150% and 170%.

The group will be comfortable to operate at the lower end of this range and remains committed to efficient capital management.

ORDINARY SHARES ISSUED

The shares in issue remained at 115 131 417 (2018: 115 131 417) shares of no par value (including 4 656 120 (2018: 4 674 917) treasury shares). In terms of the deferred share plan (DSP) implemented in 2007 and the performance deferred share plan (PDSP), 352 951 (2018: 289 759) shares were granted to employees on a deferred delivery basis during the year, 31 357 (2018: 94 011) shares lapsed as a result of resignations and 319 771 (2018: 323 319) treasury shares were issued in terms of the DSP and PDSP. Full details are set out in note 17 to the annual financial statements.

A subsidiary in the group holds a total of 4 381 950 (2018: 4 355 468) Santam shares. The shares are held as treasury shares. Furthermore, since the unwinding of the Central Plaza structure in 2015, the Emthunzini BBBEE staff trust is under the control of Santam Ltd, resulting in 274 170 (2018: 319 449) shares being recognised as treasury shares as at 31 December 2019 (refer to notes 16 and 17.1 for further details).

DIRECTORS' REPORT

CAPITAL STRUCTURE

Debt securities

For details on debt securities, refer to note 6.1 to the financial statements.

Share capital

For details on ordinary shares issued, refer to note 16 to the financial statements.

ORDINARY DIVIDENDS

	Group	
	2019 R million	2018 R million
The following dividends were paid and are proposed:		
Interim dividend of 392 cents per share (2018: 363 cents)	**451**	418
Final dividend of 718 cents per share (2018: 665 cents)	**827**	766
	1 278	1 184

SUBSIDIARIES

Details of the company's direct and indirect interests in subsidiaries are set out in note 10.1 to the financial statements. The following changes in shareholding took place during the year:

- On 1 March 2019, the Santam group acquired a shareholding of 100% in Vantage Insurance Acceptances (Pty) Ltd for R31.3 million, including contingent payments estimated at R6 million.
- On 1 March 2019, the Santam group acquired a shareholding of 100% in X'S Sure (Pty) Ltd for R36 million, including contingent payments estimated at R6 million.

ASSOCIATED COMPANIES AND JOINT VENTURES

Details of the holding company's interest in associated companies and joint ventures are set out in note 12.1 to the financial statements. No changes in shareholding took place during the year.

DIRECTORS' REPORT

RELATED PARTIES

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

For related-party transactions and key management personnel, refer to notes 10.2 (transactions with subsidiaries in the Santam group), 12.2 (transactions with associated companies and joint ventures in the Santam group), 20.3.1 (transactions with key management, directors and prescribed officers) and 27 (transactions with Sanlam group entities) to the annual financial statements.

Details of directors' remuneration and their interest in the company's shares appear in notes 16.1 (interest in the shares of the company), 17.1 (deferred share plan), 20.3.1 (remuneration received from the company) and 27 (remuneration received from other companies in the group) to the annual financial statements.

HOLDING COMPANY

Sanlam Ltd, the company's holding company, holds 61.5% (2018: 61.5%) of the total issued ordinary share capital, net of treasury shares.

SEGMENT INFORMATION

Refer to note 2 in the notes to the annual financial statements for the segmental report.

Directorate and Company Secretary

Committee memberships	Risk Committee	Audit Committee	Human Resources and Remuneration Committee	Nominations Committee	Social, Ethics and Sustainability Committee	Investment Committee
Non-executive directors						
B Campbell	✓	✓			✓	
MP Fandeso*	✓	✓				
VP Khanyile (chairman)			✓	✓		
IM Kirk			✓	✓		
MLD Marole			✓	✓	✓	
JJ Ngulube					✓	
MJ Reyneke	✓	✓				✓
PE Speckmann	✓	✓				
Executive directors						
L Lambrechts (chief executive officer)	✓					✓
HD Nel (chief financial officer)	✓					✓

** MP Fandeso was appointed on 15 January 2020, all other directors were appointed prior to 31 December 2019.*

The following changes took place on the company's board of directors during the year:
BTPKM Gamedze – Resigned from the board on 28 February 2019
HC Werth – Resigned from the board on 1 August 2019
NV Mtetwa – Resigned from the board on 31 August 2019

The following changes took place on the company's board of directors subsequent to 31 December 2019:
MP Fandeso – Appointed to the board on 15 January 2020

Company Secretary

M Allie

Registered office for company secretary

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

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

DIRECTORS' REPORT

AUDITORS

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

SPECIAL RESOLUTIONS PASSED

The following special resolutions were passed by Santam Ltd at the annual general meeting on 29 May 2019:

- Approval of non-executive directors' remuneration.
- General authority to the directors, in accordance with the JSE Listings Requirements and Companies Act, to repurchase the company's shares.
- General authority to grant financial assistance to any related party established for the benefit of employees of the group in connection with the purchase of securities.
- General authority to provide direct or indirect financial assistance to related companies or persons (or inter-related companies or corporations).

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

The company is from time to time, as an essential part of conducting the business of the group, required to provide financial assistance to group companies as part of its day-to-day operations in the form of loan funding, guarantees or general financial assistance as contemplated in section 45 of the Companies Act. In accordance with section 45(5) of the Companies Act this serves to give notice that the Santam board, in line with existing practice, approved that the company may, in accordance with and subject to the provisions of section 45 of the Companies Act and in terms of the special resolution passed at the company's annual general meeting in 2019, provide such direct or indirect financial assistance to related and inter-related companies and corporations as described in section 45 of the Companies Act. The amount and format of financial assistance which may be granted pursuant to the resolution is subject to ongoing review by the Santam board and may in total exceed the reporting threshold of 0.1% of the Santam group's net asset value provided for in the Companies Act.

STATEMENTS OF FINANCIAL POSITION

	Notes	Group 2019 R million	Group 2018 R million	Company 2019 R million	Company 2018 R million
ASSETS					
Intangible assets	13	**948**	885	**240**	242
Property and equipment	15	**984**	142	**695**	60
Investment in subsidiaries	10	**–**	–	**1 109**	1 109
Investment in associates and joint ventures	12	**2 661**	2 927	**2 514**	2 476
Strategic investment – unquoted SEM target shares	5.1, 5.2	**1 474**	1 323	**1 474**	1 323
Deferred income tax	22	**107**	155	**–**	45
Deposit with cell owner	9.3	**180**	191	**–**	–
Cell owners' and policyholders' interest	9.1	**26**	13	**–**	–
Financial assets at fair value through income	5.1, 5.2	**24 411**	22 454	**11 058**	10 777
Reinsurance assets	4.1	**6 821**	6 487	**5 763**	5 676
Deferred acquisition costs	4.1.2	**727**	619	**639**	564
Loans and receivables including insurance receivables	4.2, 5.6	**6 237**	6 274	**4 794**	4 988
Current income tax assets		**16**	10	**–**	–
Cash and cash equivalents	5.7	**4 642**	3 618	**2 057**	1 361
Total assets		**49 234**	45 098	**30 343**	28 621
EQUITY					
Capital and reserves attributable to the company's equity holders					
Share capital	16	**103**	103	**103**	103
Treasury shares	16	**(482)**	(467)	**–**	–
Other reserves	18.1	**(405)**	(90)	**–**	–
Distributable reserves	18.2	**10 326**	9 311	**8 398**	7 763
		9 542	8 857	**8 501**	7 866
Non-controlling interest	11	**521**	508	**–**	–
Total equity		**10 063**	9 365	**8 501**	7 866
LIABILITIES					
Deferred income tax	22	**78**	81	**–**	–
Cell owners' and policyholders' interest	9.1, 9.2	**3 964**	3 343	**–**	–
Reinsurance liability relating to cell owners	9.4	**180**	191	**–**	–
Financial liabilities at fair value through income					
Debt securities	6.1	**2 080**	2 072	**2 080**	2 072
Investment contracts	6.3	**1 618**	1 528	**–**	–
Derivatives	6.4	**–**	4	**–**	4
Lease liability	15.2, 6.9	**978**	–	**731**	–
Financial liabilities at amortised cost					
Repo liability	6.5	**785**	759	**–**	–
Collateral guarantee contracts	6.6	**120**	158	**120**	158
Insurance liabilities	4.1	**23 207**	20 662	**14 285**	13 300
Deferred reinsurance acquisition revenue	4.1.2	**489**	487	**408**	374
Provisions for other liabilities and charges	19	**123**	162	**72**	99
Trade and other payables including insurance payables	4.3, 6.7	**5 280**	5 922	**3 952**	4 434
Current income tax liabilities		**269**	364	**194**	314
Total liabilities		**39 171**	35 733	**21 842**	20 755
Total shareholders' equity and liabilities		**49 234**	45 098	**30 343**	28 621

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Group 2019 R million	Group Restated 2018 R million	Company 2019 R million	Company 2018 R million
Gross written premium		**35 852**	33 109	**28 431**	26 361
Less: reinsurance written premium		**10 720**	9 041	**5 840**	5 320
Net written premium		**25 132**	24 068	**22 591**	21 041
Less: change in unearned premium					
Gross amount	4.1.1	**1 494**	2 019	**489**	225
Reinsurers' share	4.1.1	**(588)**	(763)	**(186)**	(192)
Net insurance premium revenue		**24 226**	22 812	**22 288**	21 008
Interest income on amortised cost instruments	5.9	**186**	91	**25**	21
Interest income on fair value through income instruments	5.9	**1 580**	1 497	**817**	800
Other investment income	5.9	**288**	523	**370**	466
Income from reinsurance contracts ceded		**1 995**	1 889	**1 435**	1 336
Net gains/(losses) on financial assets and liabilities at fair value through income	5.10	**321**	(428)	**341**	6
Other income	20.1	**271**	246	**56**	64
Net income		**28 867**	26 630	**25 332**	23 701
Insurance claims and loss adjustment expenses	4.4	**19 894**	18 442	**16 525**	15 659
Insurance claims and loss adjustment expenses recovered from reinsurers	4.4	**(4 813)**	(4 615)	**(2 665)**	(3 030)
Net insurance benefits and claims		**15 081**	13 827	**13 860**	12 629
Expenses for the acquisition of insurance contracts	20	**4 878**	4 524	**5 164**	4 792
Expenses for marketing and administration	20	**4 536**	4 465	**3 316**	3 324
Expenses for investment-related activities	20	**70**	67	**44**	24
Amortisation and impairment of intangible assets	13, 20	**79**	69	**39**	41
Impairment of loans		**–**	5	**–**	–
Investment return allocated to cell owners and structured insurance products		**614**	179	**–**	–
Expenses		**25 258**	23 136	**22 423**	20 810
Results of operating activities		**3 609**	3 494	**2 909**	2 891
Finance costs	6.8	**(368)**	(331)	**(267)**	(265)
Net (loss)/income from associates and joint ventures	12	**(42)**	291	**–**	–
Profit on sale of associates	12, 14	**–**	40	**–**	11
Loss on dilution of associate		**–**	(88)	**–**	–
Reclassification of foreign currency translation reserve on dilution of associate	14	**–**	19	**–**	–
Impairment of associates and joint ventures	12	**(4)**	(12)	**(120)**	–
Income tax recovered from cell owners and structured insurance products	21	**280**	106	**–**	–
Profit before tax		**3 475**	3 519	**2 522**	2 637
Tax expense allocated to shareholders		**(874)**	(884)	**(651)**	(700)
Tax expense allocated to cell owners and structured insurance products		**(280)**	(106)	**–**	–
Total tax expense	21	**(1 154)**	(990)	**(651)**	(700)
Profit for the year		**2 321**	2 529	**1 871**	1 937
Other comprehensive income, net of tax					
Items that may subsequently be reclassified to income					
Share of associates' currency translation differences	18.1	**(315)**	143	**–**	–
Reclassification of foreign currency translation reserve on dilution of associate	14, 18.1	**–**	(19)	**–**	–
Hedging reserve release	18.1	**–**	(46)	**–**	(46)
Hedging reserve movement	18.1	**–**	46	**–**	46
Total comprehensive income for the year		**2 006**	2 653	**1 871**	1 937
Profit attributable to:					
– equity holders of the company		**2 199**	2 427	**1 871**	1 937
– non-controlling interest		**122**	102	**–**	–
		2 321	2 529	**1 871**	1 937
Total comprehensive income attributable to:					
– equity holders of the company		**1 884**	2 551	**1 871**	1 937
– non-controlling interest		**122**	102	**–**	–
		2 006	2 653	**1 871**	1 937
Earnings attributable to equity holders	23				
Basic earnings per share (cents)		**1 990**	2 198		
Diluted earnings per share (cents)		**1 978**	2 182		

STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the company						
	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
GROUP							
Balance as at 1 January 2018	103	(470)	(214)	7 999	**7 418**	506	**7 924**
Profit for the year	–	–	–	2 427	**2 427**	102	**2 529**
Other comprehensive income:							
Share of associates' currency translation differences	–	–	143	–	**143**	–	**143**
Reclassification of foreign currency translation reserve on dilution of associate	–	–	(19)	–	**(19)**	–	**(19)**
Hedging reserve release	–	–	(46)	–	**(46)**	–	**(46)**
Hedging reserve movement	–	–	46	–	**46**	–	**46**
Total comprehensive income for the year ended 31 December 2018	**–**	**–**	**124**	**2 427**	**2 551**	**102**	**2 653**
Issue of treasury shares in terms of share option schemes	–	94	–	(94)	**–**	–	**–**
Purchase of treasury shares	–	(91)	–	–	**(91)**	–	**(91)**
Share-based payment costs	–	–	–	65	**65**	–	**65**
Dividends paid	–	–	–	(1 086)	**(1 086)**	(100)	**(1 186)**
Balance as at 31 December 2018	**103**	**(467)**	**(90)**	**9 311**	**8 857**	**508**	**9 365**
Profit for the year	–	–	–	2 199	**2 199**	122	**2 321**
Other comprehensive income:							
Share of associates' currency translation differences	–	–	(315)	–	**(315)**	–	**(315)**
Total comprehensive income for the year ended 31 December 2019	**–**	**–**	**(315)**	**2 199**	**1 884**	**122**	**2 006**
Issue of treasury shares in terms of share option schemes	–	91	–	(91)	**–**	–	**–**
Purchase of treasury shares	–	(106)	–	–	**(106)**	–	**(106)**
Share-based payment costs	–	–	–	85	**85**	–	**85**
Share of associates' other movements in retained earnings	–	–	–	(7)	**(7)**	–	**(7)**
Dividends paid	–	–	–	(1 171)	**(1 171)**	(109)	**(1 280)**
Balance as at 31 December 2019	**103**	**(482)**	**(405)**	**10 326**	**9 542**	**521**	**10 063**

	Attributable to equity holders of the company						
	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
COMPANY							
Balance as at 1 January 2018	103	–	–	6 980	**7 083**	–	**7 083**
Profit for the year	–	–	–	1 937	**1 937**	–	**1 937**
Other comprehensive income:							
Hedging reserve release	–	–	(46)	–	**(46)**	–	**(46)**
Hedging reserve movement	–	–	46	–	**46**	–	**46**
Total comprehensive income for the year ended 31 December 2018	**–**	**–**	**–**	**1 937**	**1 937**	**–**	**1 937**
Share-based payment costs	–	–	–	76	**76**	–	**76**
Loss on delivery of shares in terms of share scheme	–	–	–	(103)	**(103)**	–	**(103)**
Dividends paid	–	–	–	(1 127)	**(1 127)**	–	**(1 127)**
Balance as at 31 December 2018	**103**	**–**	**–**	**7 763**	**7 866**	**–**	**7 866**
Profit for the year	–	–	–	1 871	**1 871**	–	**1 871**
Total comprehensive income for the year ended 31 December 2019	**–**	**–**	**–**	**1 871**	**1 871**	**–**	**1 871**
Share-based payment costs	–	–	–	79	**79**	–	**79**
Loss on delivery of shares in terms of share scheme	–	–	–	(98)	**(98)**	–	**(98)**
Dividends paid	–	–	–	(1 217)	**(1 217)**	–	**(1 217)**
Balance as at 31 December 2019	**103**	**–**	**–**	**8 398**	**8 501**	**–**	**8 501**

STATEMENTS OF CASH FLOWS

	Notes	Group 2019 R million	Group 2018 R million	Company 2019 R million	Company 2018 R million
Cash flows from operating activities					
Cash generated from operations	25	**5 831**	5 461	**3 418**	3 290
Interest paid		**(339)**	(322)	**(249)**	(274)
Income tax paid	26	**(955)**	(785)	**(730)**	(606)
Acquisition of financial assets		**(24 169)**	(19 025)	**(15 575)**	(13 949)
Proceeds from sale of financial assets		**22 529**	15 807	**15 365**	12 476
Net cash from operating activities		**2 897**	1 136	**2 229**	937
Cash flows from investing activities					
Acquisition of financial assets		**(913)**	(909)	**(913)**	(909)
Proceeds from sale of financial assets		**958**	1 166	**958**	1 166
Acquisition of subsidiaries, net of cash acquired	14	**(48)**	(86)	**–**	–
Purchases of equipment	15.1	**(53)**	(62)	**(29)**	(30)
Purchases of intangible assets	13	**(67)**	(27)	**(37)**	–
Proceeds from sale of equipment and intangible assets		**–**	3	**–**	–
Acquisition of associates and joint ventures	14	**–**	(923)	**–**	(911)
Capitalisation of associates	14	**(158)**	(15)	**(158)**	(15)
Proceeds from sale of associates	14	**–**	168	**–**	114
Net cash used in investing activities		**(281)**	(685)	**(179)**	(585)
Cash flows from financing activities					
Purchase of treasury shares		**(106)**	(91)	**–**	–
Payment of principal element of lease liabilities		**(173)**	–	**(108)**	–
Dividends paid to company's shareholders		**(1 171)**	(1 086)	**(1 217)**	(1 127)
Dividends paid to non-controlling interest		**(109)**	(100)	**–**	–
Net cash used in financing activities		**(1 559)**	(1 277)	**(1 325)**	(1 127)
Net increase/(decrease) in cash and cash equivalents		**1 057**	(826)	**725**	(775)
Cash and cash equivalents at beginning of year		**3 618**	4 321	**1 361**	2 026
Exchange (losses)/gains on cash and cash equivalents		**(33)**	123	**(29)**	110
Cash and cash equivalents at end of year		**4 642**	3 618	**2 057**	1 361

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and company financial statements are included in the specific notes to which they relate. These policies have been consistently applied to all the years presented, unless otherwise indicated.

1.1 Statement of compliance

The financial statements are prepared in accordance with the JSE Ltd Listings Requirements (Listings Requirements), the requirements of the Companies Act and the company's memorandum of incorporation. The Listings Requirements require annual reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the IFRS Interpretations Committee interpretations and the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council.

1.2 Basis of preparation

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

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

The December 2018 consolidated statement of comprehensive income was restated as a result of an incorrect allocation between interest income and fair value gains/losses on financial assets of R708 million. Refer to note 31 for detail.

The December 2018 operating lease commitments were restated as a result of certain agreements being incorrectly included as an operating lease commitment. Refer to note 31 for detail.

Refer to note 32 for new standards, amendments and interpretations effective and not yet effective in 2019, as well as a detailed analysis of the expected impact of the standards that are not yet effective.

STANDARDS EFFECTIVE IN 2019

The following new IFRSs and/or IFRICs were effective for the first time from 1 January 2019:

- IFRS 16 – *Leases*
- Amendments to IAS 28 – *Investments in Associates and Joint Ventures*
- Annual improvements 2015 – 2017 cycle
- IFRIC 23 – *Uncertainty over Income Tax Treatments*

Except for IFRS 16, no material impact on the annual financial statements was identified.

IFRS 16 *Leases* (effective 1 January 2019) addresses the establishment of principles for the recognition, measurement, presentation and disclosure of all lease arrangements within the scope of the standard. Under the new standard, an asset (the right to use the leased item) and the liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. Further detail relating to the implementation of IFRS 16 is provided in note 15.

STANDARDS NOT YET EFFECTIVE IN 2019

The group did not early adopt any of the IFRS standards. Of the standards that are not yet effective, management expects IFRS 17 to have a future impact on the group and company.

IFRS 17 *Insurance Contracts* (effective 1 January 2022 (subject to the International Accounting Standards Board's (IASB's) due process)) addresses the establishment of principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. This is to effect a measurement model for insurance liabilities relating to policyholder contracts as well as related accounting treatments. A detailed analysis relating to the implementation of IFRS 17 is provided in note 32.

1.3 Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group and company's accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are highlighted below with more detail provided in the specific notes to which they relate:

- Claims incurred but not reported (IBNR) – note 4.1
- Fair value of financial instruments that are not listed or quoted – note 5.3

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2 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 (ART) insurance business written on the insurance licences of Centriq and SSI; and
- Santam's share of the insurance results of the Sanlam Emerging Markets general insurance businesses (SEM) and SAN JV (Saham).

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 General Insurance businesses based on the gross written premium generated by the underlying businesses. With regard to the SEM and Saham 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 (Saham).

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.

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.

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. Revenue is earned from the various investment portfolios managed in the form of interest, dividend and fair value gains or losses, as well income from associates and joint ventures that are not considered to be strategic investments.

ALL ACTIVITIES

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

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 where the business originates. Non-current assets comprise goodwill and intangible assets, property and equipment, investments in associates and joint ventures and SEM target shares.

During the current year, the segmental disclosure has been adjusted as follows:

- Detail regarding conventional insurance business has been removed from the main table and is included as a subsection.
- The presentation of ART results has been changed to better reflect the management view of the business, due to the fact that the majority of the shareholders' share of profit relates to income from clients and not underwriting results.
- Further information has been provided in relation to the key income statement line items for SAN JV (Saham) as this better reflects how management reviews the results. Previously, results from reinsurance business for SAN JV was disclosed separately, but as it relates only to general insurance business and not life business, it has been included with the general insurance business, as these businesses are managed together.

2 SEGMENT INFORMATION (continued)

2.1 Segment report

For the year ended 31 December 2019 Business activity	Insurance Conventional R million	 Alternative risk transfer R million	 Santam's share of SEM and SAN JV R million	 Total R million
Revenue	**29 725**	**6 127**	**2 771**	**38 623**
External	29 487	6 127	2 771	**38 385**
Intersegment[5]	238	–	–	**238**
Operating result before non-controlling interest and tax[1]	**2 400**	**171**	**495**	**3 066**
Reallocation of operating result	–	–	(495)	**(495)**
Investment income net of investment-related fees	–	614	257	**871**
Investment return allocated to cell owners and structured insurance products	–	(614)	–	**(614)**
Finance costs[2]	–	–	–	**–**
Income from associates and joint ventures including impairment	–	–	(89)	**(89)**
Santam BEE costs	–	–	–	**–**
Amortisation and impairment of intangible assets[3]	(34)	(1)	–	**(35)**
Income tax recovered from cell owners and structured insurance products	–	280	–	**280**
Profit before tax	**2 366**	**450**	**168**	**2 984**

[1] Includes depreciation of R208 million for Conventional and R15 million for ART.
[2] Finance costs relating to lease liabilities has been included in operating results.
[3] Amortisation of computer software included as part of operating result. Santam's share of the costs to manage the SEM portfolio of R12 million has been included in operating result.
[4] Reconciling items consist of the reallocation of net operating results relating to the underlying investments of the SEM target shares and SAN JV for management reporting purposes, the reallocation of investment revenue for IFRS purposes, as well as the elimination of intersegmental revenue.
[5] Intersegment revenue includes revenue earned from Santam's share of SEM and SAN JV segment.

For the year ended 31 December 2018 (Restated) Business activity	Insurance Conventional R million	 Alternative risk transfer R million	 Santam's share of SEM and SAN JV R million	 Total R million
Revenue	**27 711**	**5 398**	**2 547**	**35 656**
External	27 711	5 398	2 547	**35 656**
Operating result before non-controlling interest and tax	**2 596**	**96**	**287**	**2 979**
Reallocation of operating result	–	–	(287)	**(287)**
Investment income net of investment-related fees	–	179	234	**413**
Investment return allocated to cell owners and structured insurance products	–	(179)	–	**(179)**
Finance costs	–	–	–	**–**
Income from associates and joint ventures including profit on sale and impairment	–	–	266	**266**
Loss on dilution of associate	–	–	(88)	**(88)**
Reclassification of foreign currency translation reserve on dilution of associate	–	–	19	**19**
Santam BEE costs	–	–	–	**–**
Amortisation and impairment of intangible assets[1]	(23)	(1)	–	**(24)**
Impairment of loans	(5)	–	–	**(5)**
Income tax recovered from cell owners and structured insurance products	–	106	–	**106**
Profit before tax	**2 568**	**201**	**431**	**3 200**

[1] Amortisation of computer software included as part of operating result. Santam's share of the costs to manage the SEM portfolio of R36 million has been included in operating result.
[2] Reconciling items consist of the reallocation of net operating results relating to the underlying investments of the SEM target shares and SAN JV for management reporting purposes (as a result of investment in SEM being carried at fair value through income, and SAN JV equity accounted) and the reallocation of investment revenue for IFRS purposes as well as the elimination of intersegmental revenue.

Investment R million	Total R million	Reconciling and unallocated[4] R million	IFRS total R million
859	**39 482**	**(3 630)**	**35 852**
859	**39 244**	(3 630)	**35 614**
–	**238**	–	**238**
–	**3 066**	**(495)**	**2 571**
–	**(495)**	495	**–**
745	**1 616**	–	**1 616**
–	**(614)**	–	**(614)**
(294)	**(294)**	–	**(294)**
43	**(46)**	–	**(46)**
–	**–**	(3)	**(3)**
–	**(35)**	–	**(35)**
–	**280**	–	**280**
494	**3 478**	**(3)**	**3 475**

Investment R million	Total R million	Reconciling and unallocated[2] R million	IFRS total R million
725	**36 381**	**(3 272)**	**33 109**
725	**36 381**	(3 272)	**33 109**
–	**2 979**	**(287)**	**2 692**
–	**(287)**	287	**–**
605	**1 018**	–	**1 018**
–	**(179)**	–	**(179)**
(331)	**(331)**	–	**(331)**
53	**319**	–	**319**
–	**(88)**	–	**(88)**
–	**19**	–	**19**
–	**–**	(8)	**(8)**
–	**(24)**	–	**(24)**
–	**(5)**	–	**(5)**
–	**106**	–	**106**
327	**3 527**	**(8)**	**3 519**

2 SEGMENT INFORMATION (continued)

2.1 Segment report (continued)

ADDITIONAL INFORMATION ON CONVENTIONAL INSURANCE ACTIVITIES

	31 December 2019 R million	31 December 2018 R million
Revenue	**29 725**	27 711
Net earned premium	**23 673**	22 371
Net claims incurred	**14 711**	13 499
Net commission	**2 950**	2 764
Management expenses (excluding BEE costs)[1, 2]	**4 192**	4 042
Net underwriting result	**1 820**	2 066
Investment return on insurance funds	**579**	532
Net insurance result	**2 399**	2 598
Other income	**93**	187
Other expenses	**(92)**	(189)
Operating result before non-controlling interest and tax	**2 400**	2 596

[1] *Amortisation of computer software has been included in management expenses.*
[2] *Finance costs relating to lease liabilities has been included in management expenses.*

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

	31 December 2019		31 December 2018	
	Gross written premium R million	Underwriting result R million	Gross written premium R million	Underwriting result R million
Accident and health	**585**	**24**	535	82
Crop	**886**	**(87)**	729	54
Engineering	**1 601**	**312**	1 335	296
Guarantee	**246**	**(58)**	301	(69)
Liability	**1 310**	**159**	1 250	(20)
Miscellaneous	**21**	**7**	8	(1)
Motor	**13 340**	**1 201**	12 801	1 176
Property	**10 974**	**212**	10 031	519
Transportation	**762**	**50**	721	29
Total	**29 725**	**1 820**	27 711	2 066
Comprising:				
Commercial insurance	**17 117**	**929**	15 809	920
Personal insurance	**12 608**	**892**	11 902	1 146
Total	**29 725**	**1 821**	27 711	2 066

ADDITIONAL INFORMATION ON ALTERNATIVE RISK TRANSFER INSURANCE ACTIVITIES

The group's alternative risk insurance activities can be analysed as follows:

	31 December 2019 R million	31 December 2018 R million
Income from clients	**331**	236
Participation in underwriting results[1]	**59**	60
	390	296
Administration expenses	**(219)**	(200)
Operating result before non-controlling interest and tax	**171**	96

[1] *This relates to Centriq Insurance and SSI's selective participation in underwriting risk across the portfolios of traditional insurance business.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

ADDITIONAL INFORMATION ON SANTAM'S SHARE OF SEM AND SAHAM

	31 December 2019			31 December 2018		
	SEM R million	**Saham R million**	**Total R million**	**SEM R million**	**Saham R million**	**Total R million**
Revenue[1]	1 140	1 631	**2 771**	1 265	1 282	2 547
Operating result before non-controlling interest and tax	319	176	**495**	130	157	287

[1] *In 2019 Revenue includes Gross written premium for general insurance businesses*

ADDITIONAL INFORMATION FOR SANTAM'S SHARE OF SEM

	2019[1] R million	**2018 R million**
Revenue	**1 140**	1 265
Net earned premiums	**879**	923
Net claims	**510**	679
Net commission	**36**	49
Management expenses (excluding BBE costs)	**218**	248
Net underwriting results	**115**	(53)
Investment return on insurance funds	**204**	183
Operating result before non-controlling interest and tax	**319**	130

[1] *On 1 January 2019 Santam decreased it's effective holding in the SEM African target shares to 10%.*

ADDITIONAL INFORMATION FOR SAHAM'S GENERAL AND REINSURANCE (100%)

	2019[1] R million	**2018 R million**
Revenue	**16 310**	14 466
Net earned premiums	**12 248**	10 666
Net claims	**7 757**	6 559
Net commission	**1 617**	1 295
Management expenses (excluding BBE costs)	**2 634**	2 370
Net underwriting results[1]	**240**	442
Investment return on insurance funds	**1 454**	860
Operating result before non-controlling interest and tax	**1 694**	1 302

[1] *The 2019 values include the allocation of SEM group costs to the GI portfolio, the 2018 values do not. Excluding the SEM group cost allocation, the 2019 underwriting margin is 2.8% for the Saham group.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2 SEGMENT INFORMATION (continued)

2.1 Segment report (continued)

ADDITIONAL INFORMATION FOR SAHAM

Analysis of Saham (100%)

	Life business		General insurance[1]		Consolidation and other[2]		Saham total	
	31 December 2019 R million	31 December 2018 R million	31 December 2019 R million	31 December 2018 R million	31 December 2019 R million	31 December 2018 R million	31 December 2019 R million	31 December 2018 R million
Financial service income	**1 229**	1 038	**14 085**	12 121	**283**	-	**15 597**	13 159
Long-term insurance contracts	**1 139**	987	**-**	-	**-**	-	**1 139**	987
General insurance contracts	**-**	-	**12 248**	10 666	**-**	-	**12 248**	10 666
Investment return on insurance funds	**70**	14	**1 454**	860	**-**	-	**1 524**	874
Other	**20**	37	**383**	595	**283**	-	**686**	632
Sales remuneration	**(212)**	(176)	**(1 617)**	(1 295)	**-**	-	**(1 829)**	(1 471)
Underwriting policy benefits	**(376)**	(553)	**(7 757)**	(6 559)	**-**	-	**(8 133)**	(7 112)
Administration cost	**(468)**	(369)	**(2 947)**	(2 699)	**(460)**	(153)	**(3 875)**	(3 221)
Gross results from Financial services	**173**	(60)	**1 764**	1 568	**(177)**	(153)	**1 760**	1 355
Tax	**(61)**	6	**(504)**	(306)	**17**	15	**(548)**	(285)
Profit after tax	**112**	(54)	**1 260**	1 262	**(160)**	(138)	**1 212**	1 070
Non-controlling interest	**(38)**	24	**(354)**	(338)	**(6)**	(10)	**(398)**	(324)
Net results from financial services	**74**	(30)	**906**	924	**(166)**	(148)	**814**	746
Net investment return on shareholders' funds	**(101)**	42	**(108)**	(4)	**(2)**	(26)	**(211)**	12
Amortisation of intangibles	**(5)**	(7)	**(24)**	(34)	**(10)**	(15)	**(39)**	(56)
Foreign currency translation differences	**-**	(1)	**(76)**	(100)	**(40)**	(23)	**(116)**	(124)
Attributable earnings[3]	**(32)**	4	**698**	786	**(218)**	(212)	**448**	578

1 *General insurance includes the following lines of business: general insurance, health, property, reinsurance and Elite.*
2 *Consolidation and other includes the following: central corporate costs, withholding tax incurred by holdings companies in the structure, Netis Group.*
3 *This excludes amortisation of R420 million and impairments of R798 million at a consolidated level.*

ADDITIONAL INFORMATION ON INVESTMENT ACTIVITIES

The group's return on investment-related activities can be analysed as follows:

	31 December 2019 R million	31 December 2018 R million
Investment income	**724**	895
Net gains/(losses) on financial assets and liabilities at fair value through income	**91**	(223)
Income from associates and joint ventures	**43**	53
Investment-related revenue	**858**	725
Expenses for investment-related activities	**(70)**	(67)
Finance costs	**(294)**	(331)
Net total investment-related transactions	**494**	327

For a detailed analysis of investment activities, refer to notes 5.1 and 5.10.

