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santam
100
YEARS OF INSURANCE
GOOD AND PROPER
100 YEARS OF INSURANCE GOOD AND PROPER
santam
FINANCIAL RESULTS FOR THE YEAR ENDED
31 DECEMBER 2017
PRESENTED BY LIZÉ LAMBRECHTS AND HENNIE NEL

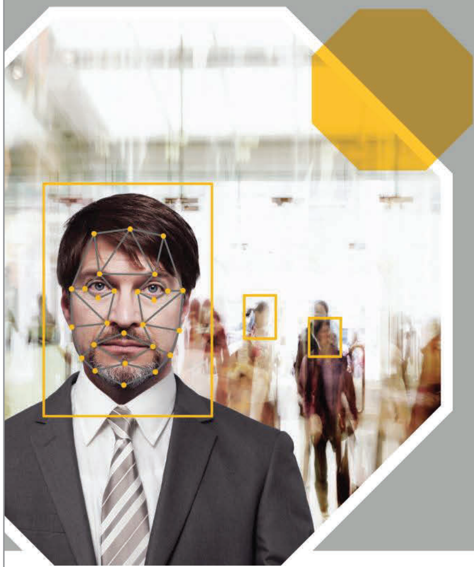

CONTENTS
• The Santam business portfolio
• Market context
• Financial results
• Capital management
• Group strategy and priorities

THE SANTAM BUSINESS PORTFOLIO

Santam Commercial and Personal	Santam Specialist	MiWay	Santam re	Santam's Emerging Markets Investments
Our multi-channel insurance business in South Africa and Namibia	Our specialist insurance business portfolio in Africa, India and SE Asia	Our direct insurance business in South Africa	Our reinsurance business in South Africa and international markets	Our investments in emerging markets
• Intermediated • Strategic partnerships • Direct	• Agri • Niche • Centriq • SSI	• Personal • Business • Life	• Group • Non-group	• Africa • India • SE Asia

SANTAM GROUP
INSURANCE ACTIVITIES

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



MARKET CONTEXT

100 YEARS OF INSURANCE GOOD AND PROPER

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INSURANCE MARKET OUTLOOK to 2020

ALL MARKETS

- Intense competition, marked impact of technology / insurtech
- New business models and non-traditional competitors emerging
- Changing client behaviour and expectations continue
- Intensifying extreme weather events
- Business positioning as “positive impact” and “human” brands
- Low GI penetration offers opportunity and concern - rising risk protection gap

INSURANCE MARKET OUTLOOK to 2020

IN SOUTH AFRICA

- Economic growth subdued, more positive, yet rising unemployment remain concerning
- Improved political environment
- Increased pressure for transformative / inclusive policies; financial inclusion and access will remain high on the agenda
- Municipal service delivery remain concerning
- Improved market sentiment, however policy environment remain uncertain
- No longer a "benign natural catastrophe territory" – impacts reinsurance rates

SANTAM 2017: KEY FACTS

- Gross written premium growth of **15%** (conventional insurance: **10%**)
- Underwriting margin of **6.0%** (2016: **6.5%**) for conventional insurance business (**7.7%** excluding June and October 2017 catastrophe events)
- Headline earnings per share increased by **31%**
- Improvement of conventional insurance acquisition cost ratio to **28.1%** (2016: **28.6%**)
- Return on capital of **23.6%**
- Economic capital coverage ratio of **158%**
- Final dividend of **616** cents per share, up **8%**

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FINANCIAL RESULTS

100 YEARS OF INSURANCE GOOD AND PROPER

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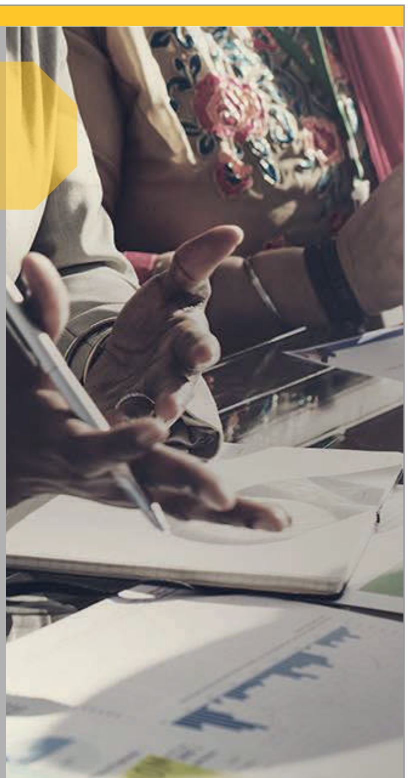
REPORTING ENVIRONMENT



REPORTED RESULTS AFFECTED BY:

- **Catastrophe events**
  - Knysna / Western Cape gross claims incurred of R823 million (net underwriting impact of R174 million)
  - Gauteng / KZN storms gross claims incurred of R1.1 billion (net underwriting impact of R186 million)
- **Exchange rate volatility**
  - The stronger Rand continued to have a negative impact on foreign earnings and investment translation
  - Foreign currency losses excluding release of FCTR R116 million (2016: R228 million)

EXCHANGE RATE VOLATILITY

CURRENCY	CLOSING RATES		AVERAGE RATES		MOVEMENT
	2017	2016	2017	2016	%
United States Dollar	12.34	13.54	13.24	14.60	(9%)
Pound Sterling	16.61	16.63	17.13	19.89	0%
Moroccan Dirham	1.32	1.34	1.37	1.49	(2%)
Malaysian Ringgit	3.07	3.04	3.11	3.50	1%
Indian Rupee	0.19	0.20	0.21	0.22	(3%)