2.2 Geographical analysis

	Gross written premium		Non-current assets	
	31 December 2019 R million	31 December 2018 R million	31 December 2019 R million	31 December 2018 R million
South Africa	**31 986**	29 742	**2 269**	1 109
Rest of Africa[1]	**3 701**	3 684	**2 414**	3 109
Southeast Asia, India and Middle East	**2 633**	1 969	**1 384**	1 059
Other	**303**	261	**–**	–
	38 623	35 656	**6 067**	5 277
Reconciling items[2]	**(2 771)**	(2 547)	**–**	–
Group total	**35 852**	33 109	**6 067**	5 277

[1] *Includes gross written premium relating to Namibia of R1 044 million (December 2018: R1 110 million).*
[2] *Reconciling items relate to the underlying investments included in the SEM target shares and SAN JV for management reporting purposes.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3 RISK AND CAPITAL MANAGEMENT

3.1 Objective and framework

As an insurance group, Santam Ltd and its subsidiaries are exposed to various insurance and financial risks. These risks cause uncertainty and therefore the challenge for management is to determine what level of uncertainty is acceptable for each business unit as it strives to enhance stakeholder value.

Santam has adopted an enterprise risk management (ERM) approach and framework that enables management to effectively deal with uncertainty and thus enhance the capacity to build value by efficiently and effectively deploying resources in pursuit of achieving the group's objectives. The ERM process adopted is considered appropriate to the nature, scale and complexity of the group and company's business and risks. The Santam approach is aligned with the principles of King Report on Corporate Governance™ for South Africa, 2016 (King IV)[1], ISO 31000, Solvency and Assessment Management (SAM) requirements as well as the requirements of our majority shareholder, Sanlam.

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

3.2 Risk assessment process

A key component of the ERM framework is the risk assessment process. Santam's risk assessment process consists of risk identification, risk analysis, risk evaluation and risk treatment/management of those risks that are relevant to the company and group's strategic objectives. Risks are identified from a top-down (strategic) and bottom-up (operational) perspective to create and maintain an integrated view of material risk exposures. The top-down approach is undertaken at an executive and senior management level and considers strategic risks affecting Santam in the medium to long term. In parallel, the bottom-up approach is undertaken by enterprise, risk and compliance management (ERCM) at a business unit or specialist unit level to assess all categories of risks from their perspectives with specific focus on underwriting, reinsurance and financial risks.

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

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

Santam analyses quantifiable risks by using an internally developed economic capital model. The model covers the following risk categories:

- Insurance risk (consisting of underwriting and reinsurance risk)
- Credit risk
- Market risk
- Operational risk

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

Once the relevant risks are better understood, the risk appetite framework governs how the risks should be managed within the group. Santam has formulated a risk appetite policy which aims to quantify the amount of capital the company and group is willing to put at risk in the pursuit of value creation. It is within this risk appetite framework that Santam has selected its asset allocation and reinsurance programme which are among the most important determinants of risk and hence capital requirements within the organisation. The internal model allows for the measurement of Santam's expected performance relative to the risk appetite assessment criteria agreed to by Santam's board. The risk appetite process also includes the assessment of non-financial measures in determining the overall capital requirements. These assessments are presented to the risk and investment committees as well as the board on a quarterly basis for consideration.

The group issues contracts that transfer insurance risk or financial risk or both (refer to note 4 for the general terms of insurance contracts). Insurance risk (i.e. underwriting and reinsurance risk) and investment risk (i.e. market and credit risk) impacts the balances and transactions reported in a financial period. The discussions that will follow provide more detail on how Santam and its subsidiaries manage insurance and investment risk from a financial reporting perspective. The table below is a summary of all the financial balances that are affected by insurance and/or investment risk. It provides a summary of all balances that management considers to be either directly or indirectly exposed to foreign currency risk. For this reason, the investment in SAN JV is also included in the table although it is not a financial or insurance instrument.

[1] *Copyright and trademarks are owned by the Institute of Directors in South Africa NPC and all of its rights are reserved.*

	Notes	Group total 2019 R million	Group total 2018 R million	Group foreign 2019 R million	Group foreign 2018 R million
Financial and insurance assets					
Equity securities					
Quoted		**2 420**	2 378	**328**	322
Unquoted		**1 557**	1 418	**1 496**	1 336
Total equity securities	5.1, 5.4	**3 977**	3 796	**1 824**	1 658
Debt securities					
Quoted		**7 929**	8 463	**1 677**	1 725
Unquoted		**6 569**	5 449	**108**	92
Total debt securities	5.1, 5.5, 5.8	**14 498**	13 912	**1 785**	1 817
Unitised funds					
Quoted					
Underlying equity securities		**697**	615	**51**	43
Underlying debt securities		**3 783**	2 501	**85**	34
Total unitised funds	5.1	**4 480**	3 116	**136**	77
Derivatives	5.2, 5.5	**35**	25	**35**	25
Short-term money market instruments	5.1, 5.5, 5.8	**2 895**	2 928	**421**	804
Total loans and receivables including insurance receivables					
Receivables due from contract holders/ intermediaries	4.2, 4.5, 4.7	**4 745**	4 749	**1 453**	1 309
Reinsurance receivables	4.2, 4.6, 4.7	**373**	419	**3**	13
Other loans and receivables	5.6, 5.8	**1 119**	1 106	**–**	–
Cell owners' and policyholders' interest	9.1, 9.2	**26**	13	**–**	–
Reinsurance assets	4.1, 4.6	**6 821**	6 487	**1 384**	1 220
Deposit with cell owner	9.3	**180**	191	**–**	–
Deferred acquisition cost	4.1.2, 4.5	**727**	619	**–**	–
Cash and cash equivalents	5.5, 5.7, 5.8	**4 642**	3 618	**1 198**	1 515
Total financial and insurance assets		**44 518**	40 979	**8 239**	8 438
Investment in associates and joint ventures		**2 661**	2 927	**2 323**	2 626
Total assets with direct or indirect foreign currency exposure		**47 179**	43 906	**10 562**	11 064
Financial and insurance liabilities					
Cell owners' and policyholders' interest	9.1, 9.2	**3 964**	3 343	**–**	–
Reinsurance liability relating to cell owners	9.4	**180**	191	**–**	–
Debt securities	6.1, 6.2	**2 080**	2 072	**–**	–
Investment contracts	6.3	**1 618**	1 528	**–**	–
Derivatives	6.4	**–**	4	**–**	4
Repo liability	6.5	**785**	759	**–**	–
Collateral guarantee contracts	6.6	**120**	158	**–**	–
Lease liability	15.2, 6.9	**978**	–	**–**	–
Insurance liabilities	4.1, 4.5	**23 207**	20 662	**4 260**	3 711
Deferred reinsurance acquisition revenue	4.1.2, 4.6	**489**	487	**–**	–
Total trade and other payables including insurance payables					
Payables due to contract holders/intermediaries	4.3	**3 044**	3 762	**602**	1 032
Other payables	6.7	**2 236**	2 160	**–**	55
Total financial and insurance liabilities		**38 701**	35 126	**4 862**	4 802

3 RISK AND CAPITAL MANAGEMENT (continued)

3.2 Risk assessment process (continued)

	Notes	Company total 2019 R million	Company total 2018 R million	Company foreign 2019 R million	Company foreign 2018 R million
Financial and insurance assets					
Equity securities					
Quoted		**1 152**	995	**–**	–
Unquoted		**1 553**	1 391	**1 496**	1 336
Total equity securities	5.1, 5.4	**2 705**	2 386	**1 496**	1 336
Debt securities					
Quoted		**5 092**	5 286	**1 495**	1 498
Unquoted		**2 003**	1 914	**–**	–
Total debt securities	5.1, 5.5, 5.8	**7 095**	7 200	**1 495**	1 498
Unitised funds					
Quoted					
Underlying equity securities		**99**	87	**–**	–
Underlying debt securities		**334**	206	**–**	–
Total unitised funds	5.1	**433**	293	**–**	–
Derivatives	5.2, 5.5	**35**	25	**35**	25
Short-term money market instruments	5.1, 5.5, 5.8	**2 264**	2 196	**390**	756
Total loans and receivables including insurance receivables					
Receivables due from contract holders/ intermediaries	4.2, 4.5, 4.7	**4 179**	4 074	**1 324**	1 309
Reinsurance receivables	4.2, 4.6, 4.7	**206**	217	**3**	13
Other loans and receivables	5.6, 5.8	**409**	697	**–**	–
Reinsurance assets	4.1, 4.6	**5 763**	5 676	**1 040**	900
Deferred acquisition cost	4.1.2, 4.5	**639**	564	**–**	–
Cash and cash equivalents	5.5, 5.7, 5.8	**2 057**	1 361	**909**	1 201
Total financial and insurance assets		**25 785**	24 689	**6 692**	7 038
Investment in associates and joint ventures		**2 514**	2 476	**2 514**	2 476
Total assets with direct or indirect foreign currency exposure		**28 299**	27 165	**9 206**	9 514
Financial and insurance liabilities					
Debt securities	6.1, 6.2	**2 080**	2 072	**–**	–
Derivatives	6.4	**–**	4	**–**	4
Collateral guarantee contracts	6.6	**120**	158	**–**	–
Lease liability	15.2, 6.9	**731**	–	**–**	
Insurance liabilities	4.1, 4.5	**14 285**	13 300	**3 742**	3 200
Deferred reinsurance acquisition revenue	4.1.2, 4.6	**408**	374	**–**	–
Total trade and other payables including insurance payables					
Payables due to contract holders/intermediaries	4.3	**2 490**	2 976	**319**	853
Other payables	6.7	**1 462**	1 458	**–**	2
Total financial and insurance liabilities		**21 576**	20 342	**4 061**	4 059

3.2.1 INSURANCE RISK

Insurance risk refers to the risk of loss as a result of underwriting insurance contracts. More specifically, Santam group defines insurance risk to include:

- Underwriting risk
- Reinsurance risk

Over the last five years, Santam's group risk management function has developed a group-wide governance and risk management framework in terms of the board-approved underwriting and reinsurance policies, required by the regulator's prudential standards.

This framework is implemented at business unit level through underwriting practice policies (approved by the business unit boards) that set out the specific requirements and parameters within which insurance risks are managed. Through the group risk management's ongoing monitoring and review processes, business units are held accountable to the framework.

A key benefit of the framework from a risk management perspective is that it facilitates enhanced oversight and collaboration between business units and significantly improves the understanding and management of risk concentrations that arise from time to time and that extend over several business unit portfolios in most instances.

3.2.1.1 Underwriting risk

Underwriting risk results from fluctuations in the timing, frequency and severity of insured events. It includes the risk that premium provision turn out to be insufficient to compensate expected future claims, that the claims provisions raised for both reported and unreported claims are inadequate, as well as the risk resulting from the volatility of expense payments.

The group manages underwriting risk through its underwriting strategy and proactive claims handling. The underwriting strategy aims to ensure that the portfolio of insurance contracts issued is well diversified and reasonably priced. Claims costs are actively managed to ensure that the impact of factors such as the volatility of the rand is adequately addressed.

In order to determine the underwriting risk faced by Santam and its subsidiaries, a stochastic simulation of Santam's claims is performed at a line of business level. Assumptions for each line of business are determined based on more than 15 years' worth of historic data. The results of this analysis are then used to identify where underwriting action is required. These actions can include, but are not limited to, changes to the pricing of insurance policies or adjustments to the reinsurance programme.

Refer to note 4.5 for detail on these risks and the way the group manages it.

3.2.2 REINSURANCE RISK

Reinsurance risk is the risk of loss due to either insufficient or inappropriately structured reinsurance cover relative to the group and company's risk management strategy and objectives. It also includes the risk that the reinsurance programme is inappropriately administered. The group and company obtain third-party reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or the company's capital.

Refer to note 4.6 for detail on these risks and the way the group manages them.

3.2.3 CREDIT RISK

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

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

- Failure of an asset counterparty to meet their financial obligations (note 5.8)
- Reinsurer default on presentation of a large claim (note 4.7)
- Reinsurers default on their share of Santam's insurance liabilities (note 4.7)
- Default on amounts due from insurance contract intermediaries (note 4.7)

Santam determines the credit quality for each of its counterparties by reference to ratings from independent rating agencies such as Standard & Poor's (S&P) and Moody's. Santam measures the probability of default on the basis of assessments made by the rating agencies over a one-year time horizon and the resulting loss given default. The underlying default probabilities are based on the credit migration models developed by S&P and Moody's which incorporate up to 90 years' worth of credit default information. For default risk Santam uses a model which is largely based on Basel II regulations.

The credit risk analysis is used by management to determine the level of risk capital that should be held for the following types of exposures:

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

Refer to note 4.7 and 5.8 as indicated above for detail on credit risk.

3 RISK AND CAPITAL MANAGEMENT (continued)

3.2 Risk assessment process (continued)

3.2.4 MARKET RISK

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

- Equity securities
- Debt securities
- Unitised funds
- Receivables due from contract holders/intermediaries
- Reinsurance receivables
- Reinsurance assets
- Other loans and receivables
- Cash and cash equivalents
- Short-term money market instruments
- Cell owners' and policyholders' interest
- Derivatives

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

Each of the major components of market risk faced by Santam is described in more detail below.

3.2.4.1 Price risk

The group and company is subject to price risk due to the impact that volatility in the market has on the value of its equity portfolios resulting in either a positive or negative effect on the net asset value of the group and company.

Santam has a well-defined investment strategy, including return objectives, asset allocation, portfolio construction and asset manager selection. The strategy has been translated into various specialist mandates which in turn have been outsourced mostly to Sanlam Investment Management (SIM). The total level of equity investments, both listed and unlisted, is closely monitored by the investment committee and the board. The internal economic capital model is used to model the asset mix and absolute level of equity exposure on at least a quarterly basis and to compare the results to Santam's risk appetite. The analysis is presented to the investment committee for consideration in terms of required actions.

Refer to note 5.4 for detail on price risk.

3.2.4.2 Interest rate risk

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

The impact of a change in the interest rate on the asset mix, as well as the economic capital requirements is determined using the internal economic capital model. The result of this analysis is presented to the investment committee on at least a quarterly basis for consideration and approval of required actions.

Refer to notes 5.5 and 6.2 for detail on interest rate risk.

3.2.4.3 Currency risk

Foreign currency risk is the risk that Santam will be negatively impacted by changes in the level or volatility of currency exchange rates relative to the South African rand.

In accordance with Santam's international diversification strategy, Santam is entering into various transactions where there is an underlying foreign currency risk such as the investments in the SEM target shares and SAN JV. Santam is also expanding its reinsurance offerings to predominantly other countries in Africa, as well as South East Asia and India. Furthermore, Santam has established an international investment portfolio to ensure adequate asset liability matching in terms of the claims process and capital requirements.

Santam has a well-defined foreign currency management policy which is used to ensure adequate overall asset-liability matching. Santam applies hedge accounting only when approved by the investment committee.

Refer to note 7 for detail on foreign currency risk.

3.2.5 LIQUIDITY RISK

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

Santam manages liquidity requirements by matching the underlying risk profile of the assets invested to the corresponding liabilities. For example, the net insurance liabilities are covered by investments with limited capital risk (i.e. cash and short duration interest-bearing investments) while the subordinated debt security obligations are covered by longer duration interest-bearing investments and interest rate swaps to ensure that the interest rate risk is almost perfectly aligned. Shareholder funds are invested in a combination of financial instruments (i.e. interest-bearing instruments, preference shares, listed and unlisted shares).

Refer to note 8 for more detail on liquidity risk.

3.2.6 OPERATIONAL RISK

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

The group and company manage operational risk by a comprehensive system of internal controls. From a risk governance perspective, the three lines of defence approach are used to identify the various levels of controls, oversight and assurance, including consideration of role player independence. Risk management processes for oversight include using a range of techniques and tools to identify, monitor and mitigate its operational risk in accordance with the group's risk appetite. These tools include risk and control self-assessments and questionnaires, key risk indicators (e.g. fraud and service indicators), scenario analyses and loss reporting. In addition, the group and company have developed a number of contingency plans including incident management and business continuity plans. Quantitative analysis of operational risk exposures material to the group and company are used to inform decisions on controls and the overall amount of capital held for potential risk exposures. A compulsory annual internal control declaration are completed by senior and executive management and results reported to the risk and audit committees. The outcome of the declaration is reviewed to ensure material control breakdowns have been noted and appropriately addressed. The declaration process support the board in their assessment of the system of internal controls.

3.3 Solvency and capital management

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

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

The overall capital management objectives of the group and company are:

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

3 RISK AND CAPITAL MANAGEMENT (continued)

3.3 Solvency and capital management (continued)

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

3.3.1 CAPITAL APPETITE

The group and company's objective is to maintain sufficient capital (including foreign capital), which comprises shareholders' equity and subordinated debt capital, to meet its strategic business plan and objectives. This represents sufficient surpluses for both regulatory and economic capital. To assist in managing its capital position, the group and company has set an internal coverage ratio band for its economic capital requirement while at all times achieving specific threshold levels for its regulatory capital requirement.

The internal economic capital model is the preferred measure of capital sufficiency used to support, inform and improve decision-making across the group. It is used to determine the group's optimum capital structure, its investment strategy, its reinsurance programme and to determine the pricing and target returns for each portfolio. The economic capital analysis compares available capital with the economic capital assessment.

When determining capital requirements, Santam uses a risk measure of value-at-risk at the 99.5th percentile confidence level over a one-year time period. This means that the threshold economic and regulatory coverage ratios use a 1-in-200-year worst case event as their base.

The group economic capital requirement at 31 December 2019 based on the internal economic capital model amounted to R7.3 billion (2018: R6.9 billion) or an economic capital coverage ratio of 160% (2018: 159%).

3.4 Regulatory and compliance risk management

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

In addition to the regulatory and compliance risk, note that the Financial Sector Regulations Act, 2017 commenced on 1 April 2018 and established the Financial Sector Conduct Authority (FSCA) to regulate and supervise financial product providers and financial services providers and to improve market conduct in order to protect financial customers. Market conduct and/or conduct of business risk can be described as the risk to customers, insurers, the insurance sector or the insurance market that arises from insurers and/or intermediaries conducting their business in a way that does not ensure fair treatment of customers.

Santam constituted a conduct of business committee (previously TCF committee), consisting of key stakeholders, to monitor the manner in which treating customers fairly outcomes are evidenced within Santam and the Santam group. This committee meets on a quarterly basis. Quarterly reports are also submitted to the Santam social, ethics and sustainability (SES) committee, the risk committee and a summary to the board touching on the relevant information, progress and risk profile pertaining to market conduct outcomes. The Conduct Framework was formalised and presented to the SES committee.

Santam's conduct of business committee is aligned with the FSCA's focus to improve market conduct to protect financial customers. As a result of the well-entrenched treating customers fairly culture in the organisation, Santam is well positioned to ensure fair treatment and protection to financial customers through its commitment to doing ***Insurance Good and Proper*** being core to its ethos, the fact that Santam puts the considerations of its clients at the forefront of its commercial endeavours and the significant work conducting in adopting and demonstrating compliance with the Treating Customers Fairly (TCF) regulations.

National Treasury published the draft Conduct of Financial Institutions Bill (COFI) for public comment on 11 December 2018. One of the purposes of COFI is to build a consistent, strong and effective market conduct legislative framework for all institutions performing financial activities. As a result of Santam's commitment to continuous refinement of its processes across the group to ensure that it is able to demonstrate fair treatment of its clients and the implementation of the policyholder protection rules (PPR) under the Short-term insurance act, it is in a favourable position to ensure compliance with the proposed COFI bill.

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

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

The group has complied with the local solvency regulations for regulated entities.

3.5 Conduct risk

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

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS

		Group		Company	
	Notes	2019 R million	2018 R million	2019 R million	2018 R million
Insurance liabilities	4.1	**23 207**	20 662	**14 285**	13 300
Reinsurance assets	4.1	**(6 821)**	(6 487)	**(5 763)**	(5 676)
Receivables arising from insurance and reinsurance contracts	4.2	**(5 118)**	(5 168)	**(4 385)**	(4 291)
Payables arising from insurance and reinsurance contracts	4.3	**3 044**	3 762	**2 490**	2 976
		14 312	12 769	**6 627**	6 309

Risk management

Refer to note 4.5 for detail on risks relating to insurance liabilities and reinsurance assets, and the management thereof.

4.1 Insurance liabilities and reinsurance assets

		Group		Company	
	Notes	2019 R million	2018 R million	2019 R million	2018 R million
Gross					
Long-term insurance contracts					
– claims reported and loss adjustment expenses		**37**	32	**–**	–
– claims incurred but not reported		**45**	41	**–**	–
General insurance contracts					
– claims reported and loss adjustment expenses		**9 171**	8 465	**7 960**	7 470
– claims incurred but not reported		**3 064**	2 868	**2 524**	2 415
– unearned premiums		**10 890**	9 256	**3 801**	3 415
Total insurance liabilities – gross		**23 207**	20 662	**14 285**	13 300
Expected to be settled after 12 months		**2 353**	2 339	**1 897**	1 673
Expected to be settled within 12 months		**20 854**	18 323	**12 388**	11 627
Recoverable from reinsurers					
Long-term insurance contracts					
– claims reported and loss adjustment expenses		**10**	14	**–**	–
– claims incurred but not reported		**13**	10	**–**	–
General insurance contracts					
– claims reported and loss adjustment expenses		**4 297**	4 138	**3 659**	3 741
– claims incurred but not reported		**699**	667	**553**	529
– unearned premiums		**1 802**	1 658	**1 551**	1 406
Total reinsurers' share of insurance liabilities		**6 821**	6 487	**5 763**	5 676
Expected to be realised after 12 months		**521**	505	**299**	302
Expected to be realised within 12 months		**6 300**	5 982	**5 464**	5 374
Net					
Long-term insurance contracts					
– claims reported and loss adjustment expenses		**27**	18	**–**	–
– claims incurred but not reported		**32**	31	**–**	–
General insurance contracts					
– claims reported and loss adjustment expenses		**4 874**	4 327	**4 301**	3 729
– claims incurred but not reported		**2 365**	2 201	**1 971**	1 886
– unearned premiums		**9 088**	7 598	**2 250**	2 009
Total insurance liabilities – net		**16 386**	14 175	**8 522**	7 624

Amounts due from reinsurers in respect of claims already paid by the group on the contracts that are reinsured, are included in note 4.2.

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.1 Insurance liabilities and reinsurance assets (continued)

ACCOUNTING POLICY – INSURANCE AND INVESTMENT CONTRACTS – CLASSIFICATION

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

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

Investment contracts are those contracts that transfer financial risk with no significant insurance risk (refer to note 6.3).

Insurance contracts

Insurance contracts are classified into three main categories, depending on the type of insurance risk exposure, namely general, long-term and cell insurance (refer to note 9 for detail on cell insurance).

(a) General insurance

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

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

Recognition and measurement

(i) Gross written premium

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

(ii) Provision for unearned premiums

The provision for unearned premiums represents the portion of the current year's premiums that relate to risk periods extending into the following year. Unearned premium is calculated using a method which approximates the 365th method, except for insurance classes where allowance is made for uneven exposure which consist of crop and alternative risk business. Unearned premium for crop business is modelled using a method that more accurately matches the incidence of claims experienced by these businesses, using more than 10 years of data. For policies written within the alternative risk business whose risk is not spread evenly over the period of insurance, unearned premium is provided for using discounted cash flow projections, adjusted for a risk margin to recognise uncertainty inherent in the cash flow projection.

(iii) Provision for unexpired risk

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

(iv) Provision for claims

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

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

Provision is made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the company at that date. This provision is calculated using actuarial modelling (refer to note 4.5).

(vi) Deferred acquisition costs (DAC)

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

(vii) Reinsurance contracts held

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

The benefits to which the group is entitled under its reinsurance contracts held are recognised as assets. These assets consist of short-term balances due from reinsurers (refer to note 4.2 for more detail) on settled claims, as well as estimates (classified as reinsurance assets) that are calculated based on the gross outstanding claims and IBNR provisions. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when incurred. Amounts that the group is required to pay under financial reinsurance contracts held are recognised as reinsurance liabilities (reinsurance liability relating to cell owners).

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

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

The group assesses its reinsurance assets for impairment on a six-monthly basis. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of comprehensive income. A provision for impairment of reinsurance assets is established when there is objective evidence that the group will not be able to collect all amounts due according to their original terms.

(viii) Salvage reimbursements

Some insurance contracts permit the group to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation). The impact of salvage recoveries on claims development is factored into the determination of total insurance liabilities. The allowance is the amount that can reasonably be recovered from the disposal of the property.

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

(b) Long-term insurance

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

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

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.1 Insurance liabilities and reinsurance assets (continued)

4.1.1 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

	2019			2018		
Year ended 31 December	Gross R million	Reinsurance R million	Net R million	Gross R million	Reinsurance R million	Net R million
(a) Claims and loss adjustment expenses						
GROUP						
Notified claims	8 497	(4 152)	4 345	8 348	(3 936)	4 412
Incurred but not reported	2 909	(677)	2 232	2 372	(511)	1 861
Total at the beginning of the year	11 406	(4 829)	6 577	10 720	(4 447)	6 273
Cash paid for claims settled in the year	(18 898)	4 093	(14 805)	(17 997)	3 890	(14 107)
Increase in liabilities						
– arising from current year claims	19 894	(4 813)	15 081	18 442	(4 615)	13 827
– arising from portfolio transfer	(36)	–	(36)	–	–	–
– arising from foreign currency adjustments	(51)	(15)	(66)	241	(55)	186
– business combinations	2	–	2	–	–	–
Transfer to cell owners' and policyholders' interest	–	545	545	–	398	398
Total at the end of the year	12 317	(5 019)	7 298	11 406	(4 829)	6 577
Notified claims	9 208	(4 307)	4 901	8 497	(4 152)	4 345
Incurred but not reported	3 109	(712)	2 397	2 909	(677)	2 232
Total at the end of the year	12 317	(5 019)	7 298	11 406	(4 829)	6 577

	2019			2018		
Year ended 31 December	Gross R million	Reinsurance R million	Net R million	Gross R million	Reinsurance R million	Net R million
COMPANY						
Notified claims	7 470	(3 741)	3 729	7 462	(3 663)	3 799
Incurred but not reported	2 415	(529)	1 886	1 914	(352)	1 562
Total at the beginning of the year	9 885	(4 270)	5 615	9 376	(4 015)	5 361
Cash paid for claims settled in the year	(15 889)	2 737	(13 152)	(15 377)	2 817	(12 560)
Increase in liabilities						
– arising from current year claims	16 525	(2 665)	13 860	15 659	(3 030)	12 629
– arising from foreign currency adjustments	(37)	(14)	(51)	227	(42)	185
Total at the end of the year	10 484	(4 212)	6 272	9 885	(4 270)	5 615
Notified claims	7 960	(3 659)	4 301	7 470	(3 741)	3 729
Incurred but not reported	2 524	(553)	1 971	2 415	(529)	1 886
Total at the end of the year	10 484	(4 212)	6 272	9 885	(4 270)	5 615

Year ended 31 December	2019 Gross R million	2019 Reinsurance R million	2019 Net R million	2018 Gross R million	2018 Reinsurance R million	2018 Net R million
(b) Provision for unearned premiums						
GROUP						
At the beginning of the year	**9 256**	**(1 658)**	**7 598**	7 128	(1 377)	5 751
Charged to the statement of comprehensive income	**1 494**	**(588)**	**906**	2 019	(763)	1 256
Foreign currency movement	**(105)**	**43**	**(62)**	137	(61)	76
Other	**21**	**7**	**28**	(28)	54	26
Portfolio transfer	**224**	**–**	**224**	–	–	–
Transfer to cell owners' and policyholders' interest	**–**	**394**	**394**	–	489	489
Total at the end of the year	**10 890**	**(1 802)**	**9 088**	9 256	(1 658)	7 598

Year ended 31 December	2019 Gross R million	2019 Reinsurance R million	2019 Net R million	2018 Gross R million	2018 Reinsurance R million	2018 Net R million
COMPANY						
At the beginning of the year	**3 415**	**(1 406)**	**2 009**	3 053	(1 153)	1 900
Charged to the statement of comprehensive income	**489**	**(186)**	**303**	225	(192)	33
Foreign currency movement	**(103)**	**41**	**(62)**	137	(61)	76
Total at the end of the year	**3 801**	**(1 551)**	**2 250**	3 415	(1 406)	2 009

4.1.2 MOVEMENTS IN DEFERRED ACQUISITION COSTS AND DEFERRED REINSURANCE ACQUISITION REVENUE

	Group 2019 R million	Group 2018 R million	Company 2019 R million	Company 2018 R million
(a) Deferred acquisition costs				
At the beginning of the year	**619**	537	**564**	490
Movement for the period (included in expenses for the acquisition of insurance contracts)	**108**	82	**75**	74
Total at the end of the year	**727**	619	**639**	564
(b) Deferred reinsurance acquisition revenue				
At the beginning of the year	**487**	326	**374**	284
Movement for the period (included in income from reinsurance contracts ceded)	**2**	161	**34**	90
Total at the end of the year	**489**	487	**408**	374

Deferred acquisition costs and deferred reinsurance acquisition revenue are expected to be realised and settled within 12 months.

Insurance liabilities calculations

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

Insurance liabilities include the provisions for unearned premiums (including an evaluation of the necessity for an unexpired risk provision), outstanding claims and incurred but not reported (IBNR) claims.

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.1 Insurance liabilities and reinsurance assets (continued)

4.1.2 MOVEMENTS IN DEFERRED ACQUISITION COSTS AND DEFERRED REINSURANCE ACQUISITION REVENUE (continued)

Process to determine significant assumptions

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

(i) Unearned premium provision

Unearned premiums represent the proportion of premiums written in the current year, which relate to risks that have not expired by the end of the financial year.

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

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

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

(ii) Unexpired risk provision

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

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

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

(iii) Outstanding claims

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

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

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

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

(iv) Claims incurred but not reported (IBNR)

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

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

Stochastic chain ladder methodology

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

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

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

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

IBNR is considered to be the most sensitive to changes in assumptions. Therefore, a sensitivity analysis is performed. In the Southern African operations, excluding alternative risk business, a 5% upward adjustment in the level of sufficiency of the IBNR reserve would result in an additional charge of approximately R66 million (2018: R54 million) (before taxation), while a 5% downward adjustment in the level of sufficiency would result in a release of reserves in the statement of comprehensive income of approximately R58 million (2018: R50 million) (before taxation).

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

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

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

The establishment of insurance liabilities is an inherently uncertain process and as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims can vary substantially from the initial estimates, particularly for the group's long tail lines of business. The group seeks to provide appropriate levels of claims provisions taking the known facts and experience into account. It should be emphasised that the estimation techniques for the determination of insurance liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate.

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.2 Receivables arising from insurance and reinsurance contracts

	Group		Company	
	2019 R million	2018 R million	2019 R million	2018 R million
Due from contract holders/intermediaries	**4 950**	4 908	**4 338**	4 233
Less provision for impairment of receivables from intermediaries	**(205)**	(159)	**(159)**	(159)
Due from reinsurers	**437**	483	**269**	279
Less provision for impairment of receivables from reinsurers	**(64)**	(64)	**(63)**	(62)
Total	**5 118**	5 168	**4 385**	4 291

Receivables arising from insurance and reinsurance contracts are expected to be received within 12 months.

	Group		Company	
Reconciliation of provisions for impairment of receivables from intermediaries and reinsurers				
At the beginning of the year	**223**	56	**221**	55
Charge to the statement of comprehensive income:				
– increase in provisions	**47**	167	**1**	166
– provisions reversed	**(1)**	–	**–**	–
Total at the end of the year	**269**	223	**222**	221

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

The carrying value of receivables approximates fair value. Provisions for impairment are based on the recoverability of individual loans and receivables. Included is a provision for impairment of R159 million (2018: R159 million) for group and R159 million (2018: R159 million) for company relating to a third-party premium collection agency that went into voluntary curatorship in September 2018.

ACCOUNTING POLICY – RECEIVABLES ARISING FROM INSURANCE AND REINSURANCE CONTRACTS

Receivables are recognised when due. These include amounts due from agents, reinsurers, intermediaries and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of comprehensive income. A provision for impairment of insurance receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to their original terms.

4.3 Payables arising from insurance and reinsurance contracts

	Group		Company	
	2019 R million	2018 R million	2019 R million	2018 R million
Amounts due to intermediaries	**1 534**	1 188	**1 499**	1 167
Amounts due to reinsurers	**1 328**	2 439	**991**	1 809
Amounts due to policyholders	**182**	135	**–**	–
Total	**3 044**	3 762	**2 490**	2 976

Payables arising from insurance and reinsurance contracts are expected to be settled within 12 months.

The carrying value of payables approximates fair value.

ACCOUNTING POLICY – PAYABLES ARISING FROM INSURANCE AND REINSURANCE CONTRACTS

Payables are recognised when due. These include amounts due to agents, reinsurers, intermediaries and insurance contract holders.

4.4 Insurance benefits and claims

	Gross R million	Reinsurance R million	Net R million
2019			
GROUP			
Claims paid	**18 898**	**(4 093)**	**14 805**
Movement in the expected cost of outstanding claims	**996**	**(720)**	**276**
Total claims and loss adjustment expenses	**19 894**	**(4 813)**	**15 081**
COMPANY			
Claims paid	**15 889**	**(2 737)**	**13 152**
Movement in the expected cost of outstanding claims	**636**	**72**	**708**
Total claims and loss adjustment expenses	**16 525**	**(2 665)**	**13 860**
2018			
GROUP			
Claims paid	17 997	(3 890)	14 107
Movement in the expected cost of outstanding claims	445	(725)	(280)
Total claims and loss adjustment expenses	18 442	(4 615)	13 827
COMPANY			
Claims paid	15 377	(2 817)	12 560
Movement in the expected cost of outstanding claims	282	(213)	69
Total claims and loss adjustment expenses	15 659	(3 030)	12 629

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.4 Insurance benefits and claims (continued)

4.4.1 CLAIMS DEVELOPMENT TABLES

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

Payment development

		Claims paid in respect of								
	Total R million	2019 R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 R million	2013 R million	2012 R million	2011 and prior R million
GROUP										
– General insurance claims – gross										
Reporting year										
Actual claims costs:										
– 2019	**18 898**	**14 055**	3 667	606	244	101	204	10	11	–
– 2018	**17 997**	**–**	12 231	4 627	503	371	165	84	11	5
– 2017	**18 823**	**–**	–	13 623	4 032	534	438	104	68	24
– 2016	**16 112**	**–**	–	–	11 087	3 909	506	380	111	119
– 2015	**14 019**	**–**	–	–	–	9 786	3 388	354	247	244
– 2014	**13 556**	**–**	–	–	–	–	9 031	3 578	493	454
– 2013	**13 148**	**–**	–	–	–	–	–	9 152	3 411	585
– 2012	**11 340**	**–**	–	–	–	–	–	–	8 176	3 164
– 2011	**10 327**	**–**	–	–	–	–	–	–	–	10 327
Cumulative payments to date		**14 055**	15 898	18 856	15 866	14 701	13 732	13 662	12 528	14 922
– General insurance claims – net										
Reporting year										
Actual claims costs:										
– 2019	**14 805**	**11 746**	2 574	177	129	89	77	7	6	–
– 2018	**14 107**	**–**	10 955	2 563	246	191	80	69	8	(5)
– 2017	**13 819**	**–**	–	10 852	2 359	242	196	91	68	11
– 2016	**12 808**	**–**	–	–	9 865	2 386	212	153	98	94
– 2015	**11 476**	**–**	–	–	–	8 734	2 239	171	172	160
– 2014	**11 040**	**–**	–	–	–	–	7 927	2 489	323	301
– 2013	**11 335**	**–**	–	–	–	–	–	8 423	2 493	419
– 2012	**9 904**	**–**	–	–	–	–	–	–	7 616	2 288
– 2011	**8 989**	**–**	–	–	–	–	–	–	–	8 989
Cumulative payments to date		**11 746**	13 529	13 592	12 599	11 642	10 731	11 403	10 784	12 257

	Total R million	Claims paid in respect of 2019 R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 R million	2013 R million	2012 R million	2011 and prior R million
COMPANY										
– General insurance claims – gross										
Reporting year										
Actual claims costs:										
– 2019	**15 889**	**11 680**	3 096	559	236	97	213	8	–	–
– 2018	**15 377**	**–**	10 803	3 671	367	300	153	75	8	–
– 2017	**16 136**	**–**	–	12 114	3 056	412	402	85	59	8
– 2016	**14 338**	**–**	–	–	10 414	2 996	400	343	93	92
– 2015	**12 335**	**–**	–	–	–	9 009	2 708	262	191	165
– 2014	**11 901**	**–**	–	–	–	–	8 539	2 645	357	360
– 2013	**11 525**	**–**	–	–	–	–	–	8 539	2 576	410
– 2012	**9 755**	**–**	–	–	–	–	–	–	7 505	2 250
– 2011	**8 917**	**–**	–	–	–	–	–	–	–	8 917
Cumulative payments to date		**11 680**	13 899	16 344	14 073	12 814	12 415	11 957	10 789	12 202
– General insurance claims – net										
Reporting year										
Actual claims costs:										
– 2019	**13 152**	**10 429**	2 206	241	117	80	72	7	–	–
– 2018	**12 560**	**–**	9 716	2 341	204	153	74	66	6	–
– 2017	**12 501**	**–**	–	9 935	2 049	194	176	79	62	6
– 2016	**11 714**	**–**	–	–	9 208	2 032	165	137	87	85
– 2015	**10 399**	**–**	–	–	–	8 053	1 894	152	159	141
– 2014	**10 021**	**–**	–	–	–	–	7 354	2 118	284	265
– 2013	**10 446**	**–**	–	–	–	–	–	7 740	2 335	371
– 2012	**9 157**	**–**	–	–	–	–	–	–	7 173	1 984
– 2011	**8 308**	**–**	–	–	–	–	–	–	–	8 308
Cumulative payments to date		**10 429**	11 922	12 517	11 578	10 512	9 735	10 299	10 106	11 160

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.4 Insurance benefits and claims (continued)

4.4.2 REPORTING DEVELOPMENT

		Financial year in which claim occurred								
	Total R million	2019 R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 R million	2013 R million	2012 R million	2011 and prior R million
GROUP										
– General insurance claims provision – gross										
Reporting year										
Provision raised:										
– 2019	**9 208**	**4 353**	2 647	772	675	170	187	122	138	144
– 2018	**8 497**	**–**	5 033	1 405	1 082	221	312	134	124	186
– 2017	**8 348**	**–**	–	5 240	1 541	493	506	201	125	242
– 2016	**6 814**	**–**	–	–	3 870	1 143	895	297	171	438
– 2015	**6 279**	**–**	–	–	–	3 100	1 577	758	208	636
– 2014	**6 240**	**–**	–	–	–	–	4 069	844	410	917
– 2013	**5 523**	**–**	–	–	–	–	–	3 267	788	1 468
– 2012	**4 948**	**–**	–	–	–	–	–	–	3 133	1 815
– 2011	**4 192**	**–**	–	–	–	–	–	–	–	4 192
– General insurance claims provision – net										
Reporting year										
Provision raised:										
– 2019	**4 901**	**2 813**	768	363	298	133	116	105	105	200
– 2018	**4 345**	**–**	2 679	602	321	175	135	113	101	219
– 2017	**4 442**	**–**	–	3 031	451	252	170	171	104	263
– 2016	**3 973**	**–**	–	–	2 334	512	312	234	157	424
– 2015	**4 056**	**–**	–	–	–	2 291	581	348	197	639
– 2014	**3 968**	**–**	–	–	–	–	2 337	448	325	858
– 2013	**4 207**	**–**	–	–	–	–	–	2 459	568	1 180
– 2012	**3 971**	**–**	–	–	–	–	–	–	2 550	1 421
– 2011	**3 273**	**–**	–	–	–	–	–	–	–	3 273

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	Total R million	Financial year in which claim occurred								
		2019 R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 R million	2013 R million	2012 R million	2011 and prior R million
COMPANY										
– General insurance claims provision – gross										
Reporting year										
Provision raised:										
– 2019	**7 960**	**3 570**	2 380	698	659	144	163	105	98	143
– 2018	**7 470**	**–**	4 172	1 290	1 067	222	307	122	115	175
– 2017	**7 462**	**–**	–	4 396	1 523	503	516	200	115	209
– 2016	**6 191**	**–**	–	–	3 431	1 068	890	269	164	369
– 2015	**5 675**	**–**	–	–	–	2 782	1 442	705	191	555
– 2014	**5 711**	**–**	–	–	–	–	3 768	741	375	827
– 2013	**5 038**	**–**	–	–	–	–	–	3 101	676	1 261
– 2012	**4 523**	**–**	–	–	–	–	–	–	2 915	1 608
– 2011	**3 711**	**–**	–	–	–	–	–	–	–	3 711
– General insurance claims provision – net										
Reporting year										
Provision raised:										
– 2019	**4 301**	**2 436**	660	325	282	114	103	98	86	197
– 2018	**3 729**	**–**	2 125	567	313	171	133	109	99	212
– 2017	**3 829**	**–**	–	2 495	435	241	158	163	100	237
– 2016	**3 570**	**–**	–	–	2 208	405	250	209	135	363
– 2015	**3 656**	**–**	–	–	–	2 104	487	317	174	574
– 2014	**3 556**	**–**	–	–	–	–	2 122	374	289	771
– 2013	**3 865**	**–**	–	–	–	–	–	2 279	502	1 084
– 2012	**3 696**	**–**	–	–	–	–	–	–	2 391	1 305
– 2011	**2 953**	**–**	–	–	–	–	–	–	–	2 953

4.5 Insurance risk

As mentioned in note 3.2, Santam manages insurance risk in two main components which are discussed in more detail below:

- Underwriting risk
- Reinsurance risk (refer to note 4.6)

UNDERWRITING RISK

In general, the group issues personal, commercial, niche and cell/policyholder insurance policies, as well as reinsurance contracts in respect of most of the classes of business listed below:

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

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

Aviation – Covers property (both moveable and immovable) risks associated with aircraft (i.e. in respect of their use, ownership, storage, loss or damage), as well as liability and transport risks associated with this class of business.

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

Credit insurance – Covers risks associated with the financial losses that result from the default of specified third parties (typically trade partners – both local and foreign) of the insured.

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

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.5 Insurance risk (continued)

UNDERWRITING RISK (continued)

Engineering – Provides cover for risks relating to:
- the possession, use or ownership of machinery or equipment, other than a motor vehicle, in the carrying on of a business;
- the erection of buildings or other structures or the undertaking of other works; and
- the installation of machinery or equipment.

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

Marine – Covers property (both moveable and immovable) risks associated with watercraft (i.e. in respect of their use, ownership, storage, loss or damage), as well as liability and transport risks (both on land and on water bodies) associated with this class of business.

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

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

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

Travel – Covers risks associated with local and international travel, for both business and leisure purposes.

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

In order to quantify the underwriting risk faced by Santam, a stochastic simulation of Santam's claims is performed at a line of business level within Santam's internal economic capital model. Assumptions for each line of business are determined based on more than 15 years' worth of historical data. The expected claims liabilities are modelled for specific lines of business, which are then split into the appropriate sub-classes. For each sub-class of business, three types of losses are modelled, namely attritional losses, individual large losses and catastrophe losses. Each of the sub-classes is modelled based on its own assumptions whose methodology and calibration are thoroughly documented in the internal model documentation.

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

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

The net claims ratio for the group, excluding the share of SEM and SAN JV businesses, which is important in monitoring insurance risk, has developed as follows over the past seven years:

Loss history	2019	2018	2017	2016	2015	2014	2013
Net claims paid and provided %[1]	**62.3**	60.6	65.9	65.1	62.1	63.1	69.3

[1] *Expressed as a percentage of net earned premiums.*

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

Underwriting limits (per risk and, where relevant, per event) are set for business units, underwriting managers and intermediaries to ensure that the group's risk appetite is appropriately delegated. Underwriting performance is monitored continuously and the pricing policy is revised accordingly. Risk factors considered as part of the review are unique to each class of business (listed above) and constantly evolve as the risk environment changes. The group has the right to reprice and change the conditions for accepting risks on renewal and/or, in most cases, 30 days.

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

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

Underwriting risk is further mitigated by ensuring that reserve and reinsurance risk (discussed in note 4.6) is adequately managed.

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

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

Percentile approach

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

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

The next step is to determine a risk margin. The risk margin is calculated such that there is now at least a 75% probability that the reserves will be sufficient to cover future claims. For more detail on the reserving techniques used in this approach, refer to critical accounting estimates and judgements in note 4.1.

Cost-of-capital approach

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

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

Refer to section 3.3 for more detail on the capital management process.

Santam is not significantly exposed to seasonality due to the broad range of insurance contracts that the group writes. Motor and property contains an element of seasonality e.g. hail storms in the summer, however, there may not be a direct correlation between that seasonality and the group's financial results. There is an element of seasonality attached to crop, however, the group's exposure is limited.

4.6 Reinsurance risk

Santam has an extensive reinsurance programme that has developed over many years to suit the risk management needs of the business units in the group.

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

The core components of the reinsurance programme comprised:

- Individual excess-of-loss cover for property, liability, engineering, aviation and marine risks, which provides protection to limit losses between the range of R10 million to R50 million per risk, excluding reinstatement premiums, following a claim or claims against the covers. Santam protects its per risk loss exposure down to a maximum amount of R85 million on any one risk.
- Santam buys catastrophe cover exceeding the 1 in 250 year earthquake catastrophe loss using an external validated earthquake loss prediction model. This model typically results in cover of up to 1.3% of the total exposure of the significant geographical areas, amounting to protection of R8.2 billion per event, with an attachment point of R150 million.
- The catastrophe programme for an aggregate amount of losses from events in excess of R10 million was not renewed in 2018, since the price for value was not deemed worthwhile. The programme was also not renewed in 2019.
- During the course of the year, Santam purchased a multi-year aggregate excess of loss treaty, which protects the Santam group against the accumulation of multiple catastrophe losses over a financial year, which losses are below the catastrophe excess of loss retention of R150 million. The treaty was renewed in 2019.
- Our agriculture portfolio is protected through a 60% proportional and a non-proportional reinsurance arrangement with non-proportional cover set at levels offering protection from extreme aggregate loss events.

4 INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.6 Reinsurance risk (continued)

Santam has implemented arrangements to support growth in territories outside South Africa in situations where this is dependent on Santam's S&P international rating scale rating. In 2016, Santam entered into an agreement with Munich Reinsurance Company of Africa Ltd (Munich Re of Africa) in terms of which selected Santam business units will be able to use the reinsurer's S&P A- credit rating to write inwards international reinsurance business on Munich Re of Africa's licence where an international credit rating of A- or better is required. The agreement between Santam and Munich Re of Africa became effective 1 January 2017.

In 2019, a similar five-year agreement was entered into with New Reinsurance Company Limited, a wholly owned subsidiary of Munich Re, domiciled in Switzerland. This agreement is effective 1 January 2020.

Santam has a reinsurance quota share program, with a number of key international reinsurers with an estimated annual reinsurance quota share premium of R1 billion. The agreement reduces Santam's net catastrophe exposure.

The board approves the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is placed with external reinsurers that have an international credit rating of no less than A- (2018: A-) from S&P or AM Best, unless specific approval is obtained from the board to use reinsurers with ratings lower than the agreed benchmark.

4.7 Insurance-related credit risk

Key insurance-related areas where Santam is exposed to credit default risk are:
- Reinsurer default on presentation of a large claim
- Reinsurers default on their share of Santam's insurance liabilities
- Default on amounts due from insurance contract intermediaries

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

Credit risk capital is held for the following type of exposure:
- Outstanding premiums due from intermediaries and reinsurance due from reinsurers
- Reinsurance claims provisions
- Exposure to potential reinsurance recoveries based on the losses generated by the internal model

The Intermediary Guarantee Facility (IGF) ceased to exist from 31 March 2019. Debtors falling into the "not rated" category are managed by the internal credit control department on a daily basis to ensure recoverability of amounts.

Santam uses a large panel of secure reinsurance companies. The credit risk of reinsurers included in the reinsurance programme is considered annually by reviewing their financial strength as part of the renewal process. The group's largest reinsurance counterparty is Allianz (2018: Allianz). The credit risk exposure is further monitored throughout the year to ensure that changes in credit risk positions are adequately addressed.

The following table provides information regarding the aggregated credit risk exposure for insurance assets:

31 December 2019	AA+ R million	AA R million	AA- R million	A+ R million	A R million	A- R million	BBB- R million	BB+ R million	Not rated R million	Carrying value R million
GROUP										
Receivables due from contract holders/intermediaries	–	187	30	–	6	69	10	1	4 442	4 745
Reinsurance receivables	5	4	80	24	3	37	1	20	199	373
Total	5	191	110	24	9	106	11	21	4 641	5 118
COMPANY										
Receivables due from contract holders/intermediaries	–	187	30	–	6	69	10	1	3 876	4 179
Reinsurance receivables	–	4	49	16	1	22	–	5	109	206
Total	–	191	79	16	7	91	10	6	3 985	4 385

31 December 2018	AA R million	AA- R million	A+ R million	A R million	A- R million	BBB- R million	Not rated R million	Carrying value R million
GROUP								
Receivables due from contract holders/intermediaries	–	–	–	–	69	29	4 651	4 749
Reinsurance receivables	12	27	7	23	40	–	310	419
Total	12	27	7	23	109	29	4 961	5 168
COMPANY								
Receivables due from contract holders/intermediaries	–	–	–	–	69	29	3 976	4 074
Reinsurance receivables	6	–	6	3	34	–	168	217
Total	6	–	6	3	103	29	4 144	4 291

AGEING OF INSURANCE-RELATED RECEIVABLES

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

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

31 December 2019	Neither past due nor impaired R million	0 – 3 months R million	3 – 6 months R million	6 months – 1 year R million	Greater than 1 year R million	Financial assets that have been impaired R million	Impairment R million	Carrying value R million
GROUP								
Receivables due from contract holders/intermediaries	**3 780**	**723**	**90**	**131**	**21**	**205**	**(205)**	**4 745**
Reinsurance receivables	**147**	**83**	**27**	**29**	**87**	**64**	**(64)**	**373**
Total	**3 927**	**806**	**117**	**160**	**108**	**269**	**(269)**	**5 118**
COMPANY								
Receivables due from contract holders/intermediaries	**3 365**	**612**	**51**	**131**	**20**	**159**	**(159)**	**4 179**
Reinsurance receivables	**50**	**53**	**3**	**33**	**67**	**63**	**(63)**	**206**
Total	**3 415**	**665**	**54**	**164**	**87**	**222**	**(222)**	**4 385**

31 December 2018	Neither past due nor impaired R million	0 – 3 months R million	3 – 6 months R million	6 months – 1 year R million	Greater than 1 year R million	Financial assets that have been impaired R million	Impairment R million	Carrying value R million
GROUP								
Receivables due from contract holders/intermediaries	3 641	573	216	129	193	159	(159)	4 751
Reinsurance receivables	276	31	51	30	29	65	(65)	418
Total	3 917	604	267	159	222	224	(224)	5 168
COMPANY								
Receivables due from contract holders/intermediaries	3 211	451	97	129	185	159	(159)	4 074
Reinsurance receivables	133	7	9	43	25	63	(63)	217
Total	3 345	459	106	171	210	222	(222)	4 291

5 FINANCIAL ASSETS

	Notes	Group 2019 R million	Group 2018 R million	Company 2019 R million	Company 2018 R million
The group's financial assets are summarised below:					
Financial assets mandatorily measured at fair value through income					
Strategic investments – unquoted SEM target shares	5.1	**1 474**	1 323	**1 474**	1 323
Financial assets at fair value through income (excluding derivatives)	5.1	**24 376**	22 429	**11 023**	10 752
Derivative assets	5.2	**35**	25	**35**	25
Financial assets measured at amortised cost					
Loans and receivables excluding insurance receivables	5.6	**1 119**	1 106	**409**	697
Cash and cash equivalents	5.7	**4 642**	3 618	**2 057**	1 361
Financial assets		**31 646**	28 501	**14 998**	14 158

Risk management

Refer to the following notes for detail on risks relating to financial assets and the management thereof:

- fair value of financial assets – note 5.3
- price risk – note 5.4
- interest rate risk – note 5.5
- credit risk – note 5.8
- currency risk – note 7
- liquidity risk – note 8

5.1 Financial assets at fair value through income (excluding derivatives)

	Group 2019 R million	Group 2018 R million	Company 2019 R million	Company 2018 R million
The group's financial assets at fair value through income are summarised below by investment type:				
Equity securities				
– quoted	**2 420**	2 378	**1 152**	995
– unquoted				
strategic investment – SEM target shares	**1 474**	1 323	**1 474**	1 323
unquoted other	**83**	95	**79**	68
Total equity securities	**3 977**	3 796	**2 705**	2 386
Debt securities				
– quoted				
government and other bonds	**4 276**	4 750	**2 392**	2 781
collateralised securities	**315**	370	**209**	188
money market instruments (long-term instruments)	**3 338**	3 343	**2 491**	2 317
	7 929	8 463	**5 092**	5 286
– unquoted				
government and other bonds	**922**	292	**193**	186
money market instruments (long-term instruments)	**5 517**	5 026	**1 740**	1 658
redeemable preference shares	**130**	131	**70**	70
	6 569	5 449	**2 003**	1 914
Total debt securities	**14 498**	13 912	**7 095**	7 200
Unitised investments				
– quoted				
underlying equity securities	**697**	615	**99**	87
underlying debt securities	**3 783**	2 501	**334**	206
Total unitised investments	**4 480**	3 116	**433**	293
Short-term money market instruments	**2 895**	2 928	**2 264**	2 196
Financial assets at fair value through income	**25 850**	23 752	**12 497**	12 075
Financial assets at fair value through income (excluding SEM target shares)				
Expected to be realised after 12 months	**18 620**	16 265	**8 098**	8 017
Expected to be realised within 12 months	**5 756**	6 164	**2 925**	2 735
Strategic investments – unquoted SEM target shares				
Expected to be realised after 12 months	**1 474**	1 135	**1 474**	1 135
Expected to be realised within 12 months	**–**	188	**–**	188

ACCOUNTING POLICY – FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME

(a) Classification

The group classifies the following financial assets at fair value through income:

- equity instruments that are held for trading;
- equity instruments for which the group has not elected to recognise fair value gains and losses through other comprehensive income (OCI); and
- debt instruments that do not qualify for measurement at either amortised cost or fair value through OCI. 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 fair value through income because they are neither held to collect contractual cash flows nor held to collect contractual cash flows and sell.

Information about these financial assets is provided internally on a fair value basis to the group's key management personnel. The group's investment strategy is to invest in equity and debt securities, and to evaluate them with reference to their fair values. Assets that are part of these portfolios are classified upon initial recognition at fair value through income.

(b) Recognition and measurement

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

SEM TARGET SHARES

Santam subscribes from time to time in separate classes of target shares issued by SEM in terms of a participation transaction, with each separate class linked to a participatory interest in the target companies listed below. The fair value of these instruments at year-end was R1 474 million (2018: R1 323 million). The shares were classified as unquoted equity securities.

	Incorporated in	Type of business	Santam effective holding 2019 %	Santam effective holding 2018 %
Pacific & Orient Insurance Co. Berhad (P&O)[1]	Malaysia	P&O is a niche general insurer based in Kuala Lumpur, Malaysia	**15.4**	15.4
Shriram General Insurance Company Ltd (SGI)[1]	India	SGIC is the general insurance business of the Shriram group, a financial conglomerate based in India	**15.0**	15.0
BIHL Insurance Company Ltd (BIHL Sure)	Botswana	BIHL Sure is a subsidiary of Botswana Insurance Holdings Ltd, a company listed on the Botswana Stock Exchange. BIHL Sure is a start-up general insurer providing a variety of insurance products	**–**	21.2
NICO Holdings general insurance subsidiaries	Malawi, Zambia	The NICO subsidiaries offer predominantly personal and commercial insurance products	**5.6**	19.8
Sanlam General Insurance (Uganda) Ltd	Uganda	The company offers predominantly personal and commercial insurance products	**9.5**	28.6
Sanlam General Insurance (Tanzania) Ltd	Tanzania	The company offers predominantly personal and commercial insurance products	**5.0**	17.4
Soras Assurance Generales Ltd	Rwanda	The company offers motor, medical, fire, goods in transit, weather index and other miscellaneous insurance products	**9.0**	26.1
Socar s.a. Burundi	Burundi	Forms part of the Soras group and offers general insurance products	**3.1**	8.6
FBN General Insurance Ltd	Nigeria	FBN General Insurance Ltd offers a wide range of general insurance products	**3.5**	12.3
Sanlam General Insurance (Kenya) Ltd	Kenya	Sanlam General Insurance Ltd offers a wide range of general insurance products	**3.9**	13.7
Zimnat Lion Insurance Company Ltd	Zimbabwe	Zimnat Lion Insurance Company Ltd offers a wide range of general insurance products	**4.0**	14.0
Grand Reinsurance Company (Private) Ltd (Grand Re)	Zimbabwe	Grand Re provides reinsurance solutions to cover all general insurance business	**4.0**	14.0
Botswana Insurance Company Ltd	Botswana	Botswana Insurance Company Ltd offers a wide range of general insurance products	**2.9**	10.3

[1] *These are currently the more material investments due to their relative size to the entire SEM target share investment portfolio.*

5 FINANCIAL ASSETS (continued)

5.1 Financial assets at fair value through income (excluding derivatives) (continued)

STRUCTURED ENTITIES

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls it. The group considers collective investment schemes and other unit-linked investments to be structured entities. The following note provides information on significant unconsolidated structured entities in which the group holds an interest. Collective investment schemes are categorised into equity, property or money market instruments based on a minimum of 55% per category of the underlying asset composition of the fund by value. In the event no one category meeting this threshold, it is classified as a mixed class. Money market collective investment schemes are categorised as such.

	Group		Company	
	2019 R million	**2018[1] R million**	**2019 R million**	**2018[1] R million**
Collective investment schemes				
Local and foreign				
Property	**247**	250	**99**	87
Money market	**2 466**	1 285	**334**	206
Equity	**450**	365	**–**	–
Mixed	**1 317**	1 216	**–**	–
Total investment in unconsolidated structured entities	**4 480**	3 116	**433**	293

[1] *The amounts presented for 2018 have been corrected to better present the underlying investments held by the collective investment schemes. This resulted in the following changes for group: Property decreased from R301 million to R250 million, money market increased from R949 million to R1 285 million, equity decreased from R1 819 million to R365 million and mixed increased from R47 million to R1 216 million. It resulted in the following changes for company: Money market increased from R86 million to R206 million and equity decreased from R120 million to Rnil.*

5.2 Derivative assets

	Group 2019 R million	Group 2018 R million	Company 2019 R million	Company 2018 R million
Financial assets – at fair value through income				
Exchange traded futures	**1**	–	**1**	–
Over the counter				
Interest rate swaps[2]	**–**	–	**–**	–
Foreign currency collar	**34**	25	**34**	25
	35	25	**35**	25

[2] *Carrying value as at 31 December 2019 and 31 December 2018 is less than R1 million.*

All derivative assets are expected to be realised within 12 months.

On 10 September 2018 Santam entered into a foreign currency collar against the US dollar. As at 31 December 2018, the instrument's valuation amounted to R24.8 million. The collar expired in two equal tranches on 4 January 2019 and 7 January 2019 and realised a total profit of R36.5 million. On 12 June 2019 Santam entered into another foreign currency collar against the US dollar. The collar unwound on 12 December 2019 resulting in a profit of R5 million. A further foreign currency collar on R500 million worth of US dollar exposure was entered into on 19 August 2019 at a spot rate of 15.25 ZAR and cap of 16.59 ZAR against the US dollar. The collar will expire on 19 May 2020. The foreign currency collar is classified as a level 2 financial instrument per the fair value hierarchy.

At 31 December 2019 the group had exchange traded futures classified as derivative assets with an exposure value of R386 million (2018: R459 million).

At 31 December 2019 the group also had interest rate swaps as part of the international bond portfolio. The fair value of the swap is disclosed on a net basis in the statement of financial position as well as the statement of comprehensive income due to the contractual right to settle the instrument on a net basis. They are classified as level 3 per the fair value hierarchy. The gross exposure asset and liability at year-end amounted to R69 million (2018: R38 million) and R69 million (2018: R38 million) respectively.

ACCOUNTING POLICY – DERIVATIVES

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

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a current legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

5.3 Financial instruments measured at fair value on a recurring basis

The following financial instruments are carried at fair value through income. The table below analyses these financial instruments per valuation method. There were no significant changes in the valuation methods applied since 31 December 2018.

The valuation methods are categorised as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Input other than quoted prices included within level 1 that is observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The fair value of level 2 instruments is 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. These instruments are classified as level 2 as the markets that they trade on are not considered to be active.
  - 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. These instruments are classified as level 2 as the markets that they are quoted on are not considered to be active.
  - 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 market data (that is, unobservable input).

There were no significant transfers between level 1 and level 2 during the current or prior year. The group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

31 December 2019	**Level 1 R million**	**Level 2 R million**	**Level 3 R million**	**Total R million**
GROUP				
Financial assets				
Equity securities				
Quoted				
Listed	2 419	–	–	2 419
Irredeemable preference shares	1	–	–	1
Unquoted	–	4	1 553	1 557
Total equity securities	**2 420**	**4**	**1 553**	**3 977**
Debt securities				
Quoted				
Government and other bonds	–	4 276	–	4 276
Collateralised securities	–	315	–	315
Money market instruments >1 year	–	3 338	–	3 338
Unquoted				
Government and other bonds	–	922	–	922
Money market instruments >1 year	–	5 517	–	5 517
Redeemable preference shares	–	70	60	130
Total debt securities	**–**	**14 438**	**60**	**14 498**
Unitised investments				
Quoted				
Underlying equity securities	–	697	–	697
Underlying debt securities	–	3 783	–	3 783
Total unitised investments	**–**	**4 480**	**–**	**4 480**
Financial assets				
Derivatives				
Exchange-traded futures	–	1	–	1
Foreign currency collar	–	34	–	34
Total derivatives	**–**	**35**	**–**	**35**
Short-term money market instruments	**–**	**2 895**	**–**	**2 895**
	2 420	**21 852**	**1 613**	**25 885**

5 FINANCIAL ASSETS (continued)

5.3 Financial instruments measured at fair value on a recurring basis (continued)

31 December 2019	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
COMPANY				
Financial assets				
Equity securities				
Quoted				
Listed	1 151	–	–	**1 151**
Irredeemable preference shares	1	–	–	**1**
Unquoted	–	–	1 553	**1 553**
Total equity securities	**1 152**	**–**	**1 553**	**2 705**
Debt securities				
Quoted				
Government and other bonds	–	2 392	–	**2 392**
Collateralised securities	–	209	–	**209**
Money market instruments >1 year	–	2 491	–	**2 491**
Unquoted				
Government and other bonds	–	193	–	**193**
Money market instruments >1 year	–	1 740	–	**1 740**
Redeemable preference shares	–	70	–	**70**
Total debt securities	**–**	**7 095**	**–**	**7 095**
Unitised investments				
Quoted				
Underlying equity securities	–	99	–	**99**
Underlying debt securities	–	334	–	**334**
Total unitised investments	**–**	**433**	**–**	**433**
Derivatives				
Exchange-traded futures	–	1	–	**1**
Foreign currency collar	–	34	–	**34**
Interest rate swaps[1]	–	–	–	**–**
Total derivatives	**–**	**35**	**–**	**35**
Short-term money market instruments	**–**	**2 264**	**–**	**2 264**
	1 152	**9 827**	**1 553**	**12 532**

[1] *Carrying value as at 31 December 2019 is less than R1 million.*

31 December 2018	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
GROUP				
Financial assets				
Equity securities				
Quoted				
Listed	2 377	–	–	**2 377**
Irredeemable preference shares	1	–	–	**1**
Unquoted	–	28	1 390	**1 418**
Total equity securities	**2 378**	**28**	**1 390**	**3 796**
Debt securities				
Quoted				
Government and other bonds	–	4 750	–	**4 750**
Collateralised securities	–	370	–	**370**
Money market instruments >1 year	–	3 343	–	**3 343**
Unquoted				
Government and other bonds	–	292	–	**292**
Money market instruments >1 year	–	5 026	–	**5 026**
Redeemable preference shares	–	70	61	**131**
Total debt securities	**–**	**13 851**	**61**	**13 912**
Unitised investments				
Quoted				
Underlying equity securities	–	615	–	**615**
Underlying debt securities	–	2 501	–	**2 501**
Total unitised investments	**–**	**3 116**	**–**	**3 116**
Derivatives				
Exchange-traded futures	–	25	–	**25**
Interest rate swaps[1]	–	–	–	**–**
Total derivatives	**–**	**25**	**–**	**25**
Short-term money market instruments	**–**	**2 928**	**–**	**2 928**
	2 378	**19 948**	**1 451**	**23 777**

[1] *Carrying value as at 31 December 2018 is less than R1 million.*

31 December 2018	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
COMPANY				
Financial assets				
Equity securities				
Quoted				
Listed	994	–	–	**994**
Irredeemable preference shares	1	–	–	**1**
Unquoted	–	1	1 390	**1 391**
Total equity securities	**995**	**1**	**1 390**	**2 386**
Debt securities				
Quoted				
Government and other bonds	–	2 781	–	**2 781**
Collateralised securities	–	188	–	**188**
Money market instruments >1 year	–	2 317	–	**2 317**
Unquoted				
Government and other bonds	–	186	–	**186**
Money market instruments >1 year	–	1 658	–	**1 658**
Redeemable preference shares	–	70	–	**70**
Total debt securities	**–**	**7 200**	**–**	**7 200**
Unitised investments				
Quoted				
Underlying equity securities	–	87	–	**87**
Underlying debt securities	–	206	–	**206**
Total unitised investments	**–**	**293**	**–**	**293**
Derivatives				
Exchange-traded futures	–	25	–	**25**
Interest rate swaps[2]	–	–	–	**–**
Total derivatives	**–**	**25**	**–**	**25**
Short-term money market instruments	**–**	**2 196**	**–**	**2 196**
	995	**9 715**	**1 390**	**12 100**

[2] *Carrying value as at 31 December 2018 is less than R1 million.*

5 FINANCIAL ASSETS (continued)

5.3 Financial instruments measured at fair value on a recurring basis (continued)

LEVEL 1

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

LEVEL 2

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

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

LEVEL 3

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

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

- ***Unquoted equity instruments***
  - Fair value (excluding SEM target shares) is determined based on valuation techniques where the input is determined by management, e.g. multiples of net asset value, and is not readily available in the market or where market observable input is significantly adjusted. Valuations are generally based on price/earnings multiples ranging between 1 and 11.
  - The fair value of the SEM target shares is determined using predominantly 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 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 R259 million (December 2018: R146 million) or increase by R453 million (December 2018: R229 million), respectively. If the relative foreign exchange rates increase or decrease by 10%, the cumulative fair values will increase or decrease by R138 million (December 2018: R106 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 R116 million (December 2018: R81 million) or decrease by R116 million (December 2018: R82 million), respectively. The remaining target shares are mostly impacted by changes in exchange rates.