CONVENTIONAL INSURANCE

100 YEARS OF INSURANCE GOOD AND PROPER
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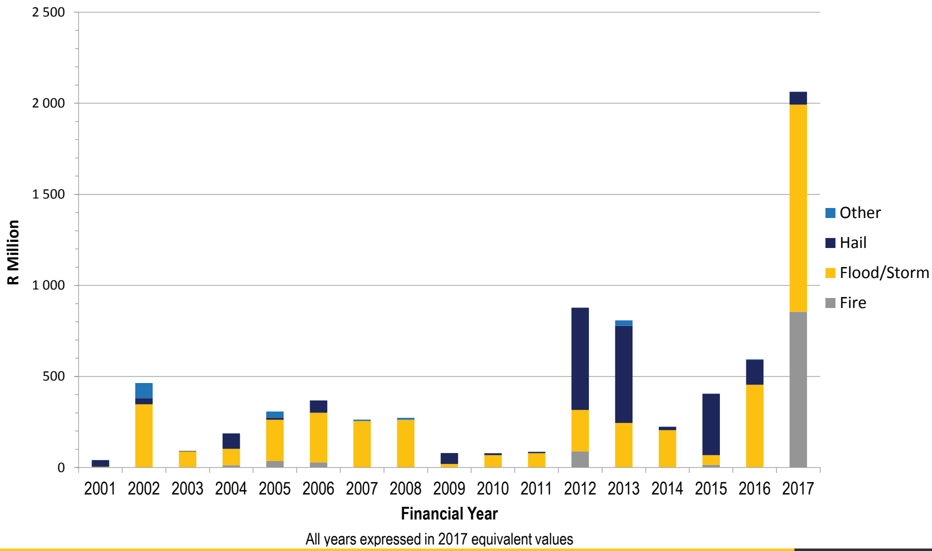
CATASTROPHE CLAIMS

GROSS TOTAL CATASTROPHE CLAIMS: ALL PERILS



CONVENTIONAL INSURANCE

NET INSURANCE RESULT

	2017 R'm	% of NEP	2016 R'm	% of NEP	2017/ 2016	5Yr ave %	10Yr ave %
Gross written premium	25 853		23 503		10%	9.0	8.9
Net earned premium	20 893	100.0	19 245	100.0	9%	100.0	100.0
Claims incurred	13 753	65.9	12 482	64.9	10%	64.8	65.8
Acquisition cost	5 880	28.1	5 511	28.6	7%	28.3	27.6
Underwriting result	1 260	6.0	1 252	6.5	1%	6.9	6.6
Investment return on insurance funds	584	2.8	558	2.9	5%	2.6	2.9
Net insurance result	1 844	8.8	1 810	9.4	2%	9.5	9.5
Combined ratio		94.0		93.5		93.1	93.4

CONVENTIONAL INSURANCE

NET INSURANCE RESULT – excluding June/Oct 2017 CATS

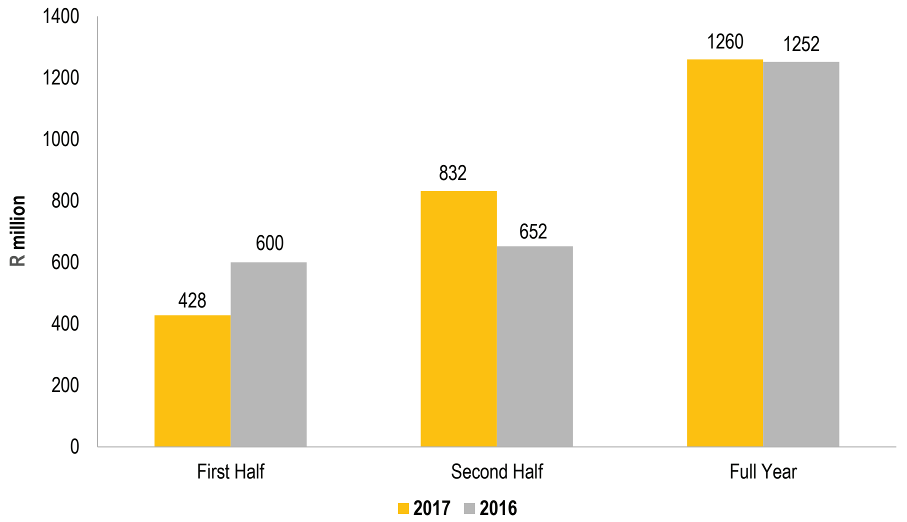
	2017 R'm	% of NEP	2016 R'm	% of NEP	2017/ 2016
Gross written premium	25 853		23 503		**10%**
Net earned premium	21 053	**100.0**	19 245	**100.0**	**9%**
Claims incurred	13 553	**64.4**	12 482	**64.9**	**9%**
Acquisition cost	5 880	**27.9**	5 511	**28.6**	**7%**
Underwriting result	1 620	**7.7**	1 252	**6.5**	**29%**
Investment return on insurance funds	584	**2.8**	558	**2.9**	**5%**
Net insurance result	2 204	**10.5**	1 810	**9.4**	**22%**
Combined ratio		**92.3**		**93.5**	

CONVENTIONAL INSURANCE

NET INSURANCE RESULT (H1 vs H2)

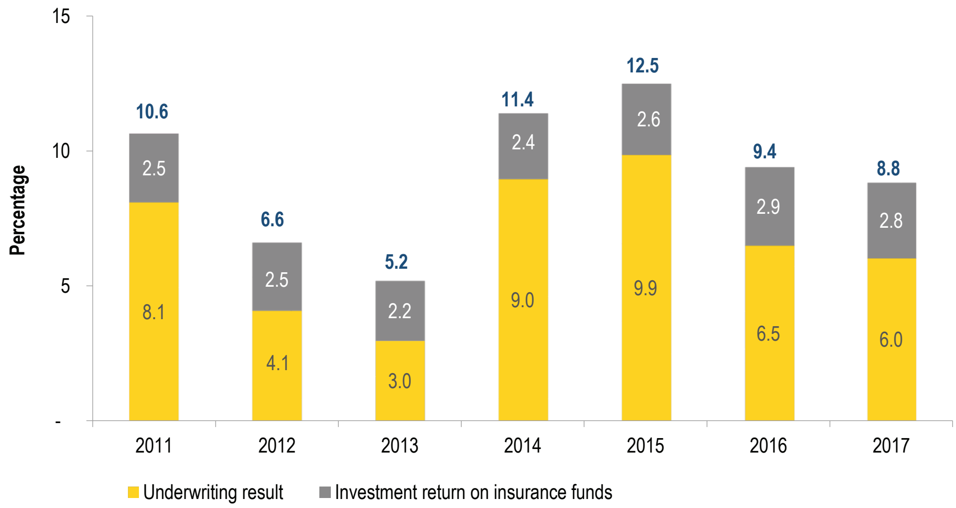
	FIRST HALF	SECOND HALF	FULL YEAR 2017
Net earned premium	100.0	100.0	100.0
Claims incurred	68.3	63.4	65.9
Acquisition cost	27.5	28.8	28.1
Underwriting margin	4.2	7.8	6.0
Investment return on insurance funds	2.9	2.7	2.8
Net insurance margin	7.1	10.5	8.8
Combined ratio	95.8	92.2	94.0

CONVENTIONAL INSURANCE
NET UNDERWRITING RESULT (H1 vs H2)



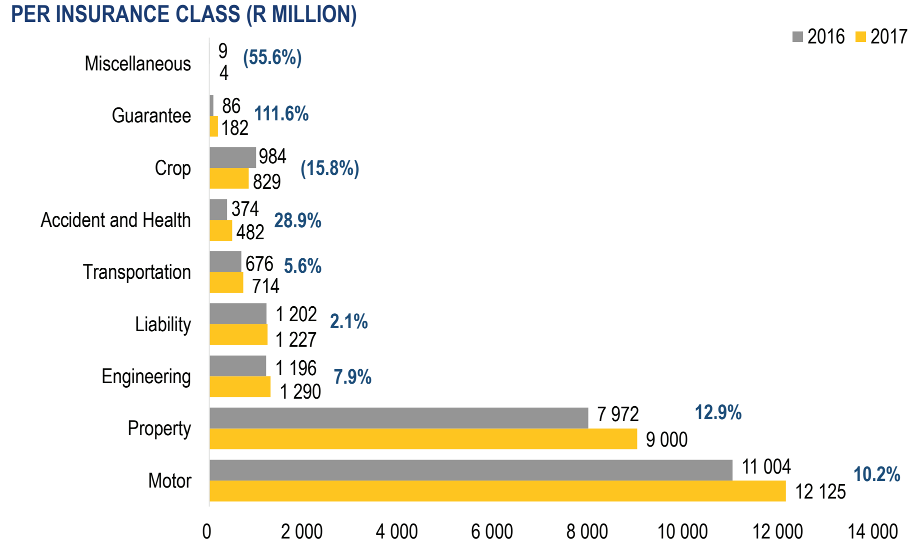
CONVENTIONAL INSURANCE
NET INSURANCE RESULT

AS % OF NET EARNED PREMIUM



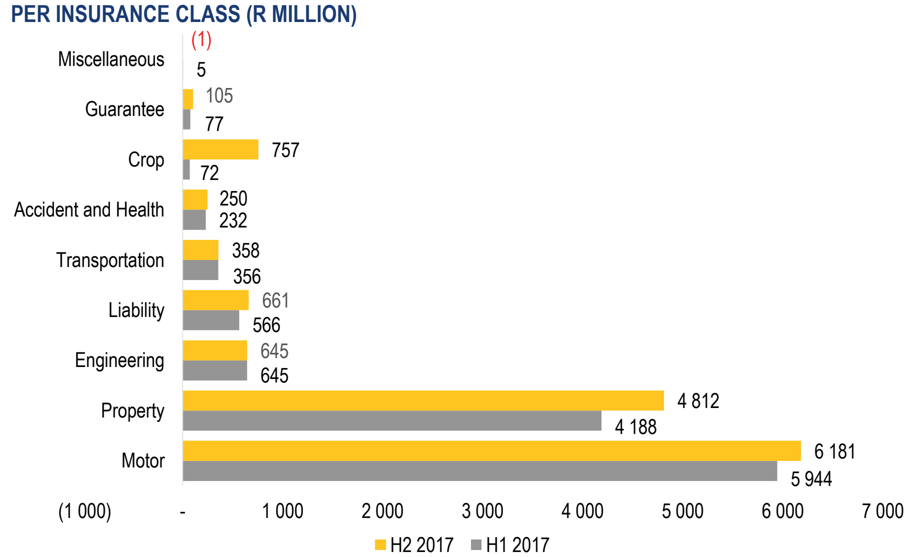
CONVENTIONAL INSURANCE
GROSS WRITTEN PREMIUM

PER INSURANCE CLASS (R MILLION)



CONVENTIONAL INSURANCE
GROSS WRITTEN PREMIUM (H1 vs H2)

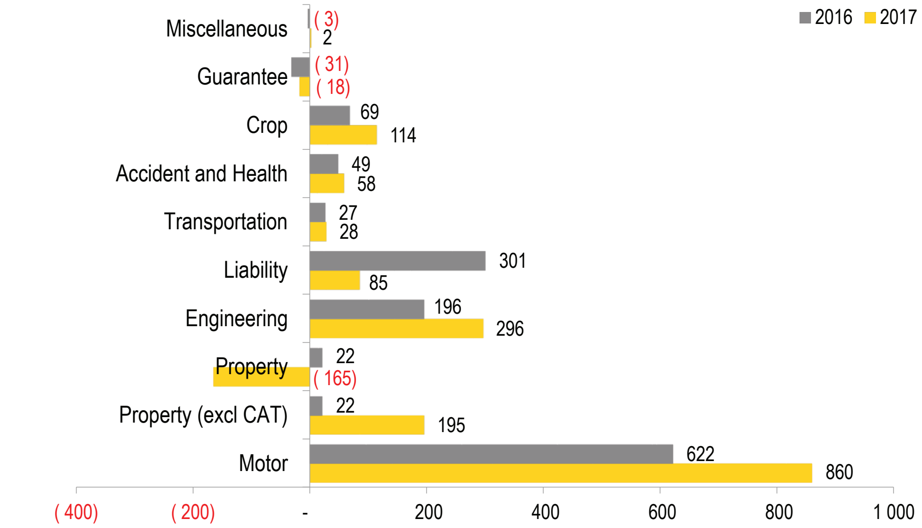
PER INSURANCE CLASS (R MILLION)