ACCOUNTING POLICY – DETERMINATION OF FAIR VALUE

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

When applicable, the group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair values of quoted investments are based on current stock exchange prices at the close of business on the statement of financial position date. If the market for a financial asset is not active or if it is unquoted, the group establishes fair value by using valuation techniques. These include DCF analysis, recent arm's-length transactions, premium/discount to net asset value and price-earnings techniques. The group's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data.

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – FAIR VALUE OF FINANCIAL INSTRUMENTS THAT ARE NOT LISTED OR QUOTED

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2019:

31 December 2019	Equity securities R million	Debt securities R million	Total R million
GROUP			
Opening balance	1 390	61	**1 451**
Acquisitions	18	–	**18**
Settlements	(114)	–	**(114)**
Gains/(losses) recognised in profit or loss	259	(1)	**258**
Closing balance	**1 553**	**60**	**1 613**

31 December 2019	Equity securities R million	Debt securities R million	Total R million
COMPANY			
Opening balance	1 390	–	**1 390**
Acquisitions	18	–	**18**
Settlements	(114)	–	**(114)**
Gains recognised in profit or loss	259	–	**259**
Closing balance	**1 553**	**–**	**1 553**

The unquoted equity instruments recognised as level 3 instruments consist mainly of the participation target shares issued by SEM.

Of the R259 million gain (December 2018: R235 million gain) recognised on equity securities, a R256 million gain (December 2018: R234 million gain) relates to the SEM target shares, of which R82 million (December 2018: R104 million) relates to foreign exchange losses (December 2018: gains), and R338 million to an increase (December 2018: R130 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:

– The increase in the value of SGI of R436 million (excluding the impact of exchange rate movements) was mainly attributable to improved net insurance results and an official reduction in the Indian corporate tax rate. Despite positive momentum at June 2019, P&O experienced growth pressure during the second half of the year which had a negative impact on the valuation of R53 million excluding foreign exchange movements.

Santam's economic participation via the SEM African target share portfolio was amended to reduce the participation percentage from 35% to 10%. As a result, Santam received a cash target share distribution of R167 million from SEM on 28 June 2019, comprising a capital distribution of R112 million and an income distribution of R55 million. The capital distribution was recognised directly in the statement of financial position as a reduction of the target share investment value. The income distribution was recognised in the statement of comprehensive income, where it was countered with a release of the realised fair value adjustment of the same value.

The following table presents the changes in level 3 instruments for the year ended 31 December 2018:

31 December 2018	Equity securities R million	Debt securities R million	Total R million
GROUP			
Opening balance	1 143	25	**1 168**
Acquisitions	12	36	**48**
Gains recognised in profit or loss	235	–	**235**
Closing balance	**1 390**	**61**	**1 451**
COMPANY			
Opening balance	1 143	–	**1 143**
Acquisitions	12	–	**12**
Gains recognised in profit or loss	235	–	**235**
Closing balance	**1 390**	**–**	**1 390**

5 FINANCIAL ASSETS (continued)

5.4 Price risk

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

Each of the following investments has an individual value of more than 1.5% of the total quoted equity investment portfolio. Details of the investments below 1.5%, summarised as "other", are open to inspection at the registered office of the company.

	Group				Company			
	2019		2018		2019		2018	
	Number of shares	Market value R million	Number of shares	Market value R million	Number of shares	Market value R million	Number of shares	Market value R million
Direct listed equity exposure								
Listed								
Naspers Ltd	**81 609**	**186**	85 360	247	**64 780**	**148**	62 454	181
Prosus NV[1]	**67 779**	**71**	–	–	**56 834**	**60**	–	–
British American Tobacco Plc	**112 104**	**67**	210 998	90	**76 022**	**45**	118 465	50
AngloGold Ashanti Ltd	**148 304**	**59**	401 590	73	**131 908**	**53**	27 378	5
Standard Bank Group Ltd	**338 562**	**57**	350 591	63	**289 434**	**49**	289 434	52
Growthpoint Properties Ltd	**2 387 294**	**53**	2 936 258	68	**1 797 206**	**40**	1 235 017	29
Sasol Ltd	**172 950**	**52**	275 356	129	**129 256**	**39**	78 503	37
MTN Group Ltd	**449 450**	**37**	519 038	46	**378 093**	**31**	378 093	34
Impala Platinum Holdings[1]	**256 356**	**37**	–	–	**198 989**	**29**	–	–
Remgro Ltd	**179 816**	**35**	233 907	46	**140 013**	**27**	128 400	25
BHP Billiton Plc	**103 404**	**34**	125 168	38	**90 020**	**30**	86 660	26
Anglo American Platinum Ltd[1]	**25 236**	**33**	–	–	**23 816**	**31**	–	–
FirstRand Group Ltd	**503 999**	**32**	448 679	31	**419 134**	**26**	386 248	25
Bid Corporation Ltd	**92 312**	**30**	159 273	42	**82 690**	**27**	82 690	22
Absa Group Ltd	**193 737**	**29**	256 809	42	**172 291**	**26**	150 664	24
EOH Holdings	**2 127 049**	**27**	2 127 049	64	**–**	**–**	–	–
RMB Holdings Ltd	**336 087**	**27**	364 973	29	**302 673**	**24**	302 673	24
Old Mutual Plc	**1 338 761**	**26**	2 230 603	50	**1 143 461**	**22**	1 143 461	26
Compagnie Financiere Richemont SA	**214 599**	**24**	843 184	79	**181 578**	**20**	181 578	17
Sanlam Ltd[2]	**268 312**	**21**	279 239	22	**239 303**	**19**	239 303	19
Other		**1 482**		1 218		**405**		398
		2 419		2 377		**1 151**		994
Irredeemable preference shares		**1**		1		**1**		1
		2 420		2 378		**1 152**		995
Indirect listed equity exposure								
Unitised funds		**697**		615		**99**		87

[1] In the prior year these investments did not exceed 1.5% of the total quoted equity investment portfolio.
[2] These investments do not exceed 1.5% on a group level.

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

Equity price risk arises from the negative effect that a fall in the market value of equities can have on Santam's net asset value. The group's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling methods. The group sets appropriate risk limits to ensure that no significant concentrations in individual companies arise. The group's largest investment in any one company comprises 7.7% (2018: 10.4%) of the total quoted equities and 0.4% (2018: 0.6%) of the total assets. The company's largest investment in any one company comprises 12.8% (2018: 18.2%) of the total quoted equities and 0.5% (2018: 0.6%) of the total assets.

SENSITIVITY ANALYSIS ON LISTED EQUITY SECURITIES, UNITISED FUNDS AND DERIVATIVES

At 31 December 2019, the group's quoted equity securities and unitised funds were recorded at their fair value of R3 117 million (2018: R2 993 million). A 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R312 million (2018: R299 million).

The company's quoted equity securities and unitised funds were recorded at their fair value of R1 251 million (2018: R1 083 million). A 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R125 million (2018: R108 million).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5.5 Interest rate risk – financial assets

Exposure to interest rate risk is monitored through several methods that include scenario testing and stress testing using measures such as duration. The bond returns are modelled based on the historic performance of the individual bonds held in the portfolio, and adjusted to reflect the current interest rates and inflation environment. The risk-free rate used for modelling is 9% as at 31 December 2019 (2018: 9%).

SENSITIVITY ANALYSIS ON INTEREST-BEARING INSTRUMENTS

Interest-bearing instruments with a fixed rate give rise to fair value interest rate risk, while interest-bearing instruments with a floating rate give rise to cash flow interest rate risk.

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

	2019		2018	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
GROUP				
Financial assets – fixed rate				
Debt securities				
Quoted	**(78)**	**85**	(88)	94
Unquoted	**(11)**	**11**	(23)	24
Unitised investments				
Quoted with underlying debt securities	**–**	**–**	(2)	2
Short-term money market instruments	**(2)**	**2**	(3)	3
Derivative instruments	**–**	**–**	–	–
Financial assets – variable rate				
Cash and cash equivalents	**39**	**(39)**	24	(24)
Debt securities				
Quoted	**28**	**(28)**	49	(50)
Unquoted	**20**	**(20)**	15	(17)
Short-term money market instruments	**15**	**(15)**	20	(20)
Total change in investment income, finance cost and net fair value movements before tax	**11**	**(4)**	(8)	12

	2019		2018	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
COMPANY				
Financial assets – fixed rate				
Debt securities				
Quoted	**(66)**	**69**	(70)	75
Unquoted	**(10)**	**10**	(12)	12
Short-term money market instruments	**(1)**	**1**	(2)	2
Derivative instruments	**–**	**–**	–	–
Financial assets – variable rate				
Cash and cash equivalents	**21**	**(21)**	2	(2)
Debt securities				
Quoted	**28**	**(28)**	42	(42)
Unquoted	**16**	**(16)**	14	(14)
Short-term money market instruments	**15**	**(15)**	19	(19)
Total change in investment income, finance cost and net fair value movements before tax	**3**	**–**	**(7)**	**12**

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

5 FINANCIAL ASSETS (continued)

5.6 Loans and receivables excluding insurance receivables

	Group		Company	
	2019 R million	2018 R million	2019 R million	2018 R million
Loans and receivables	**1 243**	1 243	**440**	565
Less provision for impairment	**(124)**	(137)	**(108)**	(121)
Loans to subsidiaries (refer to note 10.1)	**–**	–	**77**	253
Total	**1 119**	1 106	**409**	697
Expected to be realised within 12 months	**1 119**	1 106	**332**	444
Expected to be realised after 12 months	**–**	–	**77**	253
Reconciliation of provisions for impairment of other receivables				
At the beginning of the year	**137**	129	**121**	117
Charge to the statement of comprehensive income:				
– (decrease)/increase in provisions	**(13)**	8	**(13)**	4
Total at the end of the year	**124**	137	**108**	121

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

The carrying value of loans and receivables approximates fair value. Provisions for impairment are based on the recoverability of individual loans and receivables.

ACCOUNTING POLICY – LOANS AND RECEIVABLES

Classification

The group classifies its loans and receivables as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principle and interest.

Recognition and measurement

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective-interest method, less provision for expected credit losses.

Impairment

The group applies the general approach to providing for expected credit losses prescribed by IFRS 9. To measure the expected credit losses, loans and receivables have been grouped based on shared credit risk characteristics and the days past due to create three categories namely performing, underperforming and not performing. The expected loss rates are based on the payment profiles of receivables over a period of 36 months before year-end. The loss rates are adjusted to reflect current and forward looking information on macro-economic factors, such as the socio-economic environment affecting the ability of the debtors to settle the receivables. Receivables that are 30 days or more past due are considered to be "not performing" and the default rebuttable presumption of 90 days prescribed by IFRS 9 is not applied.

EXPECTED CREDIT LOSS SUMMARY

		Group					
2019		**ECL rate**	**ECL method**	**Gross**	**Provision opening balance**	**(Released)/ raised in the period**	**Provision closing balance**
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	**1.05%**	**12 month**	**922**	**20**	**(10)**	**10**
Underperforming	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are past due	**18.27%**	**Lifetime**	**151**	**43**	**(15)**	**28**
Not performing	Interest and/or principal repayments are 30 days past due	**51.66%**	**Lifetime**	**170**	**74**	**12**	**86**
Write-off	Interest and/or principal repayments are past due and there is no reasonable expectation of recovery			**–**	**–**	**–**	**–**
Total				**1 243**	**137**	**(13)**	**124**

		Company					
2019		**ECL rate**	**ECL method**	**Gross**	**Provision opening balance**	**(Released)/ raised in the period**	**Provision closing balance**
Performing[1]	Customers have a low risk of default and a strong capacity to meet contractual cash flows	**4.00%**	**12 month**	**268**	**20**	**(9)**	**11**
Underperforming	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are past due	**22.38%**	**Lifetime**	**123**	**43**	**(15)**	**28**
Not performing	Interest and/or principal repayments are 30 days past due	**55.32%**	**Lifetime**	**126**	**58**	**11**	**69**
Write-off	Interest and/or principal repayments are past due and there is no reasonable expectation of recovery			**–**	**–**	**–**	**–**
Total				**517**	**121**	**(13)**	**108**

[1] Included in performing loans are amounts due from other group companies. Given that the companies that funding has been provided to have no history of default and sufficient net asset value, it is unlikely that the company will experience credit losses in respect of these loans and as such no amounts have been provided for.

The forward looking information considered was deemed to have an immaterial impact on expected credit losses.

5 FINANCIAL ASSETS (continued)

5.6 Loans and receivables excluding insurance receivables (continued)

Group							
2018		**ECL rate**	**ECL method**	**Gross**	**Provision opening balance**	**(Released)/ raised in the period**	**Provision closing balance**
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	1.97%	12 month	998	24	(4)	20
Underperforming	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are past due	37.83%	Lifetime	115	40	3	43
Not performing	Interest and/or principal repayments are 30 days past due	57.04%	Lifetime	130	65	9	74
Write-off	Interest and/or principal repayments are past due and there is no reasonable expectation of recovery			–	–	–	–
Total				1 243	129	8	137

Company							
2018		**ECL rate**	**ECL method**	**Gross**	**Provision opening balance**	**(Released)/ raised in the period**	**Provision closing balance**
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	3.19%	12 month	596	25	(5)	20
Underperforming	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are past due	37.83%	Lifetime	115	40	3	43
Not performing	Interest and/or principal repayments are 30 days past due	54.07%	Lifetime	107	52	6	58
Write-off	Interest and/or principal repayments are past due and there is no reasonable expectation of recovery			–	–	–	–
Total				818	117	4	121

These loans and receivables are mostly unrated. Refer to note 5.8 for credit ratings.

5.7 Cash and cash equivalents

	Group		Company	
	2019 R million	2018 R million	2019 R million	2018 R million
Cash at bank and in hand	**4 642**	3 618	**2 057**	1 361
	4 642	3 618	**2 057**	1 361

The carrying value of cash and cash equivalents approximates fair value. The full value is expected to be realised within 12 months. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9 the identified impairment loss was immaterial.

ACCOUNTING POLICY – CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and deposits held on call with banks. Cash and cash equivalents are carried at amortised cost.

5.8 Credit risk

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

The credit quality of Santam's counterparties are determined using rating agencies' assessments of the probability of default over a one-year time horizon. The underlying default probabilities are based on the credit migration models developed by S&P, Moody's, Fitch and GCR, which incorporate up to 90 years' worth of credit default information. The probability of default assigned are based on the highest credit rating assigned by the various rating agencies.

Credit risk capital is held for exposure to risk-based assets such as bonds and bank deposits.

For concentration risk Santam uses the proposed SAM methodology. The calculation is performed in four steps:

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

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

The following table provides information regarding the aggregated credit risk exposure for financial assets without taking into account collateral. The credit ratings provided in this table were determined as follows: SIM provided management with reports generated from their credit system on a quarterly basis, detailing all counterparty, duration and credit risk. These reports include international, national and internal ratings. SIM also provides management with a conversion table that is then applied to standardise the ratings to standardised international long-term rates. For assets held by subsidiaries and not managed by SIM, a process is agreed with the subsidiaries to align the credit rating analysis with group requirements.

5 FINANCIAL ASSETS (continued)

5.8 Credit risk (continued)

31 December 2019	Credit rating AAA R million	AA+ R million	AA R million	AA- R million	A+ R million
GROUP					
Debt securities					
Quoted	16	18	–	–	–
Unquoted	–	–	–	–	–
Total debt securities	**16**	**18**	**–**	**–**	**–**
Unitised investments					
Quoted with underlying debt securities	–	–	–	–	–
Total unitised funds	**–**	**–**	**–**	**–**	**–**
Short-term money market instruments	**–**	**–**	**225**	**–**	**–**
Other loans and receivables	**–**	**12**	**8**	**23**	**3**
Cash and cash equivalents	**–**	**92**	**267**	**113**	**15**
Total	**16**	**122**	**500**	**136**	**18**

31 December 2019	Credit rating AAA R million	AA+ R million	AA R million	AA- R million	A+ R million
COMPANY					
Debt securities					
Quoted	16	18	–	–	–
Unquoted	–	–	–	–	–
Total debt securities	**16**	**18**	**–**	**–**	**–**
Unitised investments					
Quoted with underlying debt securities	–	–	–	–	–
Total unitised funds	**–**	**–**	**–**	**–**	**–**
Short-term money market instruments	**–**	**–**	**225**	**–**	**–**
Other loans and receivables	**–**	**–**	**2**	**–**	**–**
Cash and cash equivalents	**–**	**92**	**258**	**9**	**15**
Total	**16**	**110**	**485**	**9**	**15**

31 December 2018	Credit rating AA R million	AA- R million	A+ R million	A- R million
GROUP				
Debt securities				
Quoted	118	–	–	–
Unquoted	–	–	–	–
Total debt securities	**118**	**–**	**–**	**–**
Unitised investments				
Quoted with underlying debt securities	–	–	–	–
Total unitised funds	**–**	**–**	**–**	**–**
Short-term money market instruments	**–**	**–**	**–**	**–**
Other loans and receivables	**–**	**10**	**3**	**11**
Cash and cash equivalents	**159**	**420**	**26**	**2**
Total	**277**	**430**	**29**	**13**
COMPANY				
Debt securities				
Quoted	118	–	–	–
Unquoted	–	–	–	–
Total debt securities	**118**	**–**	**–**	**–**
Unitised investments				
Quoted with underlying debt securities	–	–	–	–
Total unitised funds	**–**	**–**	**–**	**–**
Short-term money market instruments	**–**	**–**	**–**	**–**
Other loans and receivables	**–**	**2**	**–**	**–**
Cash and cash equivalents	**159**	**363**	**26**	**–**
Total	**277**	**365**	**26**	**–**

The carrying amount of assets included on the statement of financial position represents the maximum credit exposure. There are no material financial assets that would have been past due or impaired had the terms not been renegotiated.

Credit rating								
BBB+ R million	BBB R million	BBB- R million	BB+ R million	BB R million	BB- R million	Below BB- R million	Not rated R million	Carrying value R million
11	10	6 427	320	411	356	104	256	7 929
–	–	5 215	20	166	173	159	836	6 569
11	10	11 642	340	577	529	263	1 092	14 498
–	–	7	–	218	–	–	3 558	3 783
–	–	7	–	218	–	–	3 558	3 783
–	–	2 179	190	101	162	28	10	2 895
10	61	73	5	9	4	1	910	1 119
2	11	3 595	72	262	98	94	21	4 642
23	82	17 496	607	1 167	793	386	5 591	26 937

Credit rating								
BBB+ R million	BBB R million	BBB- R million	BB+ R million	BB R million	BB- R million	Below BB- R million	Not rated R million	Carrying value R million
11	10	4 163	239	361	168	70	36	5 092
–	–	1 748	20	10	105	112	8	2 003
11	10	5 911	259	371	273	182	44	7 095
–	–	–	–	218	–	–	116	334
–	–	–	–	218	–	–	116	334
–	–	1 756	111	55	107	10	–	2 264
–	61	31	5	9	4	1	296	409
–	–	1 655	–	–	20	–	8	2 057
11	71	9 353	375	653	404	193	464	12 159

Credit rating								
BBB+ R million	BBB R million	BBB- R million	BB+ R million	BB R million	BB- R million	Below BB- R million	Not rated R million	Carrying value R million
–	16	5 517	231	1 672	556	102	251	8 463
4	–	4 278	51	106	176	176	658	5 449
4	16	9 795	282	1 778	732	278	909	13 912
–	–	–	–	–	–	–	2 501	2 501
–	–	–	–	–	–	–	2 501	2 501
–	29	2 274	12	84	261	195	73	2 928
–	12	126	3	45	10	4	882	1 106
–	–	1 598	88	1 322	–	–	3	3 618
4	57	13 793	385	3 229	1 003	477	4 368	24 065
–	11	4 281	160	216	387	72	41	5 286
4	–	1 558	26	106	92	128	–	1 914
4	11	5 839	186	322	479	200	41	7 200
–	–	–	–	–	–	–	206	206
–	–	–	–	–	–	–	206	206
–	–	1 923	1	41	114	117	–	2 196
–	–	76	2	4	7	3	603	697
–	–	808	–	–	–	–	5	1 361
4	11	8 646	189	367	600	320	855	11 660

5 FINANCIAL ASSETS (continued)

5.9 Investment income

	Group		Company	
	2019 R million	Restated[1] 2018 R million	2019 R million	2018 R million
Interest income derived from	**1 766**	1 588	**842**	821
Financial assets measured at amortised cost	**186**	91	**25**	21
Financial assets mandatorily measured at fair value through income	**1 580**	1 497	**817**	800
Other investment income/(losses)	**288**	523	**370**	466
Dividend income[2]	**291**	147	**365**	144
Foreign exchange differences	**(3)**	376	**5**	322
	2 054	2 111	**1 212**	1 287

5.10 Net gains/(losses) on financial assets and liabilities at fair value through income

	Group		Company	
	2019 R million	Restated[1] 2018 R million	2019 R million	2018 R million
Net fair value gains/(losses) on financial assets mandatorily at fair value through income	**468**	(463)	**349**	22
Net realised gains on financial assets excluding derivative instruments	**58**	377	**1**	81
Net fair value gains/(losses) on financial assets excluding derivative instruments	**358**	(863)	**296**	(82)
Net realised/fair value gains on derivative instruments	**52**	23	**52**	23
Net fair value (losses)/gains on financial liabilities designated as at fair value through income	**(147)**	35	**(8)**	(16)
Net fair value losses on debt securities	**(8)**	(16)	**(8)**	(16)
Net realised (losses)/gains on investment contracts	**(139)**	51	**–**	–
	321	(428)	**341**	6

[1] *Refer to note 31 for detail.*
[2] *Dividend income for the company consists mainly of dividends received from subsidiaries.*

ACCOUNTING POLICY – INVESTMENT INCOME AND NET GAINS/LOSSES ON FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH INCOME

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

6 FINANCIAL LIABILITIES

	Notes	Group 2019 R million	Group 2018 R million	Company 2019 R million	Company 2018 R million
The group's financial liabilities are summarised below.					
Financial liabilities designated at fair value through income					
Debt securities	6.1	**2 080**	2 072	**2 080**	2 072
Investment contracts	6.3	**1 618**	1 528	**–**	–
Derivative liabilities	6.4	**–**	4	**–**	4
Financial liabilities at amortised cost					
Repo liability	6.5	**785**	759	**–**	–
Collateral guarantee contracts	6.6	**120**	158	**120**	158
Trade and other payables excluding insurance payables	6.7	**2 236**	2 160	**1 462**	1 458
Financial liabilities		**6 839**	6 681	**3 662**	3 692

Risk management

Refer to the following notes for detail on risks relating to financial assets and the management thereof:

- Interest rate risk – note 6.2
- Currency risk – note 7
- Liquidity risk – note 8

6.1 Debt securities

	Group 2019 R million	Group 2018 R million	Company 2019 R million	Company 2018 R million
At the beginning of the year	**2 047**	2 031	**2 047**	2 031
Non-cash movements				
Net fair value losses on debt securities	**8**	16	**8**	16
	2 055	2 047	**2 055**	2 047
Accrued interest	**25**	25	**25**	25
	2 080	2 072	**2 080**	2 072
Expected to be settled after 12 months	**2 055**	2 047	**2 055**	2 047
Expected to be settled within 12 months	**25**	25	**25**	25
Estimated redemption value on maturity date	**2 000**	2 000	**2 000**	2 000

During April 2016, the company issued 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 and redeemed in September 2017. 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 their maturity. 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. They are all classified as level 2 (2018: level 2) in the fair value hierarchy.

Santam's national credit rating was downgraded by one notch from AA- to A+. The movement in the fair value of the unsecured subordinated callable notes is considered immaterial and therefore mainly represents the market movement.

ACCOUNTING POLICY – DEBT SECURITIES

Debt securities issued by the group comprise subordinated debt instruments fair valued against similar quoted debt instruments. Debt securities are designated as at fair value through income as these instruments are managed at fair value in terms of the related business model.

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

6 FINANCIAL LIABILITIES (continued)

6.2 Interest rate risk – financial liabilities

Interest rate risk arises from the net effect on assets and liabilities of a change in the level of interest rates.

The assets backing the subordinated debt are managed within a mandate to ensure that adequate cover is provided for the related liabilities i.e. the market value of the subordinated debt and the market value of the assets backing the debt react the same way to changes in interest rates.

SENSITIVITY ANALYSIS ON INTEREST-BEARING INSTRUMENTS

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

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

	2019		2018	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
GROUP				
Financial liabilities – fixed rate				
Debt securities – quoted	**14**	**(14)**	18	(18)
Financial liabilities – variable rate				
Debt securities – quoted	**(15)**	**15**	(15)	15
Total change in finance cost and net fair value movement before tax	**(1)**	**1**	3	(3)

	2019		2018	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
COMPANY				
Financial liabilities – fixed rate				
Debt securities – quoted	**14**	**(14)**	18	(18)
Financial liabilities – variable rate				
Debt securities – quoted	**(15)**	**15**	(15)	15
Total change in finance cost and net fair value movement before tax	**(1)**	**1**	3	(3)

6.3 Investment contracts

	Group	
	2019 R million	2018 R million
At the beginning of the year	**1 528**	1 703
Cash movements		
Investment contracts issued	**188**	159
Investment contracts sold/matured	**(237)**	(283)
Non-cash movements		
Net fair value losses/(gains)	**139**	(51)
	1 618	1 528
Expected to be settled after 12 months	**1 535**	1 461
Expected to be settled within 12 months	**83**	67

The net fair value gains/losses on investment contracts are equal to the net fair value gains/losses on the linked financial assets at fair value through income. The movement in the net fair value of the linked assets and liabilities are included in net gains/(losses) on financial assets and liabilities at fair value through income in the statement of comprehensive income. The movement in the fair value of the investment contracts mainly represents the market movement. The maturity values of these financial liabilities are determined by the fair values of the linked assets. They are classified as level 2 per the fair value hierarchy.

ACCOUNTING POLICY – INVESTMENT CONTRACTS

The group recognises the following investment contracts:

(a) First-party cells

First-party cell captive arrangements are arrangements where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies. The cell shareholder and the policyholder are considered the same person. Where more than one contract is entered into with a single counterparty, it shall be considered a single contract, and the shareholder and insurance agreement are considered together for risk transfer purposes. As these contracts are considered a single contract there is no significant risk transfer and as such cell captive facilities are accounted for as investment contract liabilities.

(b) Policies with no significant risk transfer

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

Investment contract liabilities are recognised when the group becomes party to the contractual provisions of the instrument. It is initially recognised at fair value. The fair value is determined using the fair value of the underlying financial assets linked to the financial liability. Based on the principle of eliminating an accounting mismatch in the financial statements, investment contracts are designated to be measured at fair value through income.

6.4 Derivative liabilities

	Group		Company	
	2019 R million	2018 R million	2019 R million	2018 R million
Exchange-traded futures	–	4	–	4
	–	4	–	4

At 31 December 2018 the group had exchange-traded futures classified as derivative liabilities with an exposure value of R459 million.

ACCOUNTING POLICY – DERIVATIVES

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

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a current legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

6.5 Repo liability

	Group	
	2019 R million	2018[1] R million
At the beginning of the year	759	531
Cash movements		
New repurchase agreements entered into	377	595
Repurchase agreements settled	(356)	(375)
	780	751
Accrued interest	5	8
	785	759
Expected to be settled after 12 months	402	403
Expected to be settled within 12 months	383	356

[1] *As at 31 December 2018, management expected all contracts to settle within 12 months. Based on past experience, the amounts expected to be settled within and after 12 months have been restated and R403 million is now included in expected to be settled after 12 months.*

6 FINANCIAL LIABILITIES (continued)

6.5 Repo liability (continued)

The repo liability relates to a sale and repurchase agreement within SSI's portfolio. This liability is secured by debt securities with a value of R884 million (2018: R759 million). The liability is classified as level 2 per the fair value hierarchy. The group continues to receive income derived from the underlying assets over the term of the agreement. The group cannot realise profits or losses on disposal of the underlying assets for the duration of the agreement, as the group does not have custody of the assets during this time.

ACCOUNTING POLICY – REPO LIABILITY

Repo repurchase liabilities consist of sale and repurchase of assets agreements. These agreements contain financial liabilities consisting of financial instruments sold with an agreement to repurchase these instruments at a fixed price at a later date. These financial liabilities are classified as financial liabilities at amortised cost.

Where financial instruments are sold subject to a commitment to repurchase them, the financial instrument is not derecognised and remains in the statement of financial position and is valued according to the group's accounting policy relevant to that category of financial instrument. The proceeds received are recorded as a liability (repo liability) carried at amortised cost.

The difference between the sale and repurchase price is treated as finance cost and is accrued over the life of the agreement using the effective interest rate method.

6.6 Collateral guarantee contracts

	Group		Company	
	2019 R million	**2018 R million**	**2019 R million**	**2018 R million**
At the beginning of the year	**158**	130	**158**	130
Cash movements				
New contracts entered into	**27**	21	**27**	21
Contracts ended	**(73)**	(2)	**(73)**	(2)
Non-cash movements				
Interest	**8**	9	**8**	9
	120	158	**120**	158

Collateral guarantee contracts are expected to be settled within 12 months.

Santam issues guarantees on behalf of its corporate clients covering various risks such as mining rehabilitation. The guarantees are issued on the back of full collateral guarantees in the form of moneys deposited with Santam. These assets are included in financial assets, debt securities, at fair value through income and cash, and amounted to R120 million (2018: R158 million) as at 31 December. These assets are managed in a separate investment portfolio and are sold when required to settle obligations arising from the collateral guarantee contracts. As a result, the transaction is not recorded as an insurance transaction in terms of IFRS 4, but as a financial instrument in terms of IFRS 9.

The carrying value of collateral guarantee contracts approximates fair value.

ACCOUNTING POLICY – COLLATERAL GUARANTEE CONTRACTS

Collateral guarantee contracts are initially recognised at fair value and subsequently measured at amortised cost using the effective-interest method. Interest accruals are recognised as finance costs in the statement of comprehensive income.

6.7 Trade and other payables excluding insurance payables

	Group		Company	
	2019 R million	**2018 R million**	**2019 R million**	**2018 R million**
Amounts due to subsidiaries (refer to note 10.2)	**–**	–	**433**	392
Trade payables and accrued expenses	**2 079**	2 017	**923**	970
Employee benefits	**157**	143	**106**	96
Total	**2 236**	2 160	**1 462**	1 458

The carrying value of trade and other payables approximates fair value. All trade payables are expected to be settled within 12 months.