CONVENTIONAL INSURANCE

NET UNDERWRITING SURPLUS

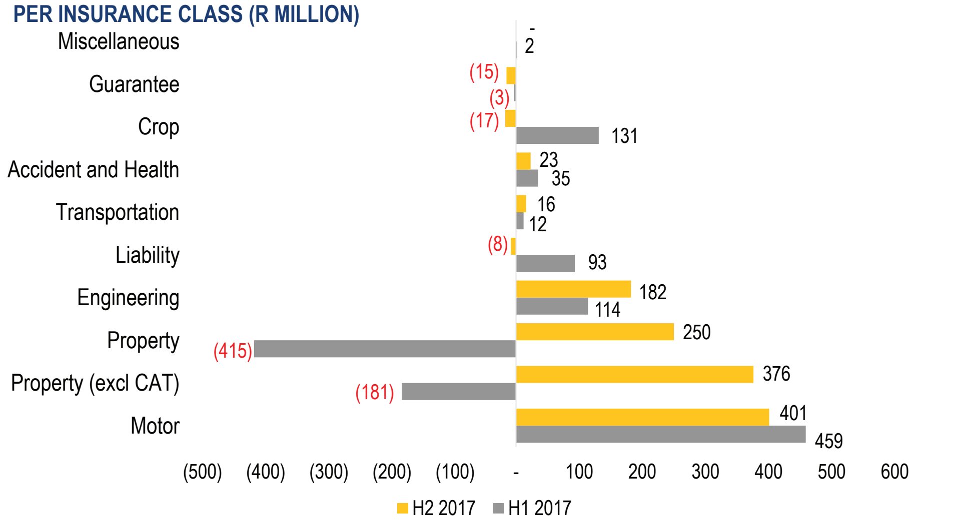
PER INSURANCE CLASS (R MILLION)



CONVENTIONAL INSURANCE

NET UNDERWRITING SURPLUS (H1 vs H2)

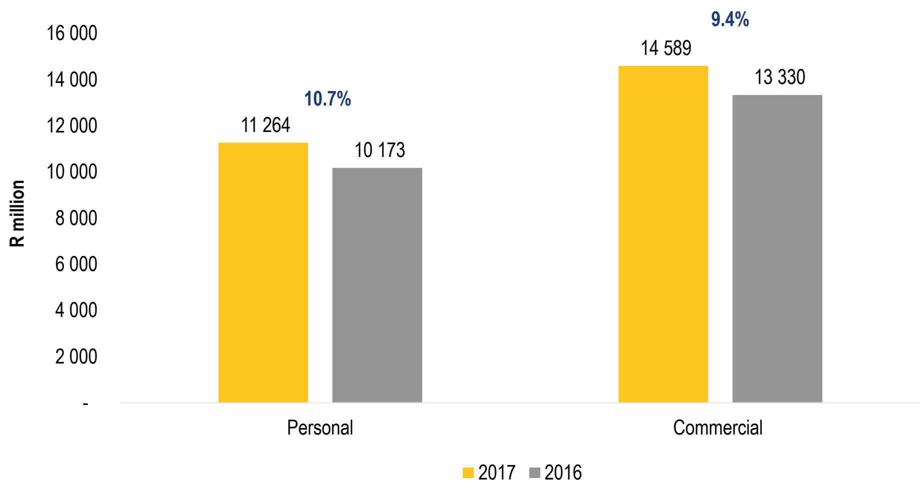
PER INSURANCE CLASS (R MILLION)



Property adjusted for Knysna/Western Cape fire-storms (June) and KZN/Gauteng flood damage (October)

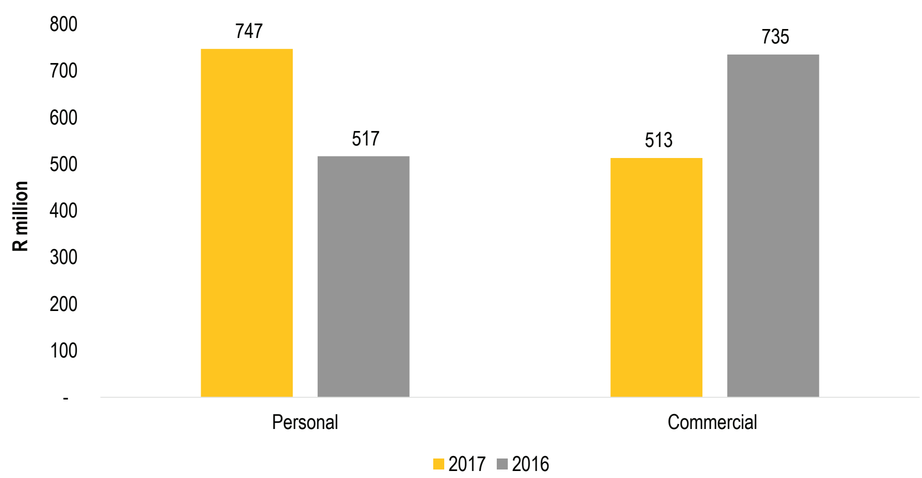
CONVENTIONAL INSURANCE
SEGMENTAL ANALYSIS

GROSS WRITTEN PREMIUM — PERSONAL AND COMMERCIAL

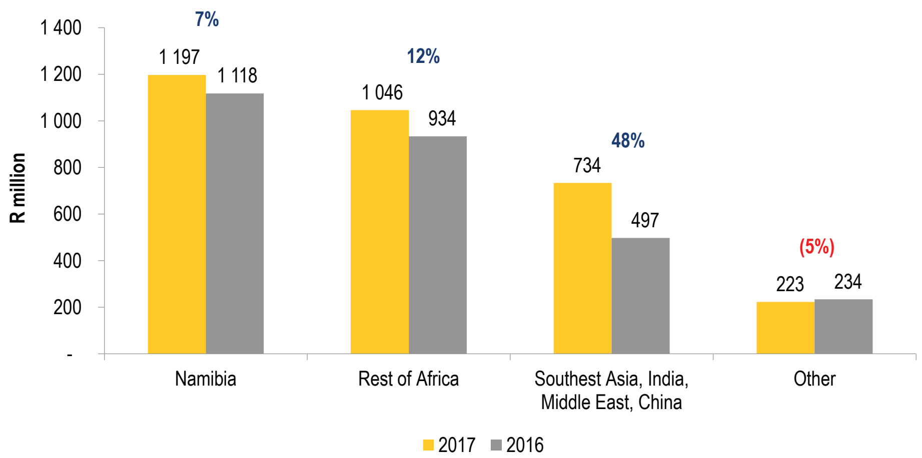


CONVENTIONAL INSURANCE
SEGMENTAL ANALYSIS

NET UNDERWRITING RESULT — PERSONAL AND COMMERCIAL



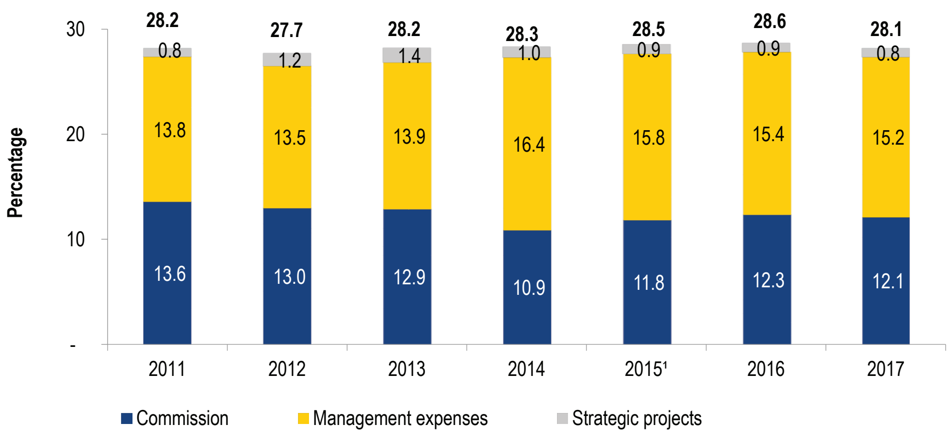
CONVENTIONAL INSURANCE
GROSS WRITTEN PREMIUM FROM OUTSIDE SA



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

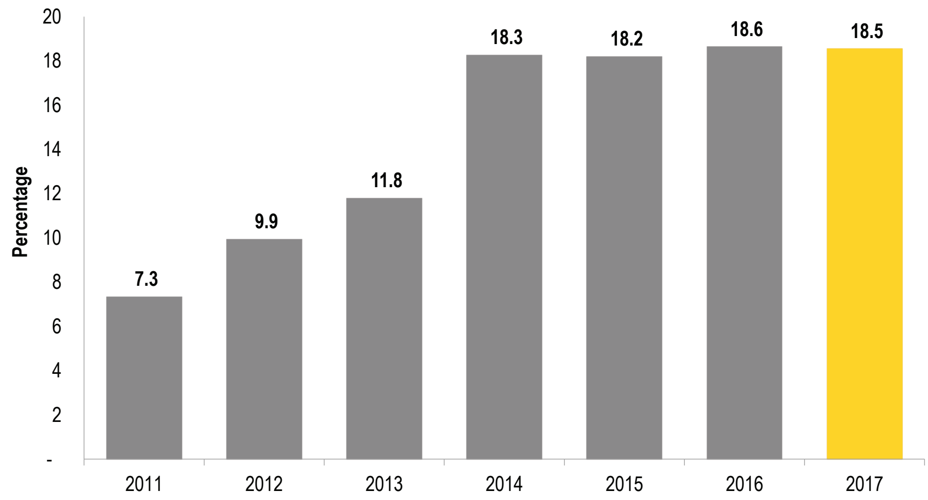
CONVENTIONAL INSURANCE
ACQUISITION COST RATIO