ACCOUNTING POLICY – TRADE AND OTHER PAYABLES

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

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6.8 Finance costs

	Group		Company	
	2019 R million	2018 R million	2019 R million	2018 R million
Interest expense				
– interest on collateral guarantee contracts	**8**	9	**8**	9
– interest on lease liabilities	**73**	–	**39**	–
– subordinated callable note	**198**	199	**198**	199
– repo liability[1]	**59**	8	**–**	–
– other	**30**	115	**22**	57
	368	331	**267**	265

[1] *R44 million interest on the repo liability was included in other interest in 2018.*

ACCOUNTING POLICY – FINANCE COSTS

Finance costs are recognised using the effective-interest method.

6.9 Lease liability

	Group		Company	
	2019 R million	2018 R million	2019 R million	2018 R million
At the beginning of the year	**–**	–	**–**	–
Addition on adoption of IFRS 16	**1 004**	–	**750**	–
Adjusted opening balance	**1 004**	–	**750**	–
Cash movements				
Lease payments	**(173)**	–	**(108)**	–
Non-cash movements				
New leases entered into and lease extensions during the year	**74**	–	**50**	–
Interest	**73**	–	**39**	–
	978	–	**731**	–

7 CURRENCY RISK

The group has two sources of currency risk:

- Operational currency risk – underwriting liabilities in currencies other than the currency of the primary environment in which the business units operate (non-functional currencies)
- Structured currency risk – investing in SEM target shares and SAN JV

These risks affect both the value of Santam's assets as well as the cost of claims, particularly for imported motor parts, directly and indirectly. The fair value of the investments in the SEM target shares are impacted by changes in the foreign exchange rates of the underlying operations. Santam is also pursuing international diversification in underwriting operations through the business written by Santam re and the specialist underwriting managers. Any changes in foreign exchange rates relating to the investment in SAN JV are recognised directly in the foreign currency translation reserve in the statement of changes in equity. These movements will only be released to profit or loss should the investment in SAN JV be disposed of.

In order to mitigate the foreign currency mismatch risk, Santam monitors the level of foreign currency assets relative to foreign currency liabilities and foreign currency capital requirements.

In terms of Santam's risk management strategy, foreign currency risks can be assessed on a case-by-case basis to determine whether specific hedging requirements exists. All three acquisitions of SAN JV were therefore assessed and it was concluded by the investment committee and the board that the foreign currency risk relating to this transaction should be appropriately hedged.

Dedicated foreign cash to the value of the US dollar denominated purchase price was designated as the hedging instrument and the proposed acquisition as described above was identified as the hedged item (therefore 100% effective).

Effective 9 October 2018, SEM and Santam made their third investment in SAN JV, and SAN JV acquired a further 53.3% interest in Saham Finances for USD1 045 million (R15.4 billion). Santam's share of the purchase price, including transaction costs, was USD64 million (R957 million). Santam therefore decided to implement another hedging arrangement similar to the one applied in 2015 by purchasing USD64 million before 9 October 2018. The currency gains recognised as part of the cash flow hedge reserve amounted to R46 million. It was subsequently accounted for as part of the investment in SAN JV in 2018.

The tables presented on pages 74 and 75 provide a summary of the foreign exposures (including structured currency risk) relating to assets and liabilities included in the statement of financial position at the reporting date. Only the material currencies held at the reporting date are disclosed in the table. The exposure disclosed in rand value does, however, represent the group and the company's total exposure to all currencies held at the reporting date irrespective of whether it was separately disclosed in the table. The foreign currency exposure for reinsurance assets disclosed in the table only includes reinsurance contracts denominated in foreign currencies.

7 CURRENCY RISK (continued)

Structured currency risk relating to the investments in SAN JV and SEM were previously included in investments in associates and joint ventures and equity securities respectively, as they expose the group and company to multiple underlying currencies, which are not separately disclosed. This exposure is not direct currency exposure therefore the current year table does not include this and the prior year has been restated. The group still has structured currency exposure of R2 323 million (2018: R2 626 million) relating to its investment in SAN JV, and the company has exposure of R2 514 million (2018: R2 476 million). The group and company has structured currency exposure of R1 474 million (2018: R1 323 million) relating to its investment in SEM target shares. Refer to note 5.3 for additional disclosure on the group's sensitivity in its exposure to structured currency risk arising from the investment in SEM target shares.

Any exposure to Namibian dollar was not included in the tables as there is currently no impact on profit or loss and/or the net asset value of the group.

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

31 December 2019	Euro € million	United States dollar US$ million	Moroccan dirham MAD million	Chinese yuan CNY million	Indian rupee INR million	South Korean won KRW million	Israeli shekel ILS million	Total exposure R million
GROUP								
Debentures, insurance policies, public sector stocks and other loans	2.13	101.08	–	–	–	–	–	**1 494.83**
Cash, deposits and similar securities	12.31	78.20	–	–	–	–	–	**1 298.15**
Reinsurance assets	0.14	70.39	32.03	(2.62)	(26.03)	(204.69)	–	**1 039.71**
Trade and other receivables	0.29	47.51	19.67	25.78	317.01	3 331.93	66.42	**1 326.82**
Insurance liabilities	(18.04)	(136.59)	(38.05)	(60.94)	(859.68)	(16 694.17)	(116.87)	**(3 742.25)**
Trade and other payables	(0.13)	(16.86)	–	(17.76)	(17.62)	(1 539.92)	–	**(318.79)**
Total foreign currency exposure relating to insurance business (excluding alternative risk)	**(3.30)**	**143.73**	**13.65**	**(55.54)**	**(586.32)**	**(15 106.85)**	**(50.45)**	**1 098.47**
Cash, deposits and similar securities:								
– relating to alternative risk business	0.40	12.72	–	–	–	–	–	**185.17**
Trade and other payables:								
– relating to alternative risk business	0.12	2.79	–	–	–	–	–	**(45.20)**
Equity securities	3.16	10.98	–	–	–	–	–	**225.53**
Derivative instruments	–	2.54	–	–	–	–	–	**36.45**
Foreign currency exposure	**0.38**	**172.76**	**13.65**	**(55.54)**	**(586.32)**	**(15 106.85)**	**(50.45)**	**1 550.42**

31 December 2019	Euro € million	United States dollar US$ million	Moroccan dirham MAD million	Chinese yuan CNY million	Indian rupee INR million	South Korean won KRW million	Israeli shekel ILS million	Total exposure R million
COMPANY								
Debentures, insurance policies, public sector stocks and other loans	2.13	101.08	–	–	–	–	–	**1 494.83**
Cash, deposits and similar securities	12.31	78.20	–	–	–	–	–	**1 298.15**
Reinsurance assets	0.14	70.39	32.03	(2.62)	(26.03)	(204.69)	–	**1 039.71**
Trade and other receivables	0.29	47.51	19.67	25.78	317.01	3 331.93	66.42	**1 326.82**
Insurance liabilities	(18.04)	(136.59)	(38.05)	(60.94)	(859.68)	(16 694.17)	(116.87)	**(3 742.25)**
Trade and other payables	(0.13)	(16.86)	–	(17.76)	(17.62)	(1 539.92)	–	**(318.79)**
Total foreign currency exposure relating to insurance business	**(3.30)**	**143.73**	**13.65**	**(55.54)**	**(586.32)**	**(15 106.85)**	**(50.45)**	**1 098.47**
Equity securities	–	–	–	–	–	–	–	**21.50**
Derivative instruments	–	2.54	–	–	–	–	–	**36.45**
Foreign currency exposure	**(3.30)**	**146.27**	**13.65**	**(55.54)**	**(586.32)**	**(15 106.85)**	**(50.45)**	**1 156.42**
Exchange rates:								
Closing rate	**15.70**	**13.98**	**1.49**	**2.02**	**0.20**	**0.01**	**4.09**	
Average rate	**16.16**	**14.43**	**1.52**	**2.09**	**0.21**	**0.04**	**4.06**	

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Restated 31 December 2018	Euro € million	United States dollar US$ million	British pound £ million	Moroccan dirham MAD million	Chinese yuan CNY million	Indian rupee INR million	South Korean won KRW million	Total exposure R million
GROUP								
Debentures, insurance policies, public sector stocks and other loans	1.49	98.57	2.89	–	–	–	–	**1 497.56**
Cash, deposits and similar securities	17.58	61.91	(0.93)	–	–	–	–	**1 201.07**
Reinsurance assets	0.10	53.22	0.02	35.66	–	13.47	–	**900.07**
Trade and other receivables	1.20	52.53	0.06	1.77	14.58	369.93	4 251.59	**1 321.83**
Insurance liabilities	(20.24)	(113.82)	(2.40)	(42.22)	(53.02)	(903.42)	(9 116.47)	**(3 199.95)**
Trade and other payables	0.83	(54.39)	(0.05)	–	(14.93)	(8.74)	(1 501.14)	**(853.40)**
Total foreign currency exposure relating to insurance business (excluding alternative risk)	**0.96**	**98.02**	**(0.41)**	**(4.79)**	**(53.37)**	**(528.76)**	**(6 366.02)**	**867.18**
Cash, deposits and similar securities:								
– relating to alternative risk business	0.17	15.19	-	–	–	–	–	**221.24**
Trade and other payables:								
– relating to alternative risk business	(0.27)	(3.44)	-	–	–	–	–	**(53.17)**
Equity securities	2.58	10.52	-	–	–	–	–	**207.11**
Derivative instruments	–	1.42	-	–	–	–	–	**21.47**
Foreign currency exposure	**3.44**	**121.71**	**(0.41)**	**(4.79)**	**(53.37)**	**(528.76)**	**(6 366.02)**	**1 263.83**

Restated 31 December 2018	Euro € million	United States dollar US$ million	British pound £ million	Moroccan dirham MAD million	Chinese yuan CNY million	Indian rupee INR million	South Korean won KRW million	Total exposure R million
COMPANY								
Debentures, insurance policies, public sector stocks and other loans	1.49	98.57	2.89	–	–	–	–	**1 497.56**
Cash, deposits and similar securities	17.58	61.91	(0.93)	–	–	–	–	**1 201.07**
Reinsurance assets	0.10	53.22	0.02	35.66	–	13.47	–	**900.07**
Trade and other receivables	1.20	52.53	0.06	1.77	14.58	369.93	4 251.59	**1 321.83**
Insurance liabilities	(20.24)	(113.82)	(2.40)	(42.22)	(53.02)	(903.42)	(9 116.47)	**(3 199.95)**
Trade and other payables	0.83	(54.39)	(0.05)	–	(14.93)	(8.74)	(1 501.14)	**(853.40)**
Total foreign currency exposure relating to insurance business	**0.96**	**98.02**	**(0.41)**	**(4.79)**	**(53.37)**	**(528.76)**	**(6 366.02)**	**867.18**
Equity securities	–	–	-	–	–	–	–	**13.00**
Derivative instruments	–	1.42	-	–	–	–	–	**21.47**
Foreign currency exposure	**0.96**	**99.44**	**(0.41)**	**(4.79)**	**(53.37)**	**(528.76)**	**(6 366.02)**	**901.65**
Exchange rates:								
Closing rate	16.52	14.42	18.26	1.52	2.12	0.21	0.01	
Average rate	15.95	13.65	17.86	1.45	2.05	0.20	0.01	

7 CURRENCY RISK (continued)

ACCOUNTING POLICY – FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

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

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

A 10% change in the rand exchange rate against USD, ILS (2019) and CNY (2018) would have the following impact on income before taxation:

31 December 2019	10% strengthening in rand/ILS R million	10% weakening in rand/ILS R million	10% strengthening in rand/USD R million	10% weakening in rand/USD R million
GROUP				
Impact on profit or loss	**20.63**	**(20.63)**	**(245.43)**	**245.43**
COMPANY				
Impact on profit or loss	**20.63**	**(20.63)**	**(204.54)**	**204.54**

31 December 2018	10% strengthening in rand/CNY R million	10% weakening in rand/CNY R million	10% strengthening in rand/USD R million	10% weakening in rand/USD R million
GROUP				
Impact on profit or loss	11.32	(11.32)	(175.51)	175.51
COMPANY				
Impact on profit or loss	11.32	(11.32)	(143.40)	143.40

The impact of a 10% change in the rand exchange rate against the Euro, British pound, Chinese yuan (2019), Indian rupee, Israeli shekel (2018), South Korean won and Moroccan dirham is not disclosed as it is not material for the group or the company for the current year.

The foreign exchange profits or losses arising from the translation of international business unit statements of financial position from their functional currencies into rand are recognised in the currency translation reserve. These movements in exchange rates therefore have no impact on profit. On disposal of the foreign companies, the reserve is realised and released to profit or loss.

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

Derivative risk

The group uses derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates, foreign exchange rates and equity prices. The group does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes. The policy on use of derivatives is approved by the investment committee and the board. Refer to notes 5.2 and 6.4 for more detail on the derivatives held by the group.

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

8 LIQUIDITY RISK

Santam manages the liquidity requirements by matching the duration of the assets invested to the corresponding liabilities. The net insurance liabilities are covered by cash and liquid interest-bearing instruments while Santam's subordinated debt obligation is covered by matching cash and interest-bearing instruments.

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

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

The following table summarises the contractual repricing or maturity dates (whichever is earlier) for financial assets and liabilities that are subject to fixed and variable interest rates. Insurance contract liabilities are also presented and are analysed by remaining estimated duration until settlement. Insurance and financial liabilities are presented on an undiscounted contractual cash flow basis, except for investment contracts and cell owners' and policyholders' interest which are presented using discounted values.

31 December 2019	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Open ended R million	Carrying value R million
GROUP					
Financial and insurance assets					
Equity securities					
Quoted	–	–	–	2 420	**2 420**
Unquoted	–	–	–	1 557	**1 557**
Total	**–**	**–**	**–**	**3 977**	**3 977**
Debt securities					
Quoted	2 399	3 980	1 550	–	**7 929**
Unquoted	828	5 651	10	80	**6 569**
Total	**3 227**	**9 631**	**1 560**	**80**	**14 498**
Unitised investments					
Quoted					
Underlying equity securities	–	–	–	697	**697**
Underlying debt securities	–	–	–	3 783	**3 783**
Total	**–**	**–**	**–**	**4 480**	**4 480**
Short-term money market instruments	**2 895**	**–**	**–**	**–**	**2 895**
Receivables due from contract holders/ intermediaries	4 745	–	–	–	**4 745**
Reinsurance receivables	373	–	–	–	**373**
Cell owners' and policyholders' interest	26	–	–	–	**26**
Other loans and receivables	1 114	–	–	5	**1 119**
Reinsurance assets (including DAC)	6 268	951	236	93	**7 548**
Deposit with cell owner	58	117	5	–	**180**
Total	**12 584**	**1 068**	**241**	**98**	**13 991**
Cash and cash equivalents	**4 642**	**–**	**–**	**–**	**4 642**
Total financial and insurance assets	**23 348**	**10 699**	**1 801**	**8 635**	**44 483**

31 December 2019	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
GROUP				
Financial and insurance liabilities				
Debt securities	199	2 310	–	**2 509**
Investment contracts	83	–	1 535	**1 618**
Cell owners' and policyholders' interest	–	3 964	–	**3 964**
Repo liability	383	402	–	**785**
Collateral guarantee contracts	120	–	–	**120**
Insurance liabilities (including reinsurance DAC)	20 498	2 590	608	**23 696**
Reinsurance liability relating to cell owners	58	117	5	**180**
Trade and other payables including insurance payables	5 183	52	45	**5 280**
Total	**26 524**	**9 435**	**2 193**	**38 152**

8 LIQUIDITY RISK (continued)

31 December 2019	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Open ended R million	Carrying value R million
COMPANY					
Financial and insurance assets					
Equity securities					
Quoted	–	–	–	1 152	**1 152**
Unquoted	–	–	–	1 553	**1 553**
Total	**–**	**–**	**–**	**2 705**	**2 705**
Debt securities					
Quoted	892	3 056	1 144	–	**5 092**
Unquoted	30	1 953	–	20	**2 003**
Total	**922**	**5 009**	**1 144**	**20**	**7 095**
Unitised investments					
Quoted					
Underlying equity securities	–	–	–	99	**99**
Underlying debt securities	–	–	–	334	**334**
Total	**–**	**–**	**–**	**433**	**433**
Short-term money market instruments	**2 264**	**–**	**–**	**–**	**2 264**
Receivables due from contract holders/ intermediaries	4 179	–	–	–	**4 179**
Reinsurance receivables	206	–	–	–	**206**
Other loans and receivables	409	–	–	–	**409**
Reinsurance assets (including DAC)	5 208	957	237	–	**6 402**
Total	**10 002**	**957**	**237**	**–**	**11 196**
Cash and cash equivalents	**2 057**	**–**	**–**	**–**	**2 057**
Total financial and insurance assets	**15 245**	**5 966**	**1 381**	**3 158**	**25 750**

31 December 2019	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
COMPANY				
Financial and insurance liabilities				
Debt securities	199	2 310	–	**2 509**
Collateral guarantee contracts	120	–	–	**120**
Insurance liabilities (including reinsurance DAC)	11 720	2 383	590	**14 693**
Trade and other payables including insurance payables	3 952	–	–	**3 952**
Total	**15 991**	**4 693**	**590**	**21 274**

31 December 2018	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Open ended R million	Carrying value R million
GROUP					
Financial and insurance assets					
Equity securities					
Quoted	–	–	–	2 378	**2 378**
Unquoted	–	–	–	1 418	**1 418**
Total	**–**	**–**	**–**	**3 796**	**3 796**
Debt securities					
Quoted	2 380	4 704	1 379	–	**8 463**
Unquoted	714	4 538	11	186	**5 449**
Total	**3 094**	**9 242**	**1 390**	**186**	**13 912**
Unitised investments					
Quoted					
Underlying equity securities	–	–	–	615	**615**
Underlying debt securities	–	–	–	2 501	**2 501**
Total	**–**	**–**	**–**	**3 116**	**3 116**
Short-term money market instruments	**2 928**	**–**	**–**	**–**	**2 928**
Receivables due from contract holders/ intermediaries	4 749	–	–	–	**4 749**
Reinsurance receivables	419	–	–	–	**419**
Cell owners' and policyholders' interest	13	–	–	–	**13**
Other loans and receivables	1 068	34	–	4	**1 106**
Reinsurance assets (including DAC)	5 864	964	209	69	**7 106**
Deposit with cell owner	53	118	20	–	**191**
Total	**12 166**	**1 116**	**229**	**73**	**13 584**
Cash and cash equivalents	**3 618**	**–**	**–**	**–**	**3 618**
Total financial and insurance assets	**21 806**	**10 358**	**1 619**	**7 171**	**40 954**

31 December 2018	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
GROUP				
Financial and insurance liabilities				
Debt securities	199	2 509	–	**2 708**
Investment contracts	67	–	1 461	**1 528**
Cell owners' and policyholders' interest	–	3 343	–	**3 343**
Collateral guarantee contracts	158	–	–	**158**
Insurance liabilities (including reinsurance DAC)	18 358	2 297	494	**21 149**
Reinsurance liability relating to cell owners	53	118	20	**191**
Trade and other payables including insurance payables	5 855	34	33	**5 922**
Total	**24 690**	**8 301**	**2 008**	**34 999**

8 LIQUIDITY RISK (continued)

31 December 2018	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Open ended R million	Carrying value R million
COMPANY					
Financial and insurance assets					
Equity securities					
Quoted	–	–	–	995	**995**
Unquoted	–	–	–	1 391	**1 391**
Total	**–**	**–**	**–**	**2 386**	**2 386**
Debt securities					
Quoted	658	3 675	953	–	**5 286**
Unquoted	5	1 759	–	150	**1 914**
Total	**663**	**5 434**	**953**	**150**	**7 200**
Unitised investments					
Quoted					
Underlying equity securities	–	–	–	87	**87**
Underlying debt securities	–	–	–	206	**206**
Total	**–**	**–**	**–**	**293**	**293**
Short-term money market instruments	**2 196**	**–**	**–**	**–**	**2 196**
Receivables due from contract holders/ intermediaries	4 074	–	–	–	**4 074**
Reinsurance receivables	217	–	–	–	**217**
Other loans and receivables	697	–	–	–	**697**
Reinsurance assets (including DAC)	5 044	983	213	–	**6 240**
Total	**10 032**	**983**	**213**	**–**	**11 228**
Cash and cash equivalents	**1 361**	**–**	**–**	**–**	**1 361**
Total financial and insurance assets	**14 252**	**6 417**	**1 166**	**2 829**	**24 664**

31 December 2018	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
COMPANY				
Financial and insurance liabilities				
Debt securities	199	2 509	–	**2 708**
Collateral guarantee contracts	158	–	–	**158**
Insurance liabilities (including reinsurance DAC)	10 925	2 259	490	**13 674**
Trade and other payables including insurance payables	4 434	–	–	**4 434**
Total	**15 716**	**4 768**	**490**	**20 974**

9. CELL OWNERS' AND POLICYHOLDERS' INTEREST AND OTHER ASSETS AND LIABILITIES RELATING TO CELLS

9.1 Reconciliation of cell owners' interest

	Group	
	2019 R million	**2018 R million**
At the beginning of the year	**1 780**	1 552
Cash movements		
Preference shares issued by subsidiary	**125**	15
Redemption of preference shares	**(4)**	(23)
Dividends paid to preference shareholders	**(279)**	(115)
Non-cash movements		
Net increase in cell owners' interest	**678**	351
	2 300	1 780
Amounts owed by cell owners	**26**	13
	2 326	1 793
Expected to be settled after 12 months	**2 326**	1 793
Expected to be settled within 12 months	**–**	-

Amounts owed by cell owners are unrated and neither past due nor impaired. The increase in the current year's net increase in cell owners' interest is due to profitability of new cell agreements.

In the event that claims incurred by the cell captive exceed the related assets, the group will be exposed to the credit risk of the related cell owners until the solvency requirements of the cell captives have been met by the cell owner. Cell owners' credit risk is evaluated before new cell arrangements are established. Solvency levels of cells are assessed on a regular basis.

ACCOUNTING POLICY – LIABILITIES TO CELL SHAREHOLDERS

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

(a) First-party cell captive arrangements: refer to note 6.3

(b) Third-party cell captive arrangements are arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. The insurance company is the principal to the insurance contract, although the business is underwritten on behalf of the cell shareholder. The shareholders' agreement, however, determines that the cell shareholders remain responsible for the solvency of the cell captive arrangements. In substance, the insurance company therefore reinsures this business to the cell shareholder as the cell shareholder remains responsible for the solvency of the cell captive arrangement.

The cell shareholder's interest represents the cell shareholder's funds, in respect of the insurance business conducted in the cell structures, held by the insurer and is included under liabilities due to cell shareholders. The carrying value of amounts due to cells is the consideration received for preference shares plus the accumulated funds in respect of business conducted in the cells, measured in accordance with accounting policies set out in note 4, less repayment to cells.

The premiums and claims relating to first-party cells have been excluded from the statement of comprehensive income and are accounted for directly in the liability. The premiums and claims payments relating to contracts in third-party cells have been included in the statement of comprehensive income but, as the third-party cell shareholder, in substance, is the reinsurer, the net result is accounted for as part of the cell owner's interest.

9.2 Reconciliation of policyholders' interest

	Group	
	2019 R million	**2018 R million**
At the beginning of the year	**1 550**	1 665
Cash movements		
Dividends paid to preference shareholders	**(104)**	–
Non-cash movements		
Net increase/(decrease) in policyholders' interest	**192**	(115)
	1 638	1 550
Expected to be settled after 12 months	**1 638**	1 550
Expected to be settled within 12 months	**–**	–

ACCOUNTING POLICY – LIABILITIES TO POLICYHOLDERS

Policyholder liabilities that originated from unit-linked contracts are measured with reference to the respective underlying assets of these contracts.

Policyholders' entitlement to participation in operating results remains contingent until the termination of the agreement with the client or until contractually determined. During the duration of the profit sharing agreement, the estimated entitlement to profit or losses by clients is determined annually and transferred to the policyholders' interest liability. Increases and decreases in the estimated entitlement to operating result that may become apparent in future periods are transferred from or to the operating result of that period.

9.3 Reconciliation of deposit with cell owner

	Group	
	2019 R million	**2018 R million**
At the beginning of the year	**191**	174
Movement for the year (refer to note 9.4)	**(11)**	17
	180	191
Expected to be realised after 12 months	**122**	138
Expected to be realised within 12 months	**58**	53

9.4 Reconciliation of reinsurance liability relating to cell owners

	Group	
	2019 R million	**2018 R million**
At the beginning of the year	**191**	174
Impact of discounting (unwinding)	**10**	9
Exits during the period (lapses and death)	**(11)**	10
Repayments	**(57)**	(50)
New tranches written	**41**	77
Impact of change in basis	**(7)**	(30)
Other	**13**	1
	180	191
Expected to be settled after 12 months	**122**	138
Expected to be settled within 12 months	**58**	53

During 2015, Centriq Life Insurance Company Ltd (Centriq Life) entered into a financial reinsurance agreement whereby the profit in respect of a book of business reinsured, was paid up front by the reinsurer to the cell owner. Centriq Life's reinsurance liability due to the reinsurer was recognised as a reinsurance liability relating to cell owners. The payment made to the cell owner is regarded by Centriq Life as the upfront payment of profits to the cell owner in terms of the cell shareholder agreement and is therefore recognised as a deposit with cell owner. These liabilities unwind through policy lapses and claims payment. The deposit is classified as unrated and is neither past due nor impaired.

10 INVESTMENT IN SUBSIDIARIES

	Company	
	2019 R million	**2018 R million**
At the beginning of the year	**1 109**	1 125
Settlement	**–**	(16)
Unlisted shares at cost price less impairment	**1 109**	1 109
Expected to be realised after 12 months	**1 109**	1 109
Expected to be realised within 12 months	**–**	–

On 1 March 2019, the Santam group acquired a shareholding of 100% in Vantage Insurance Acceptances (Pty) Ltd for R31.3 million, including contingent payments estimated at R6 million.

On 1 March 2019, the Santam group acquired a shareholding of 100% in X'S Sure (Pty) Ltd for R36 million, including contingent payments estimated at R6 million.

During November 2018, the Santam group acquired a shareholding of 100% in Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd for R90 million in cash.

Refer to note 14 for more detail on these acquisitions.

Management performed an impairment review on all investments in subsidiaries. No impairments were required in the current or prior year.

ACCOUNTING POLICY – CONSOLIDATION

(a) Subsidiaries and business combinations

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

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

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

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

(b) Changes in ownership interests without change of control

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

(c) Disposal of subsidiaries

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

10 INVESTMENT IN SUBSIDIARIES (continued)

10.1 Analysis of investments in subsidiaries

INVESTMENT IN SUBSIDIARIES

Unlisted companies

	Nature of business	Country of incorporation	Issued capital R	Proportion held by the company 2019	Proportion held by the company 2018	Book value R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
Direct								
Aegis Insurance Company Ltd	Insurance	RSA	7 600 000	**100.0%**	100.0%	–	8	–
Centriq Insurance Holdings Ltd	Holding company	RSA	102 330 000	**100.0%**	100.0%	150	–	–
Guardian National Insurance Company Ltd	Insurance	RSA	178 603 840	**100.0%**	100.0%	626	296	–
Insurance Broker Resource Centre (Pty) Ltd	Underwriting	RSA	38 172 012	**100.0%**	100.0%	–	–	–
Main Street 409 (Pty) Ltd	Holding company	RSA	850	**100.0%**	100.0%	33	50	–
Mirabilis Engineering Underwriting Managers (Pty) Ltd	Underwriting	RSA	84 000 850	**55.0%**	55.0%	84	–	–
Riscor Underwriting Managers (Pty) Ltd	Underwriting	RSA	37 500 100	**100.0%**	100.0%	–	5	–
Santam Namibia Holdings (Pty) Ltd	Holding company	RSA	445 000 001	**100.0%**	100.0%	168	8	–
Sentinel Insurance Corporation Ltd	Investments	RSA	1 000 000	**100.0%**	100.0%	1	1	–
Swanvest 120 (Pty) Ltd	Holding company	RSA	100	**100.0%**	100.0%	–	–	51
Thebe Risk Services Holdings (Pty) Ltd	Holding company	RSA	1 000	**100.0%**	100.0%	47	57	–
Travest Investments (Pty) Ltd	Investments	RSA	860	**100.0%**	100.0%	–	–	–
						1 109	**425**	**51**
Indirect								
Admiral Professional Underwriting Agency (Pty) Ltd	Underwriting	RSA	2 270 403	**100.0%**	100.0%	12	–	–
Africa Group Financial Services (Pty) Ltd	Holding company	RSA	100	**100.0%**	100.0%	–	–	–
Beyonda Group (Pty) Ltd	Insurance	RSA	200	**87.5%**	87.5%	14	–	–
Brolink (Pty) Ltd	Administration company	RSA	106 325 847	**100.0%**	100.0%	26	–	–
Centriq Insurance Company Ltd	Insurance	RSA	55 000 084	**100.0%**	100.0%	102	–	–
Centriq Life Insurance Company Ltd	Insurance	RSA	15 000 000	**100.0%**	100.0%	16	–	–
Cenviro Solutions (Pty) Ltd	Underwriting	RSA	100	**51.0%**	51.0%	–	–	–
Credit Innovation (Pty) Ltd	Insurance	RSA	6 428 571	**60.0%**	80.0%	6	–	–
C-Sure Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	**100.0%**	100.0%	2	–	1
Echelon Private Client Solutions (Pty) Ltd	Underwriting	RSA	1 000	**60.0%**	60.0%	–	–	–
Emerald Risk Transfer (Pty) Ltd	Underwriting	RSA	2 000 174	**100.0%**	100.0%	94	–	–
Ground up Risk Partners (Pty) Ltd	IT Services	RSA	100	**100.0%**	100.0%	–	–	–
H & L Underwriting Managers (Pty) Ltd	Underwriting	RSA	100	**100.0%**	100.0%	–	–	–
Just I-Insure Consultants (Pty) Ltd	Underwriting	RSA	120	**100.0%**	100.0%	–	–	–
Misty Sea Trading 267 (Pty) Ltd	Investments	RSA	11 200 952	**100.0%**	100.0%	–	–	–
MiAdmin (Pty) Ltd	Administration company	RSA	100	**100.0%**	100.0%	–	–	–
MiWay Group Holdings (Pty) Ltd[3]	Holding company	RSA	100 601 111	**100.0%**	100.0%	159	–	–
MiWay Insurance Ltd	Insurance	RSA	2 434 600	**100.0%**	100.0%	2	–	–
Multiplex Investment Holding Company (Pty) Ltd	Holding company	RSA	–	**100.0%**	100.0%	–	–	–
Nova Risk Partners Ltd	Insurance	RSA	3 000 000	**100.0%**	100.0%	3	–	–
Premium Finance Partners (Pty) Ltd[4]	Lending specialist	RSA	1 000	**75.0%**	0.0%	–	–	25
Santam Namibia Ltd	Insurance	Namibia	8 307 147	**60.0%**	60.0%	5	8	–
Santam Specialist Business Ltd	Administration company	UK	19	**100.0%**	0.0%	–	–	–
Santam SI Investments (Pty) Ltd	Insurance	RSA	78 551 000	**100.0%**	100.0%	193	–	–
Santam Structured Insurance Ltd	Insurance	RSA	215 476 000	**100.0%**	100.0%	300	–	–
Santam Structured Life Ltd	Insurance	RSA	40 000 000	**100.0%**	100.0%	40	–	–
Santam SI Investments Mauritius Ltd (Mauritius)	Insurance	Mauritius	12	**100.0%**	100.0%	–	–	–
Santam Structured Insurance Ltd PCC	Insurance	Mauritius	15 000 000	**100.0%**	100.0%	15	–	–
Santam Structured Reinsurance Ltd PCC	Insurance	Mauritius	829 700 000	**100.0%**	100.0%	798	–	–
Santam Financial Services Ltd DAC	Insurance	Ireland	15 038 450	**100.0%**	100.0%	15	–	–
Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd[5]	Broker	RSA	290	**100.0%**	100.0%	90	–	–
Stalker Hutchison Admiral (Pty) Ltd	Underwriting	RSA	7 914 393	**100.0%**	100.0%	53	–	–
Travel Insurance Consultants (Pty) Ltd	Underwriting	RSA	–	**100.0%**	100.0%	–	–	–
Vantage Insurance Acceptances (Pty) Ltd[1]	Underwriting	RSA	100	**100.0%**	0.0%	31	–	–
Wheatfields Investments no 136 (Pty) Ltd	Underwriting	RSA	120	**100.0%**	100.0%	–	–	–
X'S Sure (Pty) Ltd[2]	Insurance	RSA	100	**100.0%**	0.0%	36	–	–
						2 012	**8**	**26**
Total investments in subsidiaries						**3 121**	**433**	**77**

[1] On 1 March 2019, the Santam group acquired a shareholding of 100% in Vantage Insurance Acceptances (Pty) Ltd for R31.3 million, including contingent payments estimated at R6 million.