AS % OF NET EARNED PREMIUM

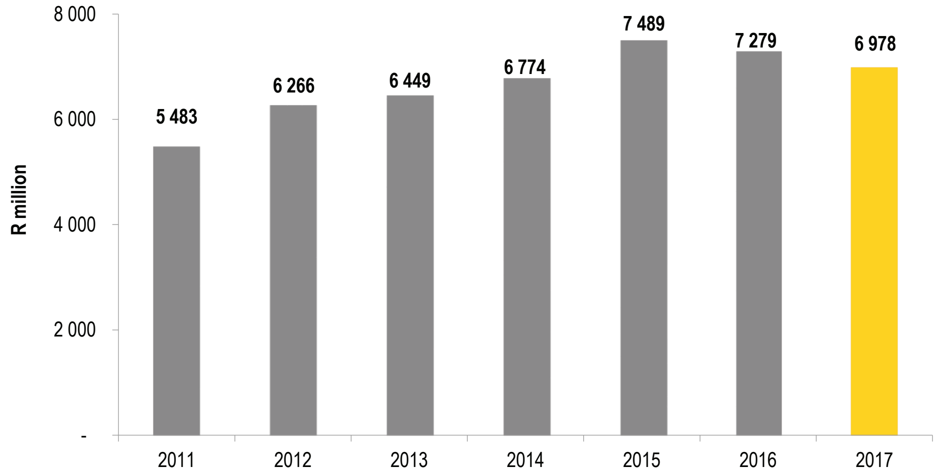


1) 2015 excludes the impact of Indwe

CONVENTIONAL INSURANCE
REINSURANCE AS % OF GROSS EARNED PREMIUM

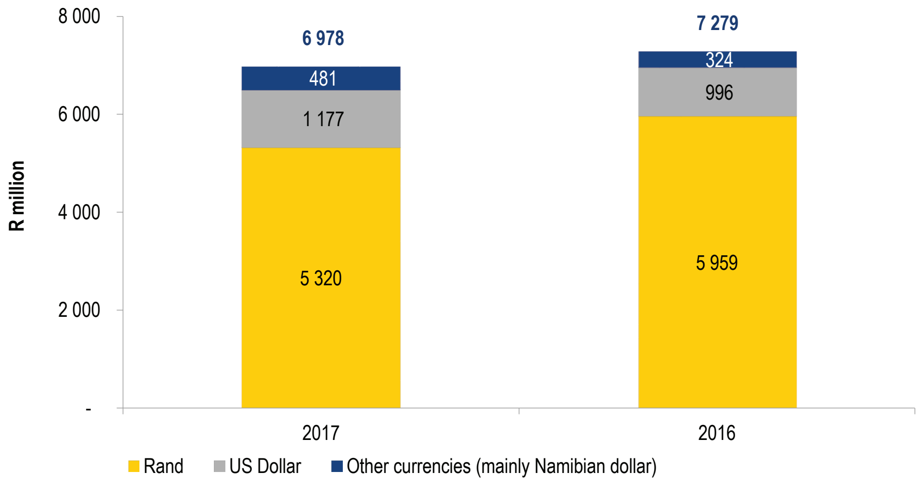


CONVENTIONAL INSURANCE
SIZE OF INSURANCE FUNDS



CONVENTIONAL INSURANCE
ASSETS BACKING NET INSURANCE FUNDS

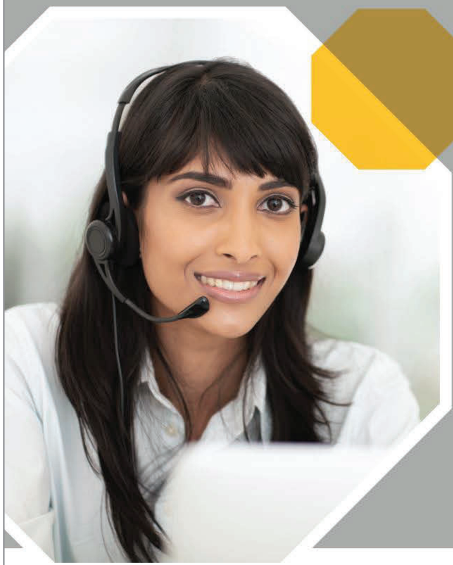
CURRENCY MIX



CONVENTIONAL INSURANCE
MIWAY

	2017	2016	CHANGE
Gross written premium (R'm)	2 319	2 101	**10%**
Gross underwriting result, net of CAT recoveries (R'm)	317	178	**78%**
Gross claims ratio, net of CAT recoveries	56.9%	62.7%	
Gross acquisition cost ratio	29.3%	28.7%	
Gross underwriting margin	13.8%	8.6%	
Number of clients*	290 000	278 000	**4%**

* Excluding value added products



ALTERNATIVE RISK TRANSFER

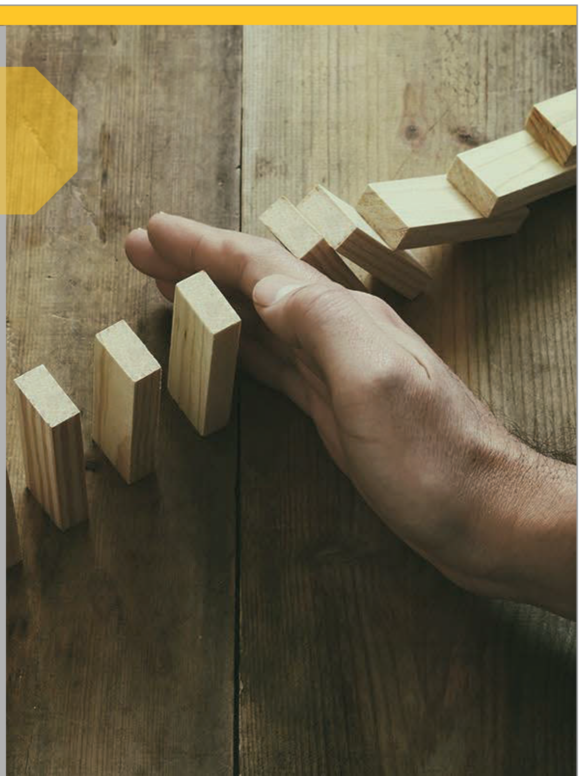
ALTERNATIVE RISK TRANSFER INSURANCE (ART)

Includes the results from:

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

Types of business

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



ALTERNATIVE RISK TRANSFER

OPERATING RESULT

	2017 R'm	% of NEP	2016 R'm	% of NEP	2017/ 2016	5Yr ave %	10Yr ave %
Gross written premium	3 867		2 406		61%	13.7	10.0
Net earned premium	437	100.0	581	100.0	(25%)	100.0	100.0
Claims incurred	313	71.6	429	73.8	(27%)	74.0	74.8
Acquisition cost	104	23.8	136	23.4	(24%)	23.4	23.9
Underwriting result	20	4.6	16	2.8	(25%)	2.6	1.3
Investment return on insurance funds	64	14.7	61	10.5	5%	7.1	6.7
Net insurance result	84	19.3	77	13.3	9%	9.7	8.0
Operating result	84		78		8%		
Combined ratio		95.4		97.2		97.4	98.7

SEM PARTNER BUSINESS

SEM PARTNER BUSINESSES

- Saham Finances
  - Effective interest of 7% held through SAN JV
  - Operates in 26 countries in Africa and the Middle East
  - Main insurance business:
    - Morocco
    - Lebanon
    - Ivory Coast
    - Angola
    - Nigeria
- SEM Participation investments
  - SGI (India)
  - P&O (Malaysia)
  - 12 investments in African partner businesses

SEM PARTNER BUSINESSES

	DOMICILE	SANTAM EFFECTIVE HOLDING DEC 2017	SANTAM EFFECTIVE HOLDING DEC 2016
SAN JV (Saham Finances)	Morocco	7.0	7.5
Pacific and Orient Insurance Company Berhad	Malaysia	15.4	15.4
Shriram General Insurance Company Ltd	India	15.0	15.0
BIHL Insurance Company Ltd	Botswana	21.2	21.2
NICO Holdings general insurance subsidiaries	Malawi and Zambia	19.8	19.8
Sanlam General Insurance (Uganda) Ltd	Uganda	28.6	28.6
Sanlam General Insurance (Tanzania) Ltd	Tanzania	17.4	17.4
SORAS Assurances Générales Ltd	Rwanda	26.1	26.1
SOCAR s.a. Burundi	Burundi	8.6	8.6
FBN General Insurance Ltd	Nigeria	12.3	12.3
Enterprise Insurance Company Ltd	Ghana	-	14.0
Sanlam General Insurance Ltd	Kenya	13.7	10.9
Botswana Insurance Company Ltd	Botswana	10.3	10.3
Zimnat Lion Insurance Company Ltd	Zimbabwe	14.0	14.0
Grand Reinsurance Company (Private) Ltd	Zimbabwe	14.0	14.0