[2] On 1 March 2019, the Santam group acquired a shareholding of 100% in X'S Sure (Pty) Ltd for R36 million, including contingent payments estimated at R6 million.

[3] During September 2019, MiWay Group Holdings (Pty) Ltd repaid R110.5 million of share premium to the Santam group. The repayment of share premium did not affect the Santam group's assessment of control over MiWay Group Holdings (Pty) Ltd.

[4] During 2019 the Santam group acquired a shareholding of 100% in Premium Finance Partners (Pty) Ltd for R1 000.

[5] During November 2018, the Santam group acquired a shareholding of 100% in Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd for R90 million in cash.

Expected credit losses on amounts owing to Santam are considered immaterial. These amounts have been included in the assessment in note 5.6.

10.2 Transactions with entities in the group

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

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

In 2013 Santam entered into a contingent capital facility with Centriq Insurance Company Ltd of R50 million. A facility fee of 0.5% of the contingent capital facility is charged. The capital facility ensures appropriate economic capital levels for the prudential management of the entity. The contingent capital facility remained in place for 2019.

The following is a summary of transactions and balances with subsidiaries:

		Company	
		2019 R million	**2018 R million**
a)	**Insurance contracts and other services**		
	– MiWay Group Holdings Ltd (for insurance premiums)	**2 314**	2 119
	– Centriq Insurance Holdings Ltd (for insurance premiums)	**174**	116
	– Santam Namibia Ltd (for insurance premiums)	**71**	58
	– other subsidiaries (for administration services)	**42**	39
	– subsidiaries (for administration services)	**(411)**	(405)
	– subsidiaries (for brokerage commission)	**(995)**	(891)
	– MiWay Group Holdings Ltd (for insurance claims paid)	**(1 227)**	(1 142)
	– Centriq Insurance Holdings Ltd (for insurance claims paid)	**(104)**	(74)
	– Santam Namibia Ltd (for insurance claims paid)	**(8)**	(100)
	– Santam Namibia Ltd (for reinsurance services)	**(29)**	(49)
	– Santam Namibia Ltd (for reinsurance claims)	**28**	27
	– Santam Namibia Ltd (for reinsurance commission)	**12**	14
b)	**Year-end balances with related parties**		
	Emthunzini Black Economic Empowerment staff trust	**11**	46

For loans with subsidiaries, refer to table in note 10.1.

11 NON-CONTROLLING INTEREST IN SUBSIDIARIES

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

	Group	
	2019 R million	**2018 R million**
Santam Namibia Ltd	**480**	476
Mirabilis Engineering Underwriting Managers (Pty) Ltd	**28**	28
Other	**13**	4
Total	**521**	508

	Mirabilis Engineering Underwriting Managers (Pty) Ltd		Santam Namibia Ltd	
	2019 R million	**2018 R million**	**2019 R million**	**2018 R million**
Ownership and voting right	**45.0%**	45.0%	**40.0%**	40.0%
Target share interest			**37.4%**	37.4%
Current assets	**75**	68	**615**	578
Non-current assets	**16**	7	**543**	493
Current liabilities	**28**	13	**770**	697
Non-current liabilities	**–**	–	**–**	–
Net assets	**63**	62	**388**	374
Carrying amount of NCI	**28**	28	**480**	476
SEM target shares	**–**	–	**324**	321
Ordinary shareholders	**28**	28	**156**	155
Revenue	**137**	118	**1 044**	1 110
Profit after tax	**54**	49	**108**	91
Total comprehensive income	**54**	49	**108**	91
Profit allocated to NCI	**24**	22	**84**	70
Cash flows from operating activities	**64**	47	**129**	48
Cash flows from investing activities	**(1)**	5	**(19)**	(22)
Cash flows from financing activities, before dividends to NCI	**(29)**	(53)	**(23)**	(98)
Cash flows from financing activities – cash dividends to NCI	**(21)**	(24)	**(78)**	(39)
Net increase/(decrease) in cash and cash equivalents	**13**	(25)	**9**	(111)

Santam set up a wholly-owned subsidiary, Santam Namibia Holdings (Pty) Ltd (Namibian HoldCo), in December 2013. Namibian HoldCo purchased the 60% of the issued ordinary shares of Santam Namibia Ltd (Santam Namibia) that was held by Santam Ltd. SEM subscribed for target shares to the value of R277 million in Santam Namibia HoldCo linked to a 37.4% participatory interest in Santam Namibia. The target shares issued to SEM are also disclosed as part of non-controlling interest. Santam Ltd's effective participation in Santam Namibia is therefore 22.6%. However, Santam Ltd retains control over Santam Namibia by way of a service level agreement and representation on board committees, the duration of which is under the control of Santam Ltd. Santam ultimately directs the relevant activities of Santam Namibia through a technical service level agreement. The agreement provides Santam with the ability to make key operational and financial decisions relating to the relevant activities of Santam Namibia.

ACCOUNTING POLICY – NON-CONTROLLING INTEREST

The group recognises any NCI in an acquiree on an acquisition-by-acquisition basis, either at fair value or at the NCI's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

12 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	Group	
	2019 R million	**2018 R million**
At the beginning of the year	**2 927**	1 789
Capitalisation	**158**	15
Acquisitions	**–**	1 139
Share of results after tax	**(42)**	291
Share of results before tax	**11**	318
Share of tax	**(53)**	(27)
Dividends received from associates and joint ventures	**(56)**	(6)
Impairment	**(4)**	(12)
Disposals	**–**	(344)
Loss on dilution	**–**	(88)
Share of associates other reserves	**(322)**	143
Foreign currency translation	**(315)**	143
Retained earnings	**(7)**	–
At the end of the year	**2 661**	2 927

Effective 9 October 2018, SEM and Santam, through its investment in SAN JV, acquired the remaining 53.3% interest in Saham Finances for R15.4 billion. Due to Santam Ltd's limited participation in the transaction of R957 million, before applying hedge accounting, Santam Ltd's interest in SAN JV diluted from 15% to 10%. Hedge accounting resulted in R46 million of foreign currency gains accounted for as part of the investment in SAN JV. Santam Ltd retained significant influence over SAN JV through representation on board committees that gives it existing rights to influence the relevant activities of SAN JV (therefore not only relevant on liquidation or any other pre-defined event). During May 2019, as well as November 2019, a pro rata recapitalisation took place in terms of which Santam injected a further total of R158 million into SAN JV.

During 2018 the Professional Provident Society Short-term Insurance Company (PPS) issued a pro rata recapitalisation in terms of which Santam Ltd injected a further R15 million into the company. Effective 7 December 2018, Santam disposed of its 49% investment in PPS for R114 million in cash.

During 2018 Santam restructured its investment in the Western Group. Santam sold its 40% shareholding in Western Group Holdings Ltd in exchange for a 40% shareholding in Western National Insurance Ltd and received the balance of the selling price in cash.

Effective 30 November 2018, Santam obtained a 25% interest in Ctrl Investment Holdings (Pty) Ltd for R12.5 million.

Refer to note 14 for more detail regarding these transactions.

Management performed an impairment review on all investments in associates and joint ventures. In the current year, the carrying value of Indwe Broker Holdings Group (Pty) Ltd was adjusted to align with the current discounted cash flow valuation performed. (In the prior year a similar adjustment was made.) The investment in SAN JV was impaired by R120 million at a company level based on the discounted cash flow valuation used to calculate the investment's fair value less costs to sell. The circumstances that led to the impairment was largely due currency weakness in Angola and Lebanon. The valuation also incorporated forecasted currency weakness in these countries. Had the investment been carried at fair value, it would have been classified as level 3 on the fair value hierarchy. The key assumptions used in determining the fair value of the asset are net underwriting margins and longer term currency outlook on the Angolan Kwanza and Lebanese pound relative to the Moroccan Dirham. Cash flows are projected over a 10-year period, after which a perpetual value is calculated. A 10-year period is deemed more appropriate than a 5-year period, due to the underlying entities' presence in emerging markets. Short to medium term growth is based on management's budgets and strategic plans. Long-term growth is based on the long-term local inflation outlook, with an allowance for estimated long-term growth in local gross domestic product ("GDP"). The discount rates applied to the cash flow projections consist of local risk-free rates, with additional risk premium (ranging between 6% and 8% for key entities) to provide for equity risk and company-specific risk. No impairment was required at a group level due to the carrying value already being lower than the valuation. No impairment was required at group level due to the carrying value already being lower than the valuation.

12 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

	Company	
	2019 R million	**2018 R million**
At the beginning of the year	**2 476**	1 652
Capitalisation	**158**	15
Acquisitions	**–**	911
Disposals	**–**	(102)
Impairment	**(120)**	–
At the end of the year	**2 514**	2 476
Dividend income received from associates	**49**	–
Total income from associates	**49**	–

ACCOUNTING POLICY – EQUITY-ACCOUNTED INVESTEES

The group's interest in equity-accounted investees comprises interests in associates and joint ventures. Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities over which the group has joint control with other investors. Investments in associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates and joint ventures includes goodwill identified on acquisition (see note 13).

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

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

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

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

Profits and losses resulting from upstream and downstream transactions between the group and its associates and joint ventures are recognised in the group's financial statements only to the extent of unrelated investors' interests in the associates and joint ventures. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

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

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

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

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

	Indwe Broker Holdings Group (Pty) Ltd (joint venture) R million	SAN JV (RF) (Pty) Ltd (associate)[2] R million	Western National Insurance Ltd[1] (associate) R million	Other (associates) R million	Total R million
2019					
Revenue	**316**	**18 248**	**1 068**	**44**	**19 388**
Depreciation and amortisation	**12**	**766**	**–**	**–**	**778**
Interest income	**13**	**2 289**	**31**	**1**	**2 334**
Interest expense	**–**	**46**	**–**	**–**	**46**
Income tax (expense)/credit	**(10)**	**(366)**	**(33)**	**(1)**	**(410)**
Profit/(loss) from continuing operations	**20**	**(617)**	**83**	**(8)**	**(522)**
Total comprehensive income/(loss)	**20**	**(4 085)**	**83**	**(7)**	**(3 989)**
Current assets	**199**	**18 283**	**561**	**11**	**19 054**
Non-current assets	**92**	**56 798**	**299**	**22**	**57 211**
Current liabilities	**(163)**	**(8 545)**	**(5)**	**(4)**	**(8 717)**
Non-current liabilities	**(19)**	**(36 545)**	**(241)**	**(2)**	**(36 807)**
NCI	**–**	**(4 849)**	**–**	**–**	**(4 849)**
Net asset value (after NCI)	**109**	**25 142**	**614**	**27**	**25 892**
Calculated carrying value	**49**	**2 323**	**263**	**18**	**2 653**
Intangible assets recognised in the carrying value of associates	**–**	**–**	**–**	**8**	**8**
Carrying value	**49**	**2 323**	**263**	**26**	**2 661**

	Indwe Broker Holdings Group (Pty) Ltd (joint venture) R million	SAN JV (RF) (Pty) Ltd (associate) R million	Western National Insurance Ltd[1] (associate) R million	Other (associates) R million	Total R million
2018					
Revenue	289	5 162	–	40	5 491
Depreciation and amortisation	8	300	–	–	308
Interest income	12	–	–	1	13
Interest expense	–	61	–	–	61
Income tax expense	6	(33)	–	–	(27)
Profit/(loss) from continuing operations	16	2 380	–	4	2 400
Total comprehensive income	16	2 452	–	3	2 471
Current assets	174	18 209	–	10	18 393
Non-current assets	77	59 105	–	20	59 202
Current liabilities	(132)	(8 200)	–	(9)	(8 341)
Non-current liabilities	(11)	(35 496)	–	(10)	(35 517)
NCI	–	(4 924)	–	–	(4 924)
Net asset value (after NCI)	108	28 694	–	11	28 813
Calculated carrying value	53	2 626	218	22	2 919
Intangible assets recognised in the carrying value of associates	–	–	–	8	8
Carrying value	**53**	**2 626**	**218**	**30**	**2 927**

[1] *Western National Insurance has a financial year-end of 28 February. The information included in the summary is based on the management accounts for the 10 months ended 31 August 2019, as it relates to Western National Insurance. In 2018 the interest in Western National Insurance Ltd was obtained subsequent to its last published financial statements, thus no disclosures were included here, except for the carrying value.*
[2] *Refer to note 2.3 for the detailed SAN JV statement of financial position.*

12 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

Additional information regarding joint ventures is as follows:

	Indwe Broker Holdings Group (Pty) Ltd R million
2019	
Cash and cash equivalents	**187**
Current liabilities (excluding trade and other payables and provisions)	**121**
Non-current liabilities (excluding trade and other payables and provisions)	**12**
2018	
Cash and cash equivalents	160
Current liabilities (excluding trade and other payables and provisions)	10
Non-current liabilities (excluding trade and other payables and provisions)	12

12.1 Analysis of investments in associates and joint ventures

INVESTMENT IN ASSOCIATES AND JOINT VENTURES

Unlisted companies

	Nature of business	Country of incorporation	Issued capital R	Proportion held by the company 2019	Proportion held by the company 2018	Carrying value including equity accounted earnings R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
Direct								
SAN JV (RF) (Pty) Ltd[1]	Insurance	RSA	28 026 734 308	**10.0%**	10.0%	2 323	–	37
South African Nuclear Pool Administrators (Pty) Ltd	Insurance	RSA	120	**25.0%**	25.0%	–	–	–
						2 323	**–**	**37**
Indirect								
HCV Underwriting Managers (Pty) Ltd	Insurance	RSA	300	**30.0%**	30.0%	13	–	–
Indwe Broker Holdings Group (Pty) Ltd	Intermediary	RSA	28 552 225	**24.0%**	24.0%	49	–	–
Risk Guard Alliance (Pty) Ltd	Insurance	RSA	100	**23.2%**	23.2%	–	–	–
RTS Construction & Engineering (Pty) Ltd	Industrial technologies	RSA	100	**30.0%**	30.0%	–	–	–
STRIDE South Africa (RF) (Pty) Ltd	IT company	RSA	25 140 000	**33.3%**	33.3%	–	–	–
Ctrl Investment Holdings (Pty) Ltd[2]	IT company	RSA	150 973	**25.0%**	25.0%	10	–	4
Vulindlela Underwriting Managers (Pty) Ltd	Underwriting	RSA	800	**47.0%**	47.0%	3	–	–
Western National Insurance Ltd[3]	Insurance	RSA	165 000 000	**40.0%**	40.0%	263	31	24
						338	**31**	**28**
Total investments in associates and joint ventures						**2 661**	**31**	**65**

[1] Effective 9 October 2018, SEM and Santam through its investment in SAN JV (RF) (Pty) Ltd (SAN JV), acquired the remaining 53.3% interest in Saham Finances. Due to Santam Ltd's limited participation in the transaction, Santam Ltd's interest in SAN JV diluted from 15% to 10%.

[2] Effective 30 November 2018, the group acquired a shareholding of 25% in Ctrl Investment Holdings (Pty) Ltd.

[3] During 2018 Santam restructured its investment in the Western Group. Santam sold its 40% shareholding in Western Group Holdings Ltd in exchange for a 40% shareholding in Western National Insurance Ltd and received the balance of the selling price in cash.

12.2 Transactions with entities in the group

During the year the company in the ordinary course of business entered into various transactions with associates and joint ventures.

The following is a summary of transactions and balances with associates and joint ventures:

		Company	
		2019 R million	2018 R million
a)	**Insurance contracts and other services**		
	– associates and joint ventures (for administration services)	**(70)**	(66)
	– associates and joint ventures (for brokerage commission)	**(89)**	(89)
	– associates (for outward reinsurance contracts)	**(263)**	(197)
	– associates (for outward reinsurance claims covered)	**162**	117
	– associates (for outward reinsurance commissions covered)	**30**	22
	– associates (for inward reinsurance contracts)	**200**	103
	– associates (for inward reinsurance claims covered)	**(145)**	(62)
	– associates (for inward reinsurance commissions covered)	**(54)**	(27)
	– SAN JV (RF) (Pty) Ltd group (for inward reinsurance contracts)	**238**	–
	– SAN JV (RF) (Pty) Ltd group (for inward reinsurance claims covered)	**(292)**	–
	– SAN JV (RF) (Pty) Ltd group (for inward reinsurance commissions covered)	**(33)**	–
b)	**Year-end balances with related parties**		
	Western National Insurance Ltd	**(7)**	16
	SAN JV (RF) (Pty) Ltd group	**37**	–
	Ctrl Investment Holdings (Pty) Ltd	**4**	–

For loans with associates, refer to table in note 12.1.

13 INTANGIBLE ASSETS

	Goodwill R million	Computer software R million	Brand, trademark and trade names R million	Key business relationships R million	Total R million
GROUP					
At 1 January 2018					
Cost	688	444	31	195	**1 358**
Accumulated impairment/amortisation	(102)	(227)	(31)	(157)	**(517)**
Net book amount	**586**	**217**	**–**	**38**	**841**
Year ended 31 December 2018					
Opening net book amount	586	217	–	38	**841**
Acquisitions	–	26	–	–	**26**
Disposals	(1)	–	–	(1)	**(2)**
Amortisation	–	(49)	–	(20)	**(69)**
Business combinations (restated, refer to note 14)	57	–	4	28	**89**
Closing net book amount	642	194	4	45	**885**
At 31 December 2018					
Cost	744	470	35	222	**1 471**
Accumulated impairment/amortisation	(102)	(276)	(31)	(177)	**(586)**
Net book amount	**642**	**194**	**4**	**45**	**885**
Year ended 31 December 2019					
Opening net book amount	642	194	4	45	**885**
Acquisitions	–	67	–	–	**67**
Impairment	(2)	–	–	(1)	**(3)**
Amortisation	–	(48)	(2)	(26)	**(76)**
Business combinations	36	–	2	37	**75**
Closing net book amount	676	213	4	55	**948**
At 31 December 2019					
Cost	780	537	37	259	**1 613**
Accumulated impairment/amortisation	(104)	(324)	(33)	(204)	**(665)**
Net book amount	**676**	**213**	**4**	**55**	**948**

	Goodwill R million	Computer software R million	Brand, trademark and trade names R million	Key business relationships R million	Total R million
COMPANY					
At 1 January 2018					
Cost	76	239	1	93	**409**
Accumulated amortisation	–	(71)	(1)	(54)	**(126)**
Net book amount	**76**	**168**	**–**	**39**	**283**
Year ended 31 December 2018					
Opening net book amount	76	168	–	39	**283**
Amortisation	–	(22)	–	(19)	**(41)**
Closing net book amount	76	146	–	20	242
At 31 December 2018					
Cost	76	239	1	93	**409**
Accumulated amortisation	–	(93)	(1)	(73)	**(167)**
Net book amount	**76**	**146**	**–**	**20**	**242**
Year ended 31 December 2019					
Opening net book amount	76	146	–	20	**242**
Acquisitions	–	37	–	–	**37**
Amortisation	–	(19)	–	(20)	**(39)**
Closing net book amount	76	164	–	–	**240**
At 31 December 2019					
Cost	76	276	1	93	**446**
Accumulated amortisation	–	(112)	(1)	(93)	**(206)**
Net book amount	**76**	**164**	**–**	**–**	**240**

Computer software

Additional software acquired by the group during the year consists of external software of R10 million (2018: R4 million) and internally developed software of R57 million (2018: R22 million). The internally developed software acquired in the current year mainly forms part of a strategic project to develop a new underwriting and product management system that commenced in 2015. It is expected that the useful life of the technology will be 10 years from the implementation date for each phase of the project.

Key business relationships

Key business relationships consist of client lists acquired and key intermediary or other relationships acquired as part of business combinations and capitalised.

The valuation of key intermediary or other relationships is based on discounted cash flow models. Discount rates between 21% and 25% (2018: 15% and 17%) are used as significant input.

ACCOUNTING POLICY – GOODWILL

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

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

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

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

Impairment

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

Impairment tests of goodwill

In accordance with the accounting policy stated above, the group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined by estimating the future cash flows expected to arise from the CGU while in use and a suitable discount rate to calculate the present value. Cash flow is projected for 10 years and a terminal growth rate of 5% is applied. Refer to the tables on the previous page for impairment of goodwill recognised.

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

	Group	
	2019 R million	**2018 R million**
Crop	**19**	19
Alternative risk	**16**	16
Brokerage	**79**	57
Policy administration	**40**	40
Engineering	**28**	28
MiWay group	**331**	319
Liability	**87**	87
Accident and health	**76**	76
	676	642

13 INTANGIBLE ASSETS (continued)

Impairment tests of goodwill (continued)

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

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

The nature of goodwill mainly relates to employee skill and industry knowledge. In 2019, goodwill of R14 million and R22 million was raised on acquisition of X'S Sure (Pty) Ltd (MiWay group) and Vantage Insurance Acceptances (Pty) Ltd (brokerage) respectively. Goodwill from business combinations in 2018 was adjusted downward by R32 million on finalisation of the Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd group (brokerage) purchase price allocation exercise, whilst key business relationships and brand, trademark and trade names increased by R28 million and R4 million respectively.

Discount rates between 14% and 19% (2018: 14% and 19%) were applied in the recoverable amount valuation. As discount rates are considered a significant input in the valuation of these entities, a sensitivity analysis was performed on the valuation outcome of the most significant CGU. If discount rates increase by 10% the valuations would decrease on average by 13.0% (2018: 12.3%). Should the discount rates decrease by 10% the valuations would increase on average by 17.5% (2018: 16.5%). These sensitivities and other relevant factors were considered in the overall impairment testing and it was concluded that no impairment would be required.

ACCOUNTING POLICY – OTHER INTANGIBLE ASSETS

Computer software

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

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

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

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, which do not exceed 10 years.

Brands, trademarks and trade names

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

Key business relationships

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

14 CORPORATE TRANSACTIONS

For the year ended 31 December 2019

Acquisitions

VANTAGE INSURANCE ACCEPTANCES (PTY) LTD

On 1 March 2019, the Santam group acquired a shareholding of 100% in Vantage Insurance Acceptances (Pty) Ltd for R31.3 million, including contingent payments estimated at R6 million. Goodwill raised relates to synergies expected to be received.

	R million
Details of the assets and liabilities acquired are as follows:	
Intangible assets	9
Loans and receivables including insurance receivables	3
Cash and cash equivalents	4
Deferred income tax	(2)
Trade and other payables including insurance payables	(5)
Net asset value acquired	9
Goodwill	22
Future contingent consideration payable	(6)
Purchase consideration paid	25

X'S SURE (PTY) LTD

On 1 March 2019, the Santam group acquired a shareholding of 100% in X'S Sure (Pty) Ltd for R36 million, including contingent payments estimated at R6 million.

	R million
Details of the assets and liabilities acquired are as follows:	
Intangible assets	18
Financial assets at fair value through income	14
Loans and receivables including insurance receivables	3
Cash and cash equivalents	3
Deferred income tax	(8)
Insurance liabilities	(2)
Trade and other payables including insurance payables	(5)
Current tax liabilities	(1)
Net asset value acquired	22
Goodwill	14
Future contingent consideration payable	(6)
Purchase consideration paid	30

SAN JV (RF) (PTY) LTD

During May 2019, as well as November 2019, pro rata funding took place in terms of which Santam injected a further total of R158 million into SAN JV (RF) (Pty) Ltd.

14 CORPORATE TRANSACTIONS (continued)

For the year ended 31 December 2018

Acquisitions

SAN JV (RF) (PTY) LTD

Effective 9 October 2018, SEM and Santam, through its investment in SAN JV (RF) (Pty) Ltd (SAN JV), acquired a further 53.3% interest in Saham Finances for USD1 045 million. Santam's share of the purchase price, including transaction costs, was USD64 million (R957 million), before applying hedge accounting. Santam's interest in SAN JV therefore diluted to 10% (previously 15%) due to limited participation in this transaction. As part of this transaction, a cash flow hedge was implemented to cover Santam's foreign currency exposure by designating US dollar-denominated cash balances to the transaction. The impact of this was that foreign currency gains of R46 million recognised on the designated cash balances since implementation date were not recognised in the statement of comprehensive income, but were accounted for as part of the investment in SAN JV. As a result of the dilution, R19 million of the foreign currency translation reserve relating to SAN JV was released to profit or loss. A loss on dilution of R88 million was also recognised.

PROFESSIONAL PROVIDENT SOCIETY SHORT-TERM INSURANCE COMPANY LTD (PPS)

During March, June and September 2018, pro rata recapitalisations took place in terms of which Santam injected a further total of R15 million into the company.

CTRL INVESTMENT HOLDINGS (PTY) LTD

On 30 November 2018, Santam subscribed for a 25% equity stake in Ctrl Investment Holdings (Pty) Ltd for an amount of R12.5 million.

SNYMAN EN VAN DER VYVER FINANSIËLE DIENSTE (PTY) LTD GROUP (RESTATED)

During November 2018, the Santam group acquired a shareholding of 100% in Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd for R90 million in cash. Due to the limited time available to perform a purchase price allocation a provisional allocation to goodwill was recorded based on the IFRS historical cost values. Subsequent to 31 December 2018, the purchase price allocation was completed. Goodwill raised relates to synergies expected to be received.

	R million
Details of the assets and liabilities acquired are as follows:	
Property and equipment	1
Intangible assets	43
Loans and receivables including insurance receivables	3
Cash and cash equivalents	4
Deferred income tax	(12)
Trade and other payables including insurance payables	(3)
Current income tax liabilities	(3)
Net asset value acquired	33
Goodwill	57
Purchase consideration paid	90

Disposals

PROFESSIONAL PROVIDENT SOCIETY SHORT-TERM INSURANCE COMPANY LTD (PPS)

During December 2018, the group sold its 49% shareholding in Professional Provident Society Short-term Insurance Company Ltd for R114 million. The group realised a net profit of R40 million and the company a net profit of R11 million, with capital gains tax of R3 million.

WESTERN GROUP HOLDINGS LTD

On 31 October 2018, Santam restructured its investment in the Western Group. Santam effectively sold its 40% shareholding in Western Group and received a cash component of R54 million as well as 40% shareholding of R215 million in Western National Insurance Ltd. An immaterial profit was recognised on the disposal. Santam Ltd recognised capital gains tax of R10 million.

15 PROPERTY AND EQUIPMENT

Property and equipment consists of owned and leased assets that do not meet the definition of investment property.

		Group		Company	
	Note	2019 R million	2018 R million	2019 R million	2018 R million
Property and equipment owned		124	142	57	60
Property and equipment leased (right-of-use asset)	15.2	860	–	638	–
Total		984	142	695	60

15.1 Types of property and equipment

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and other assets R million	Total R million
GROUP				
At 1 January 2018				
Cost or valuation	33	260	128	**421**
Accumulated depreciation	(4)	(203)	(79)	**(286)**
Net book amount	**29**	**57**	**49**	**135**
Year ended 31 December 2018				
Opening net book amount	29	57	49	**135**
Additions	6	42	14	**62**
Owned assets	6	42	14	**62**
Disposals	–	(1)	–	**(1)**
Depreciation charge	–	(43)	(11)	**(54)**
Owned assets	–	(43)	(11)	**(54)**
Closing net book amount	35	55	52	**142**
At 31 December 2018				
Cost or valuation	39	291	136	**466**
Accumulated depreciation	(4)	(236)	(84)	**(324)**
Net book amount	**35**	**55**	**52**	**142**
Year ended 31 December 2019				
Opening net book amount	35	55	52	**142**
IFRS 16 adoption	914	–	25	**939**
Adjusted opening net book amount	949	55	77	**1 081**
Additions	64	41	22	**127**
Owned assets	–	41	12	**53**
Leased assets	64	–	10	**74**
Disposals	–	–	(1)	**(1)**
Depreciation charge	(145)	(41)	(37)	**(223)**
Owned assets	–	(41)	(26)	**(67)**
Leased assets	(145)	–	(11)	**(156)**
Closing net book amount	868	55	61	**984**
At 31 December 2019				
Cost or valuation	**1 017**	**313**	**181**	**1 511**
Accumulated depreciation	**(149)**	**(258)**	**(120)**	**(527)**
Net book amount	**868**	**55**	**61**	**984**

15 PROPERTY AND EQUIPMENT (continued)

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and other assets R million	Total R million
COMPANY				
At 1 January 2018				
Cost or valuation	1	130	61	**192**
Accumulated depreciation	–	(93)	(38)	**(131)**
Net book amount	**1**	**37**	**23**	**61**
Year ended 31 December 2018				
Opening net book amount	1	37	23	**61**
Additions	–	27	3	**30**
Owned assets	–	27	3	**30**
Depreciation charge	–	(26)	(5)	**(31)**
Owned assets	–	(26)	(5)	**(31)**
Closing net book amount	1	38	21	**60**
At 31 December 2018				
Cost or valuation	1	147	64	**212**
Accumulated depreciation	–	(109)	(43)	**(152)**
Net book amount	**1**	**38**	**21**	**60**
Year ended 31 December 2019				
Opening net book amount	1	38	21	**60**
IFRS 16 adoption	674	–	22	**696**
Adjusted opening net book amount	675	38	43	**756**
Additions	42	23	14	**79**
Owned assets	–	23	6	**29**
Leased assets	42	–	8	**50**
Depreciation charge	(99)	(25)	(16)	**(140)**
Owned assets	–	(25)	(6)	**(31)**
Leased assets	(99)	–	(10)	**(109)**
Closing net book amount	618	36	41	**695**
At 31 December 2019				
Cost or valuation	**717**	**170**	**100**	**987**
Accumulated depreciation	**(99)**	**(134)**	**(59)**	**(292)**
Net book amount	**618**	**36**	**41**	**695**

Depreciation expense has been included in expenses for marketing and administration in the statement of comprehensive income (refer to note 20.2).

ACCOUNTING POLICY – PROPERTY AND EQUIPMENT

(a) Property

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

(b) Equipment

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

Estimated useful lives are as follows:

Computer equipment	3 years
Furniture and equipment	3 – 6 years
Motor vehicles	Up to 5 years

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

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

15.2 Leases

CHANGE IN ACCOUNTING POLICY

IFRS 16 Leases

IFRS 16 *Leases* (effective 1 January 2019) replaces IAS 17 *Leases* along with three interpretations (IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*). The new standard addresses the establishment of principles for the recognition, measurement, presentation and disclosure of all lease arrangements within the scope of the standard. Under IFRS 16, an asset (the right to use the leased item) and the liability to pay rentals, are recognised at the inception of the lease. The asset is included in property and equipment, and the liability to pay rentals is disclosed separately as lease liabilities. The group has elected to apply an exemption on leases for which the underlying asset is of low value, being individual assets which are valued at less than R65 000. There were no material short-term leases as at 31 December 2019.

The accounting for lessors did not significantly change. The group, who is only a lessee, applied IFRS 16 using the modified retrospective approach as permitted under the transitional provisions within the standard. Therefore, the cumulative effect of adopting IFRS 16 was recognised as an adjustment in the opening statement of financial position on 1 January 2019, with no restatement of comparative information and no impact on opening retained earnings. As at 31 December 2018, the group had non-cancellable operating lease commitments of R1 331 million (restated – refer below). The majority of these commitments resulted in recognition of an asset and a liability for future payments.

As a result of the standard providing a single lessee accounting model, leases which had previously been classified as operating leases under IAS 17, were measured at the present value of the remaining lease payments and discounted using the lessee's incremental borrowing rate as of 1 January 2019 to obtain the value of their lease liabilities. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 9%.

	Group	Company
	2019 R million	2019 R million
Operating lease commitments as at 31 December 2018 as published	1 795	1 618
Add: lease contracts related to parking linked to head office buildings[1]	294	187
Less: contracts reassessed as service agreements[1]	(758)	(758)
Restated operating lease commitments as at 31 December 2018	1 331	1 047
Discounted using incremental borrowing rate on 1 January 2019	935	718
Less: low-value leases recognised on straight-line basis as expense	(7)	–
Add: adjustments as a result of different treatment of extension and termination options	76	32
Lease liability as at 1 January 2019	1 004	750

[1] *Restated balances, refer to note 31.*

The group presented the above reconciliation on adoption of IFRS 16 for the first time in the interim report for the period ended 30 June 2019. Revisions have been made to the disclosure made in that report. Lease contracts relating to parking amounting to R294 million is included above, but not at 30 June 2019. The discounted value of operating lease commitments of R935 million is included above, R799 million was disclosed at 30 June 2019. Low-value leases of R7 million is disclosed above, R2 million was disclosed at 30 June 2019. Adjustments as a result of lease extensions and termination options of R76 million is disclosed above, R47 million was disclosed at 30 June 2019. The resulting lease liability at 1 January 2019 of R1 004 million is disclosed above, R844 million was disclosed at 30 June 2019.

The statement of financial position shows the following amounts relating to leases:

	Group		Company	
	31 December 2019 R million	1 January 2019[1] R million	31 December 2019 R million	1 January 2019[1] R million
Right-of-use assets[1]				
Properties	836	914	618	674
Vehicles	24	25	20	22
Total	860	939	638	696
Lease liabilities				
Current	(136)	(26)	(88)	(19)
Non-current	(842)	(978)	(643)	(731)
Total	(978)	(1 004)	(731)	(750)

[1] *Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.*

15 PROPERTY AND EQUIPMENT (continued)

15.2 Leases (continued)

IMPACT ON STATEMENT OF FINANCIAL POSITION

The change in accounting policy affected the following items in the statement of financial position as at 1 January 2019 as follows:

	Before R million	Change R million	After R million
GROUP			
Property and equipment	142	939	1 081
Lease liability	–	(1 004)	(1 004)
Trade and other payables including insurance payables	(5 922)	65	(5 857)
	(5 780)	–	(5 780)

	Before R million	Change R million	After R million
COMPANY			
Property and equipment	60	696	756
Lease liability	–	(750)	(750)
Trade and other payables including insurance payables	(4 434)	54	(4 380)
	(4 374)	–	(4 374)

IMPACT ON EARNINGS PER SHARE AND CASH FLOWS

Earnings for the group decreased by R46 million and earnings per share decreased by 42c per share for the year ended 31 December 2019 as a result of the adoption of IFRS 16. Earnings for the company decreased by R18 million for the year ended 31 December 2019.

Regarding the statement of cash flows, where all cash payments of operating leases were previously included in cash generated from operations under cash flows from operating activities, the cash repayment of the principal portion of the lease liabilities will be included in payment of principal element of lease liabilities in cash flows from financing activities and the cash payment of the interest portion will be presented in interest paid under cash flows from operating activities. The total cash outflow for leases in 2019 was R173 million for the group and R108 million for the company.

IMPACT ON SEGMENTAL REPORT

Non-current assets increased as a result of the adoption of IFRS 16 as follows as at 31 December 2019:

	R million
South Africa	843
Rest of Africa	17
Southeast Asia, India and Middle East	–
Other	–
	860

AMOUNTS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income shows the following amounts relating to leases:

	Group	Company
	2019 R million	2019 R million
Depreciation charge of right-of-use assets		
Properties	145	99
Vehicles	11	10
Interest expense on lease liabilities	73	39
Expenses relating to leases of low-value assets[1]	31	20
Total	260	168

[1] *This excludes expenses relating to short-term leases of low-value assets.*

The following table summarises the contractual maturity dates for lease liabilities. The maturity analysis is presented on an undiscounted contractual cash flow basis.

31 December 2019	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
GROUP				
Lease liability	220	674	389	1 283

	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
COMPANY				
Lease liability	151	495	385	1 031

ACCOUNTING POLICY – LEASES

Practical expedients applied

In applying IFRS 16 for the first time, the group has used the following permitted practical expedients:

– the use of a single discount rate to a portfolio of leases with reasonably similar characteristics (mainly vehicles);
– reliance on previous assessments on whether leases are onerous;
– the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
– the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the date of initial application, the group relied on its assessment made applying IAS 17 and IFRIC 4.

Policy for leasing activities

Agreements where the counterparty retains control of the underlying asset are classified as leases.

The group leases various offices, motor vehicles and office equipment. Until the 2018 financial year, leases of property and equipment were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest, the incremental borrowing rate, on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Offices consist mainly of head office buildings and branches. Rental contracts are typically made for fixed periods of three to eight years but may have extension options that exist. Head office buildings are typically leased for longer periods than branches and are the main contributor to the carrying value of the right-of-use asset. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Periods covered by an option to extend the lease are included if the group is reasonably certain to exercise that option taking into account, among others, the remaining term of the original lease, refurbishments, changing technology and cost-saving initiatives. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Vehicles consist of a fleet of vehicles that the group leases for use by various field agents including assessors. The terms of these leases are typically between three and five years. Lease extensions are not considered in the valuation of these leases, as the group does not expect to extend leases on motor vehicles as they are generally replaced with a new lease.

The incremental borrowing rate for Santam Ltd uses the Santam bonds' borrowing rate as starting point, while all subsidiaries use a rate at which borrowings can be obtained by them commercially. The rate is then adjusted based on factors relating to the specific lease and underlying asset, including but not limited to, the term of the borrowing, the property yield (for property) and the ability to provide security for the purchase of the specific asset.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

– Fixed payments (including in-substance fixed payments, but excluding payments for service components), less any lease incentives receivable
– Amounts expected to be payable by the lessee under residual value guarantees
– The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
– Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

16 SHARE CAPITAL

	Group and company ordinary shares		Group treasury shares	
	Number of shares (thousands)	Stated capital R million	Number of shares (thousands)	Stated capital R million
At 1 January 2018	**115 131**	**103**	**4 771**	**470**
Purchase of treasury shares	–	–	290	**91**
Reissue of treasury shares	–	–	(384)	**(94)**
At 31 December 2018	**115 131**	**103**	**4 677**	**467**
Purchase of treasury shares	–	–	353	106
Reissue of treasury shares	–	–	(374)	(91)
At 31 December 2019	**115 131**	**103**	**4 656**	**482**

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

In 2007 a subsidiary in the group acquired 6 972 940 Santam shares through a voluntary share buy-back offer on 20 April 2007 at R102 per share. During 2019 the subsidiary acquired an additional 353 000 (2018: 290 000) shares to utilise as part of the deferred share plan (DSP), while 326 518 (2018: 325 488) shares were reissued in terms of the DSP. The net amount of these transactions has been deducted from shareholders' equity. The shares are held as "Treasury shares".

Since the unwinding of the Central Plaza structure in 2015, the Emthunzini BBBEE staff trust is under the control of Santam Ltd. During 2019, the staff trust distributed 45 279 (2018: 59 456) shares.

ACCOUNTING POLICY – SHARE CAPITAL

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

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

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

16.1 Directors' and prescribed officers' interest in the shares of the company

At 31 December 2019 the directors of the company held direct and indirect interests, including family interests, in 72 527 of the company's issued ordinary shares (2018: 57 788). Details of shares held per individual director are listed below. A total of 68 714 (2018: 69 871) deferred shares are allocated to directors in terms of the company's employee share schemes. No material changes occurred between the reporting date and the date of approval of the financial statements.

	Direct		Indirect		
2019	**Beneficial**	**Non-beneficial**	**Beneficial**	**Non-beneficial**	**Total**
Executive directors and prescribed officers					
L Lambrechts	21 353	–	–	–	**21 353**
HD Nel[1]	15 035	–	–	–	**15 035**
Non-executive directors					
B Campbell	8 370	–	–	–	**8 370**
VP Khanyile	–	–	200	–	**200**
IM Kirk	23 750	–	–	–	**23 750**
JJ Ngulube	2 548	–	–	–	**2 548**
MJ Reyneke	–	–	271	–	**271**
PE Speckmann	1 000	–	–	–	**1 000**
	72 056	**–**	**471**	**–**	**72 527**
2018					
Executive directors and prescribed officers					
L Lambrechts	6 637	–	–	–	**6 637**
HD Nel	10 905	–	–	–	**10 905**
Non-executive directors					
B Campbell	8 370	–	–	–	**8 370**
BTPKM Gamedze	4 932	–	–	–	**4 932**
VP Khanyile	–	–	1 286	–	**1 286**
IM Kirk	21 831	–	–	–	**21 831**
JJ Ngulube	2 556	–	–	–	**2 556**
MJ Reyneke[2]	–	–	271	–	**271**
PE Speckmann	1 000	–	–	–	**1 000**
	56 231	**–**	**1 557**	**–**	**57 788**

[1] *At 31 December 2019, 10 905 Santam shares with a market value of R3.1 million were pledged as security for a loan of R1 million with Sanlam Private Wealth.*
[2] *Previously disclosed as 211 instead of 271.*

17 SHARE INCENTIVE SCHEMES

(i) Deferred share plan (DSP) and performance deferred share plan (PDSP)

DEFERRED SHARE PLAN (DSP)

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

(a) After three years – 40%
(b) After four years – 70% less any portion that vested earlier
(c) After five years – 100% less any portion that vested earlier

A rule change in the DSP and PDSP schemes was approved by the HRRC and implemented in 2017 to address shareholder concerns around vesting. All new share awards from 2017 are subject to the following measurement of performance conditions:

- 40% of the award to be measured after three years since the date of grant, and to the extent that the performance hurdle is not achieved the entitlement to the DSP shares will lapse
- 30% of the award to be measured after four years since the date of grant, and to the extent that the performance hurdle is not achieved, the entitlement to the DSP shares will lapse
- 30% of the award to be measured after five years since the date of grant, and to the extent that the performance hurdle is not achieved the entitlement to the DSP shares will lapse.

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

PERFORMANCE DEFERRED SHARE PLAN (PDSP)

To the extent that the face value of awards granted under the DSP does not satisfy the specified multiple of TGP to be granted as long-term incentive (LTI) awards, the individual will be granted an award under the PDSP. Awards granted under the PDSP are conditional rights to acquire Santam and Sanlam shares for no consideration, subject to various vesting conditions being satisfied.

In addition to the individual remaining employed by the group throughout the measurement period and maintaining agreed individual performance hurdles, the vesting of a Santam PDSP award is also subject to the condition that the Santam group's return on capital (ROC) exceeds its cost of capital for the relevant measurement period, as finally determined by the directors.

For Sanlam PDSP awards, in addition to continued employment by the group throughout the measurement period and maintaining agreed individual performance hurdles, the vesting of the PDSP is also subject to the condition that the Sanlam Group's return on group embedded value (RoGEV) exceeds the cost of capital for the measurement period by an agreed margin.

The use of relevant performance conditions is considered appropriate as these are the key drivers of the Santam group's and Sanlam Group's strategies. The use of these measures creates a direct link between the LTI reward, group strategy and shareholders' interests.

This arrangement is aimed at encouraging performance that will result in targets being met earlier within the agreed performance measurement period. To the extent that the value of performance awards falls below the specified multiple of TGP, whether through vesting or due to a promotion or salary increase, an additional award may be granted on an annual basis to maintain the level of performance awards and encourage ongoing long-term performance.

Allocations were made as follows during the year:

	Number of participants		Number of shares	
	2019	**2018**	**2019**	**2018**
Allocations in respect of:				
Santam DSP	**315**	300	**321 714**	276 019
Santam PDSP	**10**	8	**31 237**	13 740
			352 951	289 759
Sanlam DSP	**–**	9	**–**	45 553
Sanlam PDSP	**–**	8	**–**	24 406
			–	69 959

The fair value of the grants on grant date, calculated in terms of IFRS 2, amounted to R101 million (2018: R90 million) and is expensed in the statement of comprehensive income over the vesting period of five years. The fair value is based on the Santam share price on grant date, adjusted for dividends not accruing to participants during the vesting period and the probability that the service and performance conditions will be met in part.

2018	Date awarded	Latest irreversible date	Grant price	Number of shares
The following shares were awarded and the delivery thereof deferred to a predetermined future date.	21 September 2016	31 May 2017	R209.78	312
	1 June 2014	31 May 2019	R193.60	78 435
	21 September 2016	31 May 2019	R198.91	13 401
	1 June 2015	31 May 2020	R196.54	176 277
	21 September 2016	31 May 2020	R191.21	14 725
	1 June 2016	31 May 2021	R206.57	328 771
	21 September 2016	31 May 2021	R183.88	16 587
	1 June 2017	31 May 2022	R223.30	301 246
	1 June 2018	31 May 2023	R309.84	287 644
				1 217 398

Movements during the period	Average price	Number of shares
As at 1 January 2018	R203.44	1 344 969
Shares awarded in 2018	R309.84	289 759
Awarded shares lapsed due to resignations	R152.47	(94 011)
Shares issued	R187.29	(323 319)
As at 31 December 2018	R232.24	1 217 398

2019	Date awarded	Latest irreversible date	Grant price	Number of shares
The following shares were awarded and the delivery thereof deferred to a predetermined future date.	1 June 2014	31 May 2019	R193.60	**591**
	1 June 2015	31 May 2020	R196.54	**79 808**
	21 September 2016	31 May 2020	R191.21	**14 725**
	1 June 2016	31 May 2021	R206.57	**187 649**
	21 September 2016	31 May 2021	R183.88	**16 587**
	1 June 2017	31 May 2022	R223.30	**289 135**
	1 June 2018	31 May 2023	R309.84	**278 081**
	1 June 2019	31 May 2024	R286.92	**352 645**
				1 219 221

Movements during the period	Average price	Number of shares
As at 1 January 2019	R232.24	**1 217 398**
Shares awarded in 2019	R286.92	**352 951**
Awarded shares lapsed due to resignations	R238.82	**(31 357)**
Shares issued	R200.17	**(319 771)**
As at 31 December 2019	**R256.43**	**1 219 221**

17 SHARE INCENTIVE SCHEMES (continued)

(i) Deferred share plan (DSP) and performance deferred share plan (PDSP) (continued)

ACCOUNTING POLICY – DEFERRED SHARE PLANS

In terms of the DSP and PDSP, Santam undertakes to deliver a fixed number of shares to selected employees on predetermined dates in the future, in accordance with the terms and conditions of the plans detailed on the previous page.

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

(ii) The Emthunzini Black Economic Empowerment staff trust (the staff trust)

The staff trust is one of three components of a structured entity which hosted the Santam BBBEE scheme that unwound during 2015. Refer to note 16 for further information on the structured entity. Units were allocated to new black employees that joined the Santam group and to black employees that were promoted since the previous allocation. These units were allocated on a deferred delivery basis over a seven-year period. The fair value used in determining the allocation was based on the unit price on grant date, adjusted for expected employee attrition over the vesting period. The unit price reflected the number of Santam shares held in the staff trust. During 2018, units were converted into shares using an equivalent fair value rate. Any new awards are made in shares. The total share allocation costs for the staff trust amounting to R3 million (2018: R8 million) has been included in the statement of comprehensive income.

2018	Date awarded	Latest irreversible date	Grant price	Number of shares
The following units/shares were awarded and the delivery thereof deferred to a predetermined future date.	1 September 2011	31 August 2018	R132.00	508
	1 September 2012	31 August 2019	R175.00	10 990
	1 January 2013	31 December 2019	R189.90	14 286
	1 September 2013	31 August 2020	R185.32	15 983
	1 December 2013	30 November 2020	R171.91	1 680
	1 September 2014	31 August 2021	R218.90	22 772
	1 December 2014	30 November 2021	R212.68	2 564
	1 July 2015	30 June 2022	R217.00	947
	1 September 2015	31 August 2022	R214.50	789
	1 September 2016	31 August 2023	R220.00	12 543
	1 September 2017	31 August 2024	R259.00	6 564
	1 September 2018	31 August 2025	R303.17	10 392
				100 018

Movements during the period	Average price	Number of units/shares
As at 1 January 2018 (units)	R94.47	326 132
As at 1 January 2018 (shares)	R193.69	160 444
Shares awarded in 2018	R303.17	10 392
Shares reinstated in 2018	R185.32	51
Awarded shares lapsed due to resignations	R198.60	(13 915)
Shares issued	R182.83	(56 954)
As at 31 December 2018	R214.65	100 018

2019	Date awarded	Latest irreversible date	Grant price	Number of shares
The following shares were awarded and the delivery thereof deferred to a predetermined future date.	1 September 2013	31 August 2020	R185.32	**7 741**
	1 December 2013	30 November 2020	R171.91	**839**
	1 September 2014	31 August 2021	R218.90	**14 018**
	1 December 2014	30 November 2021	R212.68	**1 706**
	1 July 2015	30 June 2022	R217.00	**709**
	1 September 2015	31 August 2022	R214.50	**591**
	1 September 2016	31 August 2023	R220.00	**7 528**
	1 September 2017	31 August 2024	R259.00	**6 564**
	1 September 2018	31 August 2025	R303.17	**10 392**
	1 September 2019	31 August 2026	R285.00	**7 019**
				57 107

Movements during the period	Average price	Number of shares
As at 1 January 2019 (shares)	R214.65	**100 018**
Shares awarded in 2019	R285.00	**7 019**
Shares reinstated in 2019	R185.32	**283**
Awarded shares lapsed due to resignations	R186.13	**(5 387)**
Shares issued	R194.57	**(44 826)**
As at 31 December 2019	R286.45	**57 107**

ACCOUNTING POLICY – THE EMTHUNZINI BLACK ECONOMIC EMPOWERMENT (BEE) SCHEME

In terms of the BEE scheme, Central Plaza (a structured entity within the Sanlam Group), undertook to deliver a specified number of units to selected black Santam employees or strategic business partners on predetermined dates in the future. Employees still need to be in the employment of Santam on or by those dates. Vesting occurs based on the contracts with employees or the strategic business partners, but does not exceed a period of seven years.

The Central Plaza structure unwound on 28 February 2015. Unvested and unallocated units relating to black Santam employees were transferred to the staff trust that is controlled by Santam Ltd. The staff trust is consolidated. All units relating to strategic business partners were settled as part of the unwinding process. The fair value of equity instruments granted is measured on grant date using an appropriate valuation model, which takes into account the market price on grant date, the cost of funding, as well as an assumption on the actual percentage of shares that will be delivered. The fair value on grant date is recognised in the statement of comprehensive income on a straight-line basis over the vesting period of the equity instruments, adjusted to reflect actual levels of vesting, with a corresponding increase in equity.

17 SHARE INCENTIVE SCHEMES (continued)

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

The DSP has been implemented during 2007, in terms of which shares are granted to employees on a deferred delivery basis over a five-year period. In addition to the DSP, a PDSP is also in place. Refer to note 17 for details on these plans.

DSP AND PDSP – DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION

2019	As at 31 December 2018	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2019
Santam shares						
IM Kirk[1]	3 062	–	(3 062)	R303.01	01/06/14	–
	3 062	–	(3 062)			–
L Lambrechts	17 013	–	(8 262)	R303.01	01/06/15	8 751
	1 221	–	(855)	R303.01	21/09/16	366
	13 411	–	(5 365)	R303.01	01/06/16	8 046
	584	–	(234)	R303.01	21/09/16	350
	7 740	–	–	–	01/06/17	7 740
	10 686	–	–	–	01/06/18	10 686
	–	15 547	–	–	01/06/19	15 547
	50 655	15 547	(14 716)			51 486
HD Nel	255	–	(255)	R303.01	01/06/14	–
	38	–	(38)	R303.01	21/09/16	–
	3 504	–	(1 702)	R303.01	01/06/15	1 802
	252	–	(176)	R303.01	21/09/16	76
	4 694	–	(1 878)	R303.01	01/06/16	2 816
	205	–	(81)	R303.01	21/09/16	124
	4 356	–	–	–	01/06/17	4 356
	2 850	–	–	–	01/06/18	2 850
	–	5 194	–	–	01/06/19	5 194
	16 154	5 194	(4 130)			17 218
Total	69 871	20 741	(21 908)			68 704

2018	As at 31 December 2017	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2018
Santam shares						
IM Kirk[1]	5 505	–	(5 505)	R307.52	01/06/13	–
	6 577	–	(3 515)	R307.52	01/06/14	3 062
	12 082	–	(9 020)			3 062
L Lambrechts	29 169	–	(12 156)	R307.52	01/06/15	17 013
	1 221	–	–	–	21/09/16	1 221
	13 411	–	–	–	01/06/16	13 411
	584	–	–	–	21/09/16	584
	7 740	–	–	–	01/06/17	7 740
	–	10 686	–	–	01/06/18	10 686
	52 125	10 686	(12 156)			50 655
HD Nel	181	–	(181)	R307.52	01/06/13	–
	15	–	(15)	R307.52	21/09/16	–
	548	–	(293)	R307.52	01/06/14	255
	38	–	–	–	21/09/16	38
	6 007	–	(2 503)	R307.52	01/06/15	3 504
	252	–	–	–	21/09/16	252
	4 694	–	–	–	01/06/16	4 694
	205	–	–	–	21/09/16	205
	4 356	–	–	–	01/06/17	4 356
	–	2 850	–	–	01/06/18	2 850
	16 296	2 850	(2 992)			16 154
Total	80 503	13 536	(24 168)			69 871

[1] *Shares were received in position of chief executive officer prior to 1 January 2015 and will vest in due course. No new shares will be awarded.*

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

2019	As at 31 December 2018	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2019
Sanlam shares						
L Lambrechts	12 310	–	–	–	01/06/17	12 310
	18 982	–	–	–	01/06/18	18 982
	31 292	–	–			31 292
IM Kirk[1]	5 097	–	(5 097)	R76.16	01/06/14	–
	5 097	–	(5 097)			–
HD Nel	426	–	(426)	R76.16	01/06/14	–
	4 936	–	(2 468)	R76.16	01/06/15	2 468
	7 303	–	(2 062)	R76.16	01/06/16	5 241
	6 929	–	–	–	01/06/17	6 929
	5 062	–	–	–	01/06/18	5 062
	24 656	–	(4 956)			19 700
Total	61 045	–	(10 053)			50 992

2018	As at 31 December 2017	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2018
Sanlam shares						
L Lambrechts	12 310	–	–	–	01/06/17	12 310
	–	18 982	–	–	01/06/18	18 982
	12 310	18 982	–			31 292
IM Kirk[1]	3	–	(3)	R78.02	01/06/12	–
	9 630	–	(9 630)	R78.02	01/06/13	–
	10 194	–	(5 097)	R78.02	01/06/14	5 097
	19 827	–	(14 730)			5 097
HD Nel	315	–	(315)	R78.02	01/06/13	–
	852	–	(426)	R78.02	01/06/14	426
	8 225	–	(3 289)	R78.02	01/06/15	4 936
	7 303	–	–	–	01/06/16	7 303
	6 929	–	–	–	01/06/17	6 929
	–	5 062	–	–	01/06/18	5 062
	23 624	5 062	(4 030)			24 656
Total	55 761	24 044	(18 760)			61 045

[1] *Shares were received in position of chief executive officer prior to 1 January 2015 and will vest in due course. No new shares will be awarded.*

18 RESERVES

18.1 Other reserves

	Translation reserve R million	Capital contribution reserve R million	Hedging reserve R million	Total R million
GROUP				
Balance as at 1 January 2018	**(223)**	**9**	**–**	**(214)**
Share of associates' currency translation differences	143	–	–	**143**
Reclassification of foreign currency translation reserve on dilution of associate	(19)	–	–	**(19)**
Reserve release reclassified to cost of associate	–	–	(46)	**(46)**
Movement for the year	–	–	46	**46**
Balance as at 31 December 2018	**(99)**	**9**	**–**	**(90)**
Share of associates' currency translation differences	(315)	–	–	**(315)**
Balance as at 31 December 2019	**(414)**	**9**	**–**	**(405)**
COMPANY				
Balance as at 1 January 2018			**–**	**–**
Reserve release reclassified to cost of associate			46	**46**
Movement for 2018			(46)	**(46)**
Balance as at 31 December 2018 and 2019			**–**	**–**

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

The capital contribution reserve reflects the reserves of the Emthunzini BBBEE staff trust that came under control of Santam Ltd as a result of the unwinding of the Central Plaza structure in 2015.

The hedging reserve represented the cumulative foreign currency movements on the cash resources designated for the funding of the additional investment in SAN JV in 2017 and 2018. Refer to notes 5.7 and 7 for more detail.

18.2 Distributable reserves

	Group		Company	
	2019 R million	**2018 R million**	**2019 R million**	**2018 R million**
Share-based payment reserve				
At the beginning of the year	**716**	651	**91**	118
Transfer from retained earnings	**85**	65	**79**	76
Loss on delivery of shares in terms of share scheme	**–**	–	**(98)**	(103)
At the end of the year	**801**	716	**72**	91
Retained earnings	**9 525**	8 595	**8 326**	7 672
Total distributable reserves	**10 326**	9 311	**8 398**	7 763

The obligation that flows from an agreement between the entity and another party to enter into a share-based payment transaction, which entitles the other party to receive benefits in terms of the agreement, is recognised as a share-based payment expense in the statement of comprehensive income. A release of this reserve will not be recognised in profit or loss.

ACCOUNTING POLICY – HEDGING

The group has elected to apply IFRS 9 for hedge accounting.

When such hedging opportunities are identified, the group documents the relationship between hedging instrument and the hedged item, as well as its risk management objective and strategy for undertaking the hedge transaction at the inception of the hedging transaction. The group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the hedging instrument that will be used in the hedging transaction is and will continue to be highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the foreign currency value of the hedging instrument that will be designated and qualifies as a cash flow hedge, is recognised in other comprehensive income and accumulates in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within investment income (if applicable). The tax charge on the accumulated foreign currency movements is also recognised in equity.

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss. When the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset (for example, the acquisition of an associate) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss when the relating asset is impaired or sold.

When the highly probable forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk, in this case the foreign currency risk associated with a forecast transaction, and could affect profit or loss. For a forecast transaction, the key criterion for hedge accounting purposes is that the forecast transaction must be "highly probable". In 2017 and 2018, management performed an assessment relating to the acquisition of a further interest in SAN JV and concluded that hedge accounting can be applied. Refer to note 7 for more information on the hedging transactions and management's risk management strategy in relation to foreign currency risks.

19 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Group		Company	
	2019 R million	**2018 R million**	**2019 R million**	**2018 R million**
At the beginning of the year	**162**	106	**99**	39
Charged to statement of comprehensive income:				
– additional provisions	**45**	114	**21**	103
– reversal of provisions	**(35)**	(17)	**(32)**	(19)
Used during the year	**(49)**	(41)	**(16)**	(24)
Year ended 31 December	**123**	162	**72**	99

The balance consists mainly of the cash-settled share-based payment liability in Santam Ltd, the provision for the MiWay deferred bonus plan and key SSI management's 10% economic participation interest in SSI. Participants to the MiWay deferred bonus scheme can redeem their units at any time following their respective vesting dates. In addition, there is a compulsory redemption upon the completion of the fifth year of issue of the units.

ACCOUNTING POLICY – PROVISIONS

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

20 OTHER INCOME AND EXPENSES BY NATURE

20.1 Other income

	Group		Company	
	2019 R million	2018 R million	2019 R million	2018 R million
Fee income from policy administration	**173**	145	**–**	–
Commission	**98**	101	**56**	64
	271	246	**56**	64

ACCOUNTING POLICY – OTHER INCOME

Fee income is earned by intermediaries within the group for administration services performed on behalf of insurance companies, in terms of binder agreements. The group also earns administration fees for administration of cell captives on behalf of cell owners. These arrangements contain no significant financing components, revenue is earned at a point in time and no significant judgements are made in determining timing of revenue recognition. The group does not recognise any assets in relation to costs required to fulfil its performance obligations in respect of these arrangements.

Commission is earned by the group in its capacity as an intermediary, and is accounted for in the same manner as fee income.

20.2 Expenses by nature

	Group		Company	
	2019 R million	Restated 2018 R million	2019 R million	Restated 2018 R million
Auditor's remuneration	**32**	28	**16**	13
Audit fees				
– Current year	**27**	24	**15**	12
– Prior year	**4**	2	**–**	–
– Non-audit services	**1**	2	**1**	1
Depreciation	**223**	54	**140**	31
Amortisation of intangible assets	**76**	69	**39**	41
Impairment of intangible assets	**3**	–	**–**	–
Employee benefit expense	**3 511**	3 106	**2 408**	2 173
Operating lease rentals[1]	**31**	236	**20**	161
– offices	**–**	211	**–**	144
– furniture and mechanical equipment	**–**	7	**–**	–
– motor vehicles	**–**	18	**–**	17
– low value leases	**31**	–	**20**	–
Service level agreement related to computer equipment[1]	**239**	230	**239**	229
Research and development costs	**86**	108	**86**	108
Expenses for the acquisition of insurance contracts	**4 878**	4 524	**5 164**	4 792
Investment-related activities	**70**	67	**44**	24
Provision for impairment of intermediaries (refer to note 4.2)	**–**	159	**–**	159
Other expenses*	**414**	549	**407**	450
Total expenses	**9 563**	9 130	**8 563**	8 181

** Includes allocation of claims handling costs to claims costs.*
[1] Amounts restated, refer to note 31.

ACCOUNTING POLICY – LOW VALUE LEASES

Leases relating to low value assets, which consist of office furniture and equipment, are expensed on a straight-line basis.

ACCOUNTING POLICY – LEASES (PRIOR YEAR)

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

20.3 Employee benefit expense

	Group		Company	
	2019 R million	**2018 R million**	**2019 R million**	**2018 R million**
Wages, salaries and bonus	**2 917**	2 548	**1 890**	1 685
Social security costs	**177**	171	**164**	166
Long-term incentive scheme costs	**126**	120	**79**	69
Pension costs – defined contribution plans	**288**	259	**272**	245
BBBEE cost	**3**	8	**3**	8
	3 511	3 106	**2 408**	2 173

ACCOUNTING POLICY – EMPLOYEE BENEFITS

(a) Pension obligations

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

(b) Long-term incentive and retention bonus plan

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

(c) Termination benefits

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

(d) Performance bonus plans

The group recognises a liability and an expense for bonuses based on a formula that takes into consideration the net insurance result after certain adjustments as well as growth targets. The group recognises an accrual where contractually obliged or where there is a past practice that has created a constructive obligation.

(e) Leave pay

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

20.3.1 TRANSACTIONS WITH KEY MANAGEMENT

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

Key management also have general insurance contracts with the company in their private capacity. Premiums on these contracts are not material.

	Company	
	2019 R million	**2018 R million**
Key management compensation paid		
Salaries and other short-term employee benefits paid	**74**	68
Share-based payments and long-term deferred bonus schemes	**25**	24

20 EXPENSES BY NATURE (continued)

20.3 Employee benefit expense (continued)

20.3.2 TRANSACTION WITH DIRECTORS AND PRESCRIBED OFFICERS

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

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

Directors' and prescribed officers' emoluments

The group human resources committee considers the remuneration of all executive directors as well as the fees paid to all non-executive directors. Fees payable to directors are recommended by the board to the annual general meeting for approval. This note reflects the total of executive and non-executive directors' earnings, other benefits and costs incurred by the company, in accordance with the requirements of the Companies Act and JSE Listings Requirements introduced by the JSE Ltd.

	Salary R000	Performance bonus[1] R000	Out-performance plan[2] R000	Other benefits and costs[3,4] R000	Total R000
Executive directors and prescribed officers					
2019					
Paid by the company					
L Lambrechts	5 620	7 200	–	210	**13 030**
HD Nel	3 301	3 400	–	226	**6 927**
	8 921	**10 600**	**–**	**436**	**19 957**
2018					
Paid by the company					
L Lambrechts	5 523	6 900	–	210	12 633
HD Nel	3 046	3 300	–	268	6 614
	8 569	10 200	–	478	19 247

[1] *Bonus in respect of 2019 paid in 2020 (2018 paid in 2019).*
[2] *Refer to detail on page 115.*
[3] *Includes retirement funding benefits. During 2019 R210 000 (2018: R210 000) was paid in respect of L Lambrechts and R226 344 (2018: R268 000) was paid in respect of HD Nel.*
[4] *Adjusted to exclude company costs.*

	Directors' fees	
	2019 R000	**2018 R000**
Non-executive directors		
Paid by the company		
B Campbell	**910**	768
BTPKM Gamedze[2]	**140**	848
GG Gelink	**–**	489
VP Khanyile	**1 028**	628
IM Kirk[1]	**629**	607
MLD Marole	**631**	746
NV Mtetwa	**612**	724
JJ Ngulube[1]	**446**	276
MJ Reyneke	**850**	884
PE Speckmann[2]	**1 349**	1 272
HC Werth[1]	**323**	583
	6 918	7 825
Total directors' remuneration	**26 875**	27 072

[1] *Fees were paid to the holding company, Sanlam Ltd.*
[2] *Fees include amounts paid by subsidiaries of the group.*

OUTPERFORMANCE PLAN (OPP)

The Santam Ltd human resources committee has extended an OPP effective 1 January 2015 to certain senior leaders (5 year measurement period) to reward superior performance over the measurement period. No payments are made under the OPP unless operational targets are outperformed and growth in net insurance results exceeds the hurdle set for the Santam group for the period. Full payments are only made if the stretch performance targets are met. There are no interim measurement periods. The maximum payment under the senior leaders OPP is 4.9 times the 2019 total guaranteed package of a participant, payable in two equal tranches in April and November 2020. The stretch performance targets were not met for the five year period to 31 December 2019. No payments are therefore made under the senior leaders OPP plan.