TOTAL SEM PARTNER BUSINESSES

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

	2017 R'm	% of NEP	2016 R'm	% of NEP	2017/ 2016
Gross written premium	2 382		1 939		**23%**
Net earned premium	1 790	**100.0**	1 414	**100.0**	**27%**
Claims incurred	1 344	**75.1**	982	**69.5**	**37%**
Net acquisition costs	558	**31.2**	490	**34.6**	**14%**
Underwriting result	(112)	**(6.3)**	(58)	**(4.1)**	**93%**
Investment return on insurance funds	356	**19.9**	220	**15.6**	**62%**
Net insurance result	244	**13.6**	162	**11.5**	**51%**

SEM GENERAL INSURANCE

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

	2017 R'm	% of NEP	2016 R'm	% of NEP	2017/ 2016
Gross written premium	1 267		962		**32%**
Net earned premium	881	**100.0**	665	**100.0**	**32%**
Claims incurred	723	**82.1**	484	**72.8**	**49%**
Net acquisition costs	266	**30.1**	216	**32.5**	**23%**
Underwriting result	(108)	**(12.2)**	(35)	**(5.3)**	**209%**
Investment return on insurance funds	234	**26.5**	119	**17.9**	**97%**
Net insurance result	126	**14.3**	84	**12.6**	**50%**

SAHAM FINANCES

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

	2017 R'm	% of NEP	2016 R'm	% of NEP	2017/ 2016
Gross written premium	1 115		977		**14%**
Net earned premium	909	**100.0**	749	**100.0**	**21%**
Claims incurred	621	**68.3**	498	**66.5**	**25%**
Net acquisition costs	292	**32.1**	274	**36.6**	**7%**
Underwriting result	(4)	**(0.4)**	(23)	**(3.1)**	**(83%)**
Investment return on insurance funds	122	**13.4**	101	**13.5**	**21%**
Net insurance result	118	**13.0**	78	**10.4**	**36%**

SANTAM GROUP

100 YEARS OF INSURANCE GOOD AND PROPER santam

SANTAM GROUP
NET INSURANCE RESULT

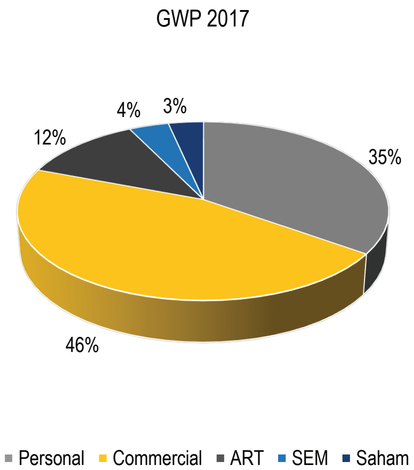
R million	2017	2016	CHANGE
Conventional insurance	1 844	1 810	2%
Alternative risk transfer insurance	84	77	9%
SEM partner businesses	244	162	51%
INSURANCE OPERATING RESULT	**2 172**	2 049	6%
SEM partner businesses	(244)	(162)	
INSURANCE OPERATING RESULT BEFORE MINORITIES AND TAXATION	**1 928**	1 887	2%

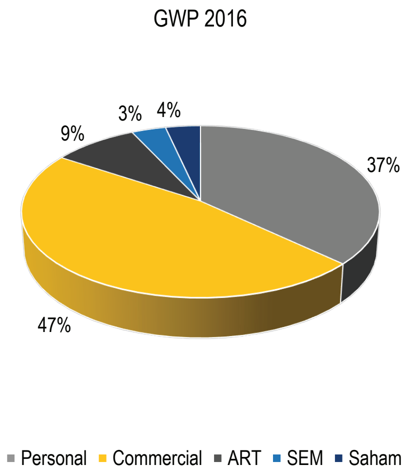
santam

SANTAM GROUP
RECONCILIATION TO HEADLINE EARNINGS

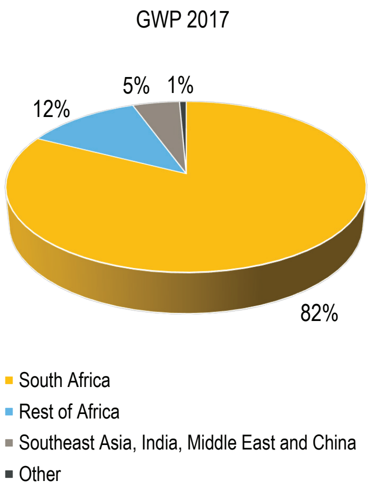
R million	2017	2016	CHANGE
Net profit attributable to ordinary shareholders	**1 667**	**1 212**	38%
Per share	1 511	1 100	
Impairment of goodwill and other intangible assets	11	3	
Capital gains tax overprovision on disposal of associates	-	(18)	
Profit on disposal of associate (net of tax)	(3)	-	
Gain on dilution of associate	(18)	-	
Reclassification of foreign currency translation reserve on dilution of associate	90	-	
Foreign currency translation reserve reclassified to profit and loss	(175)	-	
Headline earnings	**1 572**	**1 197**	31%
Per share	1 425	1 086	