21 INCOME TAX EXPENSE

	Group		Company	
	2019 R million	2018 R million	2019 R million	2018 R million
South African normal taxation				
Current year	**1 045**	992	**590**	758
– charge for the year	**1 043**	980	**589**	757
– other taxes	**2**	12	**1**	1
Prior year	**20**	(3)	**22**	(3)
Foreign taxation – current year	**74**	71	**–**	–
Income taxation for the year	**1 139**	1 060	**612**	755
Deferred taxation	**15**	(70)	**39**	(55)
Current year	**25**	(70)	**50**	(55)
Prior year	**(10)**	–	**(11)**	–
Deferred taxation for the year	**15**	(70)	**39**	(55)
Total taxation as per the statement of comprehensive income	**1 154**	990	**651**	700
Income tax recovered from cell owners and structured insurance products	**(280)**	(106)	**–**	–
Total tax expense attributable to shareholders	**874**	884	**651**	700
Profit before taxation per statement of comprehensive income	**3 475**	3 519	**2 522**	2 637
Adjustment for income tax recovered from cell owners and structured insurance products	**(280)**	(106)	**–**	–
Total profit before tax attributable to shareholders	**3 195**	3 413	**2 522**	2 637

	Group		Company	
	2019	2018	2019	2018
Reconciliation of taxation rate (%)				
Normal South African taxation rate	**28.0**	28.0	**28.0**	28.0
Adjusted for				
– Disallowable expenses	**0.4**	0.1	**0.2**	0.2
– Foreign tax differential	**0.1**	0.8	**–**	–
– Exempt income[1]	**(2.1)**	(0.8)	**(4.1)**	(1.7)
– Investment results	**–**	0.1	**–**	0.1
– Income from associates and joint ventures	**0.4**	(1.8)	**1.3**	–
– Previous year's underprovision/(overprovision)	**0.4**	(0.1)	**0.4**	(0.1)
– Other permanent differences	**0.2**	(0.8)	**–**	–
– Other taxes	**–**	0.4	**–**	–
Net reduction	**(0.6)**	(2.1)	**(2.2)**	(1.5)
Effective rate (%)	**27.4**	25.9	**25.8**	26.5

[1] *Exempt income on a company level consists mainly of dividends received from subsidiaries.*

ACCOUNTING POLICY – INCOME TAX

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

(a) Current tax

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

(b) Withholding tax on dividends

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

22 DEFERRED TAX

	Group		Company	
	2019 R million	2018 R million	2019 R million	2018 R million
The amounts are as follows:				
Deferred tax assets	**(107)**	(155)	**–**	(45)
Deferred tax liabilities	**78**	81	**–**	–
Total net deferred income tax asset	**(29)**	(74)	**–**	(45)
Deferred tax is made up as follows:				
Lease liability	**(274)**	–	**(205)**	–
Unrealised appreciation of investments	**243**	167	**256**	170
Provisions and accruals	**(269)**	(230)	**(171)**	(139)
Right-of-use assets	**241**	–	**179**	–
Tax losses carried forward	**(4)**	(3)	**–**	–
Other differences	**34**	(8)	**(59)**	(76)
	(29)	(74)	**–**	(45)
Movement of deferred tax				
Balance as at 1 January	**(74)**	(4)	**(45)**	14
Charge to the statement of comprehensive income	**15**	(70)	**39**	(55)
Lease liability	**7**	–	**5**	–
Unrealised appreciation of investments	**76**	12	**86**	15
Provisions and accruals	**(39)**	(30)	**(32)**	(23)
Right-of-use assets	**(22)**	–	**(16)**	–
Tax losses carried forward	**(1)**	14	**–**	–
Other differences	**(6)**	(66)	**(4)**	(47)
Business combinations	**22**	(1)	**–**	–
Tax credited directly to equity	**8**	1	**6**	(4)
Balance as at 31 December	**(29)**	(74)	**–**	(45)

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 28% (2018: 28%) in South Africa and the official tax rates in the foreign subsidiaries where applicable.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The group has unrecognised tax losses of R18.4 million (2018: R17.6 million).

ACCOUNTING POLICY – DEFERRED TAX

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

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

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

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

23 EARNINGS PER SHARE

23.1 Basic earnings per share

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

	Group	
	2019	2018
Basic earnings per share		
Profit attributable to the company's equity holders (R million)	2 199	2 427
Weighted average number of ordinary shares in issue (millions)	110.48	110.41
Earnings per share (cents)	1 990	2 198

23.2 Diluted earnings per share

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

	2019	2018
Diluted earnings per share		
Profit attributable to the company's equity holders (R million)	2 199	2 427
Weighted average number of ordinary shares in issue (millions)	110.48	110.41
Adjusted for share options	0.70	0.82
Weighted average number of ordinary shares for diluted earnings per share	111.18	111.23
Diluted basic earnings per share (cents)	1 978	2 182

23.3 Headline earnings per share

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

	Group	
	2019 R million	2018 R million
Headline earnings per share		
Profit attributable to the company's equity holders	2 199	2 427
Impairment of goodwill and other intangible assets	3	–
Impairment of associates and joint ventures	4	12
Reclassification of foreign currency translation reserve on dilution of associate	–	(19)
Loss on dilution of associate	–	88
Profit on sale of associates	–	(40)
Tax charge on profit on sale of associates	–	13
Share of associates' profit on deemed disposal of associates	–	(164)
Share of associates' impairment of goodwill	80	–
Headline earnings	2 286	2 317
Weighted average number of ordinary shares in issue (millions)	110.48	110.41
Headline earnings per share (cents)	2 069	2 099

23.4 Diluted headline earnings per share

	2019	2018
Headline earnings (R million)	2 286	2 317
Weighted average number of ordinary shares for diluted earnings per share (millions)	111.18	111.23
Diluted headline earnings per share (cents)	2 056	2 084

24 DIVIDENDS PER SHARE

	2019	2018
Ordinary dividend per share		
Interim of 392 cents per share (2018: 363 cps)	451	418
Proposed final of 718 cents per share (2018: 665 cps)	827	766
	1 278	1 184

ACCOUNTING POLICY – DIVIDEND DISTRIBUTION

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

25 CASH GENERATED FROM OPERATIONS

	Group		Company	
	2019 R million	2018 R million	2019 R million	2018 R million
Profit before tax	**3 475**	3 519	**2 522**	2 637
Adjustments for:				
Non-cash items	**932**	38	**332**	155
– profit on sale of associates	**–**	(40)	**–**	(11)
– reclassification of foreign currency translation reserve on dilution of associate	**–**	(19)	**–**	–
– loss on dilution of associate	**–**	88	**–**	–
– share-based payment costs	**85**	65	**79**	76
– amortisation of intangible assets	**76**	69	**39**	41
– impairment of goodwill and other intangible assets	**3**	–	**–**	–
– depreciation	**223**	54	**140**	31
– impairment of net investments and loans in associated companies	**4**	12	**120**	–
– loss/(income) from associates and joint ventures	**42**	(291)	**–**	–
– profit on sale of property, plant and equipment	**–**	(1)	**–**	(1)
– movement in expected credit losses	**(34)**	–	**–**	–
– impairment of loans	**–**	5	**–**	–
– cell owners' and policyholders' interest, investment contracts and collateral guarantees	**533**	96	**(46)**	19
Repo liability cash movement	**23**	(219)	**–**	–
Investment income, realised and fair value gains	**(2 375)**	(1 683)	**(1 553)**	(1 293)
Finance costs	**368**	331	**267**	265
Income tax recovered from cell owners and structured insurance products	**(280)**	(106)	**–**	–
Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)	**1 308**	1 914	**535**	561
Reinsurance assets	**(362)**	(591)	**(115)**	(395)
Deferred acquisition costs	**(128)**	(57)	**(95)**	(50)
Loans and receivables including insurance receivables	**(18)**	(866)	**130**	(122)
Insurance liabilities	**2 388**	2 493	**1 124**	507
Deferred reinsurance acquisition revenue	**59**	162	**44**	77
Provisions for other liabilities and charges	**(18)**	75	**(27)**	60
Trade and other payables including insurance payables	**(613)**	698	**(526)**	484
Investment income received in cash	**2 380**	1 667	**1 315**	965
Dividends received	**284**	119	**316**	111
Dividends received from associates	**56**	6	**49**	–
Interest received	**1 766**	1 528	**842**	821
Foreign exchange differences	**274**	–	**104**	52
Movement in provision for investment income	**–**	14	**4**	(19)
Cash generated from operations	**5 831**	5 461	**3 418**	3 290

ACCOUNTING POLICY – CASH FLOW RELATING TO INVESTMENT PORTFOLIOS

Cash flows relating to investment portfolios are classified as operating activities on the statement of cash flows, other than the acquisition of and proceeds from sales relating to strategic investments, equity portfolios and portfolios backing subordinated debt which are classified as investing activities.

26 INCOME TAX PAID

	Group		Company	
	2019 R million	2018 R million	2019 R million	2018 R million
Amounts charged to profit or loss	**(874)**	(884)	**(651)**	(700)
Income tax credited directly to equity	**(3)**	(8)	**(3)**	(8)
Movement in deferred taxation	**23**	(70)	**44**	(59)
Movement in taxation liability	**(101)**	177	**(120)**	161
	(955)	(785)	**(730)**	(606)

27 RELATED-PARTY TRANSACTIONS – SANLAM GROUP

Major shareholders

Sanlam Ltd (incorporated in South Africa) is the ultimate holding company with a 61.5% (2018: 61.5%) shareholding in Santam Ltd. The balance of the shareholders (38.5% (2018: 38.5%)) do not have significant influence and thus no other shareholder is treated as a related party. The shares are widely held by public, non-public, individual and corporate shareholders.

Transactions with the Sanlam Group

The company transacts with the Sanlam Group on various levels, predominantly insurance-related cover, provided to Sanlam Group companies. SIM acts as the largest investment fund manager for the group with its fees negotiated on a regular basis. Santam also subscribed to target shares in SEM as described in note 5.1.

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

		2019 R million	2018 R million
a)	**Insurance contracts and other services**		
	– Sanlam Ltd and related parties (for insurance premiums)	**10**	11
	– Sanlam Ltd and related parties (for investment management services)	**(40)**	(38)
	– Sanlam Ltd and related parties (for IT infrastructure costs)	**(278)**	(253)
	– Sanlam Ltd and related parties (for administration services)	**(20)**	(12)
	– Sanlam Ltd (for insurance services)	**(6)**	(4)
b)	**Investment income and net realised/unrealised gains received from:**		
	– Sanlam Ltd and related parties	**509**	288
c)	**Dividends paid**		
	– to Sanlam Group	**(717)**	(664)
d)	**Year-end balances with related parties**		
	Sanlam Group: Sanlam Emerging Markets		
	– target shares acquired (refer to note 5.1)	**1 474**	1 323
	– target shares issued (refer to note 11)	**(322)**	(321)
	Sanlam Alternative Income Fund		
	– investment	**220**	207
	Sanlam Property Fund		
	– investment	**151**	127
	Sanlam Capital Markets		
	– cash and money market instruments	**59**	82
	Sanlam Ltd		
	– shares	**21**	21
	Sanlam Life Insurance Ltd		
	– trade payable	**(9)**	(11)

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

Emoluments for the year ended 31 December

	Salary R000	Performance bonus[1] R000	Other benefits R000	Fees R000	Total[2] R000
2019					
IM Kirk	**9 385**	**11 000**	**210**	**–**	**20 595**
PE Speckmann	**–**	**–**	**–**	**1 031**	**1 031**
HC Werth	**5 693**	**5 000**	**210**	**–**	**10 903**
	15 078	**16 000**	**420**	**1 031**	**32 529**
2018					
IM Kirk	8 910	10 000	210		19 120
HC Werth	5 178	4 500	210		9 888
	14 088	14 500	420		29 008

[1] *Performance bonus in respect of 2018 paid in 2019 (2017 paid in 2018).*
[2] *Total TGP includes amounts recharged by Sanlam Ltd to Santam Ltd for services provided.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

DEFERRED SHARE PLAN

Sanlam shares

	Balance 31 December 2018	Awarded in 2019	Shares vested	Balance 31 December 2019
L Lambrechts[1]	6 473	**–**	**(6 473)**	**–**
IM Kirk	125 014	**40 922**	**(34 691)**	**131 245**
HC Werth	94 911	**26 754**	**(22 354)**	**99 311**
Total	**226 398**	**67 676**	**(63 518)**	**230 556**

	Balance 31 December 2017	Awarded in 2018	Shares vested	Balance 31 December 2018
Y Ramiah	67 941	–	(67 941)	–
L Lambrechts[1]	20 282	–	(13 809)	6 473
IM Kirk[2]	111 912	48 792	(35 690)	125 014
HC Werth	93 212	24 616	(22 917)	94 911
Total	293 347	73 408	(140 357)	226 398

PERFORMANCE DEFERRED SHARE PLAN

	Balance 31 December 2018	Awarded in 2019	Shares vested	Balance 31 December 2019
L Lambrechts[1]	4 140	**–**	**(4 140)**	**–**
IM Kirk	248 574	**68 547**	**(45 181)**	**271 940**
HC Werth	109 307	**22 285**	**(9 041)**	**122 551**
Total	**362 021**	**90 832**	**(58 362)**	**394 491**

	Balance 31 December 2017	Awarded in 2018	Shares vested	Balance 31 December 2018
Y Ramiah	46 914	–	(46 914)	–
L Lambrechts[1]	12 358	–	(8 218)	4 140
IM Kirk	217 857	89 488	(58 771)	248 574
HC Werth	91 399	33 640	(15 732)	109 307
Total	368 528	123 128	(129 635)	362 021

RESTRICTED SHARE PLAN

	Balance 31 December 2018	Awarded in 2019	Shares vested	Balance 31 December 2019
L Lambrechts[1]	11 266	**–**	**(11 266)**	**–**
IM Kirk	24 719	**13 142**	**–**	**37 861**
HC Werth	81 817	**26 284**	**(19 155)**	**88 946**
Total	**117 802**	**39 426**	**(30 421)**	**126 807**

	Balance 31 December 2017	Awarded in 2018	Shares vested	Balance 31 December 2018
Y Ramiah	55 478	–	(55 478)	–
L Lambrechts[1]	28 810	–	(17 544)	11 266
IM Kirk	–	24 719	–	24 719
HC Werth	187 982	21 346	(127 511)	81 817
Total	272 270	46 065	(200 533)	117 802

[1] *Shares were received prior to 1 January 2015 and will vest in due course. No new shares will be awarded.*
[2] *2018 opening balance and shares vested restated to align to Sanlam Group.*

28 CONTINGENCIES AND UNCERTAINTIES

Contracts with third parties

The group enters into outsourcing contracts and distribution arrangements with third parties in the normal course of its business and is reliant upon those third parties being willing and able to perform their obligations in accordance with the terms and conditions of the contracts.

Litigation, disputes and investigations

The group, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries and investigations in the normal course of its business. The outcome of these can be uncertain, but based on current information, the directors do not believe that any current mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and pending or threatened litigation or dispute will have a material adverse effect on the group's financial position.

29 COMMITMENTS

Operating lease commitments – where group company is the lessee

The group leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The group also leases vehicles under cancellable operating lease agreements. The group is required to give a six-month notice for the termination of these agreements.

The implementation of IFRS 16 resulted in the recognition of a lease liability on the statement of financial position for operating leases. It is thus no longer required to disclose these commitments separately.

The future aggregate minimum lease payments under operating leases are as follows (restated[1]):

	Up to 1 year R million	Between 1 to 5 years R million	More than 5 years R million	Total R million
GROUP				
2018				
Motor vehicles	14	24	–	38
Office equipment	1	7	–	8
Offices	224	633	428	1 285
	239	664	428	1 331
COMPANY				
2018				
Motor vehicles	14	22	–	36
Offices	126	435	450	1 011
	140	457	450	1 047

[1] *Restated, refer to note 31.*

30 EVENTS AFTER THE REPORTING PERIOD

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

31 DETAIL ON RESTATEMENTS

31.1 Restatement of consolidated statement of comprehensive income

The December 2018 consolidated statement of comprehensive income was restated as a result of an incorrect allocation between interest income and fair value gains/losses on financial assets of R708 million.

	Previously reported 31 Dec 2018 R million	Restatement 31 Dec 2018 R million	Restated 31 Dec 2018 R million
Interest income on fair value through income instruments	2 205	(708)	1 497
Net gains/(losses) on financial assets and liabilities at fair value through income	(1 136)	708	(428)

The restatement has no impact on net income, profit after tax, earnings per share or headline earnings per share. It also has no impact on the statements of financial position, changes in equity or cash flows.

31.2 Restatement of operating lease commitments

In prior years, the group incorrectly recognised computer equipment as an operating lease commitment instead of a non-lease commitment (to the value of R758 million). This commitment related to a full complement of IT services that the group has access to. During the current year, the contract was assessed to be a service level agreement as opposed to an operating lease. There is no material impact on the statement of comprehensive income as the difference between the previously recognised straight-line lease expense does not differ materially from the service level agreement expense. The straight-line lease accrual also does not materially differ from the payable that would have been raised in terms of the service level agreement.

Note 20.2 has been restated to disclose the expense relating to the service level agreements as a separate line item, whereas they were disclosed as an operating lease expense in 2018. The commitments in note 29 were also restated as the service level agreements were previously included in operating lease commitments. In addition to this, certain lease contracts related to parking linked to head office buildings to the value of R294 million (company: R187 million) were omitted from the operating lease commitment note. These restatements have no impact on net income, profit after tax, earnings per share or headline earnings per share. It also has no impact on the statements of financial position, changes in equity or cash flows.

32 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(a) Standards, amendments and interpretations effective in 2019

The following amendments to published standards are mandatory for the group's accounting periods beginning on or after 1 January 2019:

Standard	Effective date	Executive summary
IFRS 16 *Leases*	Annual periods beginning on or after 1 January 2019 (published January 2016)	The standard replaces the guidance offered by IAS 17. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows.
Amendments to IAS 28 *Investments in Associates and Joint Ventures* – Long-term interest in associates and joint ventures	Annual periods beginning on or after 1 January 2019 (published September 2017)	Clarification provided that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
Annual improvements 2015 – 2017 cycle	Annual periods beginning on or after 1 January 2019 (published September 2017)	The amendments impact the following standards: – IFRS 3 *'Business combinations'*: Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business. – IFRS 11 *'Joint Arrangements'*: Clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. – IAS 12 *'Income Taxes'*: Clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless how the tax arises. – IAS 23 *'Borrowing Costs'*: The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
IFRIC 23 *Uncertainty over Income Tax Treatments*	Annual periods beginning on or after 1 January 2019 (published June 2017)	The interpretation specifies how an entity should reflect the effects of uncertainties in accounting for income taxes.

Except for IFRS 16, there was no material impact on the annual financial statements identified. Refer to note 15.2 for detail regarding the impact of implementation of IFRS 16.

(b) Interpretation and amendments to published standards that are not yet effective and have not been early adopted by the group

	Effective date
Number	
Amendment to IAS 1 and IAS 8 – definition of material	1 January 2020
Amendment to IFRS 3 – definition of a business	1 January 2020
IFRS 17 *Insurance Contracts*	1 January 2022

Except for IFRS 17, the amendments listed above are not expected to have a material impact on the group or company's financial statements.

(c) Discussion of impact of initial application of changes to standards and interpretations that are not yet effective and have not been early adopted by the group

IFRS 17 *INSURANCE CONTRACTS*

The IASB issued IFRS 17 *Insurance Contracts* in May 2017 and will be effective for annual periods beginning on or after 1 January 2022 (subject to IASB due process). The standard needs to be applied retrospectively. The previous IFRS standard on insurance contracts, IFRS 4, was an interim standard that allowed entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements and variations of those requirements. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct and reinsurance), regardless of the type of entity that issue these contracts.

In contrast to the requirements of IFRS 4, IFRS 17 provides a comprehensive model (general model) for the measurement of insurance contracts, supplemented by the variable fee approach for contracts with direct participation features and the premium allocation approach applicable mainly for short-duration contracts.

The standard requires an entity to identify portfolios of insurance contracts and to group them into the following groups at initial recognition:
- contracts that are onerous;
- contracts that have no significant possibility of becoming onerous subsequently; and
- the remaining contracts in the portfolio.

The main features of the general model for insurance contracts are that the groups identified:
- be measured at the present value of future cash flows incorporating an explicit risk adjustment and remeasured every reporting period (the fulfilment cash flows);
- a contractual service margin that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts, is recognised in profit or loss over the service period (coverage period).

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage (fulfilment cash flows related to future service and the contractual service margin) and the liability for incurred claims (fulfilment cash flows related to past service).

Where the requirements are met to measure a group of insurance contracts using the premium allocation approach, the liability for remaining coverage corresponds to premiums received at initial recognition less acquisition costs. However, the general model remains applicable for the measurement of incurred claims.

Insurance revenue and insurance service expenses are recognised in the statement of comprehensive income based on the concept of services provided during the period. The standard also recognises losses earlier on contracts that are expected to be onerous. The standard requires that the amounts recognised in the statement of comprehensive income be disaggregated into:
- an insurance service result, comprising insurance revenue and insurance service expenses; and
- insurance finance income or expenses.

The implementation of IFRS 17 will have different financial and operational implications for each entity that adopts the standard. It is, however, expected that fundamental changes will be required in the following areas:
- Liability measurement
- Data requirements
- Operations and the underlying systems
- Internal and external financial reporting. In particular, the financial statements will provide more information about an insurer's sources of profitability and the composition of its insurance liabilities.

The group is currently facilitating the transition to IFRS 17 by preparing accounting policies, actuarial methodologies and disclosure requirements that are in line with the requirements of the standard. These policies, methodologies and disclosures will be consistently applied throughout the group to ensure a seamless transition. The group's assessment of the requirements of the standard against current data, processes and valuation models is largely complete, as well as the overall design of the future actuarial and financial reporting processes and architecture. Customisations to the acquired integrated system of software that will be used to perform IFRS 17 calculations and related build activities as well as the data acquisition process are tracking in line with the group-wide programme plan.

33 ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS

This note provides information on cellholder/policyholder versus shareholder statement of financial position and statement of comprehensive income. Cellholder/policyholder activities relate mainly to alternative risk transfer insurance business written on the insurance licences of Centriq and SSI.

33.1 Analysis of policyholder/shareholder statement of financial position

2019	Group R million	Shareholder R million	Policyholder/ cellholder R million
ASSETS			
Intangible assets	948	948	–
Property and equipment	984	984	–
Investment in associates and joint ventures	2 661	2 661	–
Strategic investment – unquoted SEM target shares	1 474	1 474	–
Deferred income tax	107	95	12
Deposit with cell owner	180	–	180
Cell owners' and policyholders' interest	26	–	26
Financial assets at fair value through income	24 411	13 116	11 295
Reinsurance assets	6 821	6 125	696
Deferred acquisition costs	727	649	78
Loans and receivables including insurance receivables	6 237	3 970	2 267
Current income tax assets	16	15	1
Cash and cash equivalents	4 642	3 345	1 297
Total assets	**49 234**	**33 382**	**15 852**
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital	103	103	–
Treasury shares	(482)	(482)	–
Other reserves	(405)	(405)	–
Distributable reserves	10 326	10 326	–
	9 542	9 542	–
Non-controlling interest	521	521	–
Total equity	**10 063**	**10 063**	**–**
LIABILITIES			
Deferred income tax	78	80	(2)
Cell owners' and policyholders' interest	3 964	–	3 964
Reinsurance liability relating to cell owners	180	–	180
Financial liabilities at fair value through income			
Debt securities	2 080	2 080	–
Investment contracts	1 618	–	1 618
Financial liabilities at amortised cost			
Repo liability	785	–	785
Collateral guarantee contracts	120	–	120
Lease liability	978	978	–
Insurance liabilities	23 207	15 080	8 127
Deferred reinsurance acquisition revenue	489	419	70
Provisions for other liabilities and charges	123	123	–
Trade and other payables including insurance payables	5 280	4 298	982
Current income tax liabilities	269	261	8
Total liabilities	**39 171**	**23 319**	**15 852**
Total shareholders' equity and liabilities	**49 234**	**33 382**	**15 852**

2018	Group R million	Shareholder R million	Policyholder/ cellholder R million
ASSETS			
Intangible assets	885	885	–
Property and equipment	142	142	–
Investment in associates and joint ventures	2 927	2 927	–
Strategic investment – unquoted SEM target shares	1 323	1 323	–
Deferred income tax	155	152	3
Deposit with cell owner	191	–	191
Cell owners' and policyholders' interest	13	–	13
Financial assets at fair value through income	22 454	12 567	9 887
Reinsurance assets	6 487	6 032	455
Deferred acquisition costs	619	580	39
Loans and receivables including insurance receivables	6 274	4 407	1 867
Current income tax assets	10	10	–
Cash and cash equivalents	3 618	2 573	1 045
Total assets	45 098	31 598	13 500
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital	103	103	–
Treasury shares	(467)	(467)	–
Other reserves	(90)	(90)	–
Distributable reserves	9 311	9 311	–
	8 857	8 857	–
Non-controlling interest	508	508	–
Total equity	9 365	9 365	–
LIABILITIES			
Deferred income tax	81	87	(6)
Cell owners' and policyholders' interest	3 343	–	3 343
Reinsurance liability relating to cell owners	191	–	191
Financial liabilities at fair value through income			
Debt securities	2 072	2 072	–
Investment contracts	1 528	–	1 528
Derivatives	4	4	–
Financial liabilities at amortised cost			
Repo liability	759	–	759
Collateral guarantee contracts	158	–	158
Insurance liabilities	20 662	14 041	6 621
Deferred reinsurance acquisition revenue	487	389	98
Provisions for other liabilities and charges	162	162	–
Trade and other payables including insurance payables	5 922	5 155	767
Current income tax liabilities	364	323	41
Total liabilities	35 733	22 233	13 500
Total shareholders' equity and liabilities	45 098	31 598	13 500

33 ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS (continued)

33.2 Analysis of policyholder/shareholder statement of comprehensive income

2019	Group R million	Shareholder R million	Policyholder/ cellholder R million
Gross written premium	35 852	30 049	5 803
Less: reinsurance written premium	10 720	5 923	4 797
Net written premium	25 132	24 126	1 006
Less: change in unearned premium			
Gross amount	1 494	411	1 083
Reinsurers' share	(588)	(128)	(460)
Net insurance premium revenue	24 226	23 843	383
Interest income on amortised cost instruments	186	186	–
Interest income on fair value through income instruments	1 580	916	664
Other investment income	288	243	45
Income from reinsurance contracts ceded	1 995	1 554	441
Net gains on financial assets and liabilities at fair value through income	321	356	(35)
Other income	271	271	–
Net income	28 867	27 369	1 498
Insurance claims and loss adjustment expenses	19 894	17 585	2 309
Insurance claims and loss adjustment expenses recovered from reinsurers	(4 813)	(2 833)	(1 980)
Net insurance benefits and claims	15 081	14 752	329
Expenses for the acquisition of insurance contracts	4 878	4 409	469
Expenses for marketing and administration	4 536	4 510	26
Expenses for investment-related activities	70	70	–
Amortisation and impairment of intangible assets	79	79	–
Investment return allocated to cell owners and structured insurance products	614	–	614
Expenses	25 258	23 820	1 438
Results of operating activities	3 609	3 549	60
Finance costs	(368)	(308)	(60)
Net loss from associates and joint ventures	(42)	(42)	–
Impairment of associates and joint ventures	(4)	(4)	–
Income tax recovered from cell owners and structured insurance products	280	–	280
Profit before tax	3 475	3 195	280
Income tax expense	(1 154)	(874)	(280)
Profit for the year	2 321	2 321	–

2018	Group Restated R million	Shareholder Restated R million	Policyholder/ cellholder Restated R million
Gross written premium	33 109	28 149	4 960
Less: reinsurance written premium	9 041	5 614	3 427
Net written premium	24 068	22 535	1 533
Less: change in unearned premium			
Gross amount	2 019	208	1 811
Reinsurers' share	(763)	(195)	(568)
Net insurance premium revenue	22 812	22 522	290
Interest income on amortised cost instruments	91	91	–
Interest income on fair value through income instruments	1 497	970	527
Other investment income	523	432	91
Income from reinsurance contracts ceded	1 889	1 493	396
Net losses on financial assets and liabilities at fair value through income	(428)	(30)	(398)
Other income	246	246	–
Net income	26 630	25 724	906
Insurance claims and loss adjustment expenses	18 442	16 883	1 559
Insurance claims and loss adjustment expenses recovered from reinsurers	(4 615)	(3 348)	(1 267)
Net insurance benefits and claims	13 827	13 535	292
Expenses for the acquisition of insurance contracts	4 524	4 155	369
Expenses for marketing and administration	4 465	4 440	25
Expenses for investment-related activities	67	67	–
Amortisation and impairment of intangible assets	69	69	–
Impairment of loans	5	5	–
Investment return allocated to cell owners and structured insurance products	179	–	179
Expenses	23 136	22 271	865
Results of operating activities	3 494	3 453	41
Finance costs	(331)	(290)	(41)
Net income from associates and joint ventures	291	291	–
Profit on sale of associate	40	40	–
Loss on dilution of associate	(88)	(88)	–
Impairment of associate	(12)	(12)	–
Reclassification of foreign currency translation reserve on dilution of associate	19	19	–
Income tax recovered from cell owners and structured insurance products	106	–	106
Profit before tax	3 519	3 413	106
Income tax expense	(990)	(884)	(106)
Profit for the year	2 529	2 529	–

ANALYSIS OF SHAREHOLDERS

Analysis of shareholders	Number of shareholders	% of total shareholders	Number of shares	% Interest
1 – 100 shares	1 518	21.35	85 156	0.07
101 – 1 000 shares	3 484	49.00	1 473 025	1.28
1 001 – 50 000 shares	1 996	28.07	11 459 995	9.95
50 001 – 100 000 shares	63	0.89	4 426 887	3.85
100 001 – 10 000 000 shares	48	0.68	29 837 423	25.92
More than 10 000 000 shares	1	0.01	67 848 931	58.93
Total	7 110	100.00	115 131 417	100.00
Type of shareholder				
Individuals	4 547	63.95	3 990 705	3.47
Companies	686	9.65	85 886 411	74.60
Growth funds/unit trusts	318	4.47	12 077 487	10.49
Nominee companies or trusts	1 231	17.32	3 470 504	3.01
Pension and retirement funds	328	4.61	9 706 310	8.43
Total	7 110	100.00	115 131 417	100.00

	Shareholders in South Africa		Shareholders other than in South Africa		Total shareholders	
Shareholder spread	Nominal number	% Interest	Nominal number	% Interest	Nominal number	% Interest
Public shareholders	6 878	26.22	217	100.00	7 095	30.78
Directors	8	0.05	–	–	8	0.05
Guardian National Insurance Ltd[1]	1	4.06	–	–	1	3.81
Trustees of employees' share scheme[1]	3	1.29	–	–	3	1.21
Holdings of 5% or more	3	68.38	–	–	3	64.15
Sanlam Ltd	2	62.84	–	–	2	58.95
Government Employees Pension Fund	1	5.54	–	–	1	5.20
Total	6 893	100.00	217	100.00	7 110	100.00

[1] *Owners of treasury shares.*

The analysis includes the shares held as treasury shares.

ANALYSIS OF BONDHOLDERS

Analysis of debt security holders	Number of debt security holders	% of total debt security holders	Number of units	% Interest
1 – 50 000 units	1	0.40	30 000	0.00
50 001 – 100 000 units	13	5.18	1 300 000	0.07
100 001 – 1 000 000 units	81	32.27	39 314 644	1.97
1 000 001 – 10 000 000 units	115	45.82	523 114 096	26.15
More than 10 000 000 units	41	16.33	1 436 241 260	71.81
Total	251	100.00	2 000 000 000	100.00
Type of debt security holder				
Banks	4	1.59	6 020 000	0.30
Intermediaries	2	0.80	9 900 000	0.50
Endowment funds	5	1.99	4 570 000	0.23
Insurance companies	12	4.78	55 163 000	2.75
Investment companies	7	2.79	44 888 976	2.24
Medical aid schemes	16	6.37	97 534 000	4.88
Mutual funds	145	57.77	1 345 722 301	67.29
Pension funds	57	22.71	398 014 463	19.90
Private companies	2	0.80	29 637 260	1.48
Public companies	1	0.40	8 550 000	0.43
Total	251	100.00	2 000 000 000	100.00

Debt security holder spread	Nominal number	% Interest
Nedgroup Investments Flexible Income Fund	230 000 000	11.50
Government Employees Pension Fund	185 000 000	9.25
Investec Cautious Managed Fund	136 100 000	6.81
Ashburton Stable Income Fund	100 000 000	5.00
Investec High Income Fund	74 000 000	3.70
Momentum Income Plus Fund	65 000 000	3.25
Other	1 209 900 000	60.49
Total	2 000 000 000	100.00

ADMINISTRATION

NON-EXECUTIVE DIRECTORS
B Campbell, MP Fandeso, VP Khanyile (chairman), IM Kirk, MLD Marole, JJ Ngulube, MJ Reyneke, PE Speckmann

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

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A2X share code: SNT

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