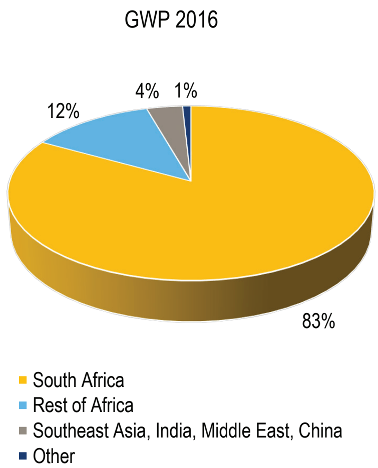
GROWTH DIVERSIFICATION
INCLUDING SEM BUSINESS PARTNERS





GEOGRAPHIC DIVERSIFICATION
INCLUDING SEM BUSINESS PARTNERS

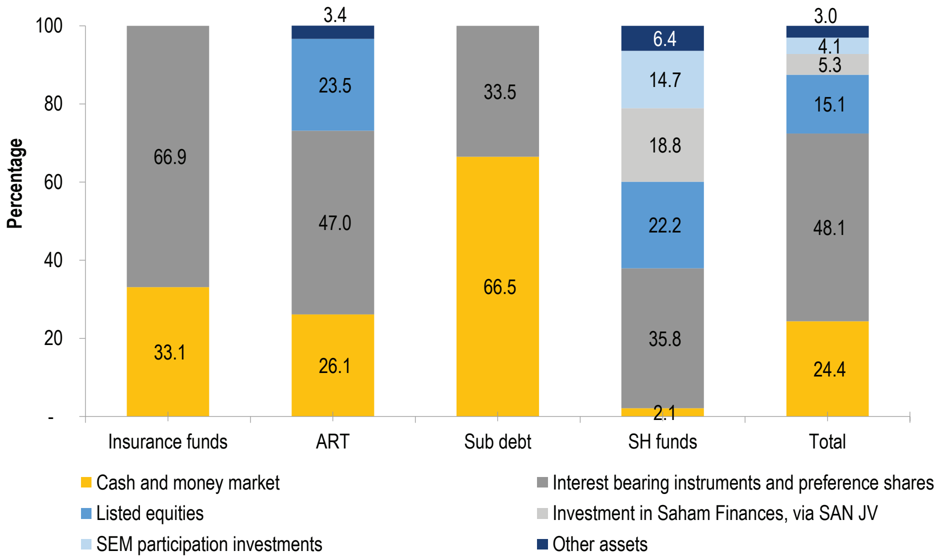




Based on gross written premium

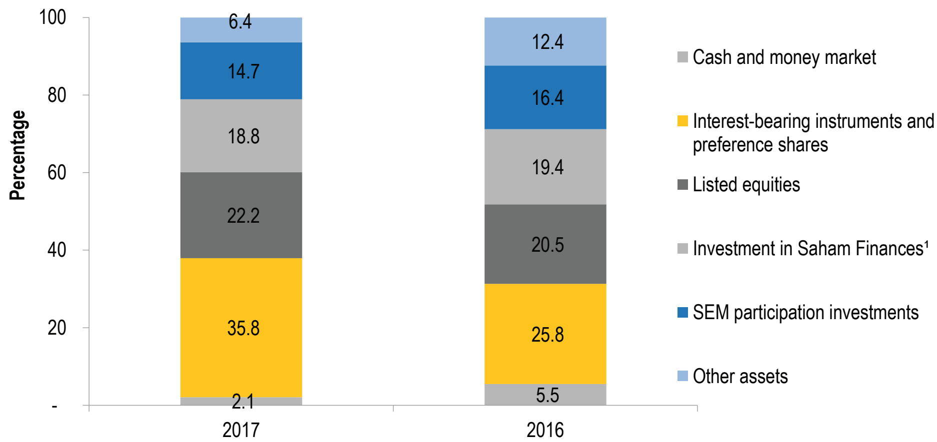
ASSET / LIABILITY MATCHING

GROUP CONSOLIDATED ASSETS AT 31 DECEMBER 2017



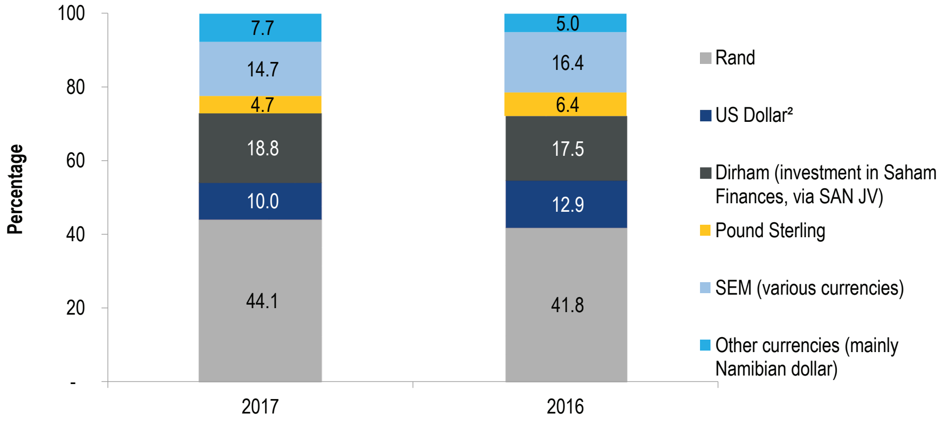
SHAREHOLDER FUNDS

ASSET MIX



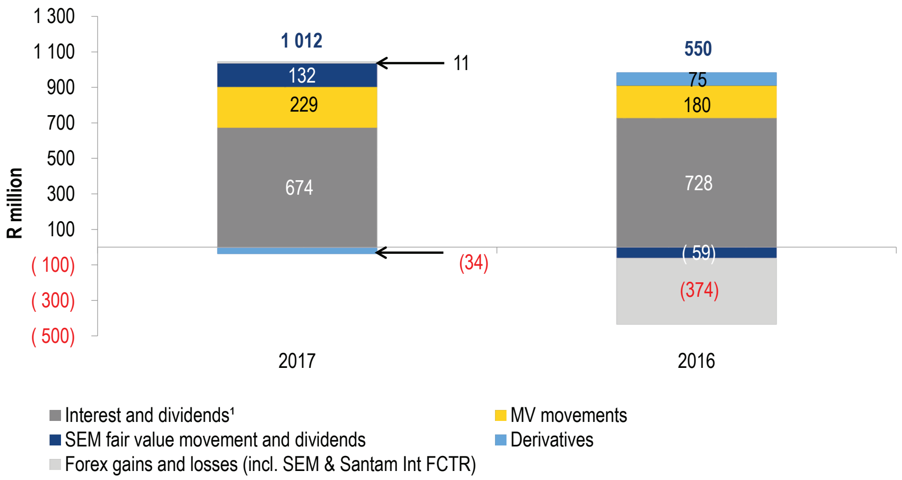
1) 2016 includes USD 10 million cash designated for the further subscription of shares in Saham Finances, via SAN JV

SHAREHOLDER FUNDS
CURRENCY MIX[1]



1) Includes foreign denominated assets, as well as assets with foreign currency exposure
2) Includes cash designated for the Saham Finances transaction (2017: Nil; 2016: USD10 million)

INVESTMENT RETURN
ON SHAREHOLDERS' FUNDS



1) 2016 Includes Cardrow Insurance Limited dividend, net of the fair value movement (R13 million)

SEM PARTNER BUSINESSES

ANALYSIS OF SANTAM'S SHARE OF NET INVESTMENT

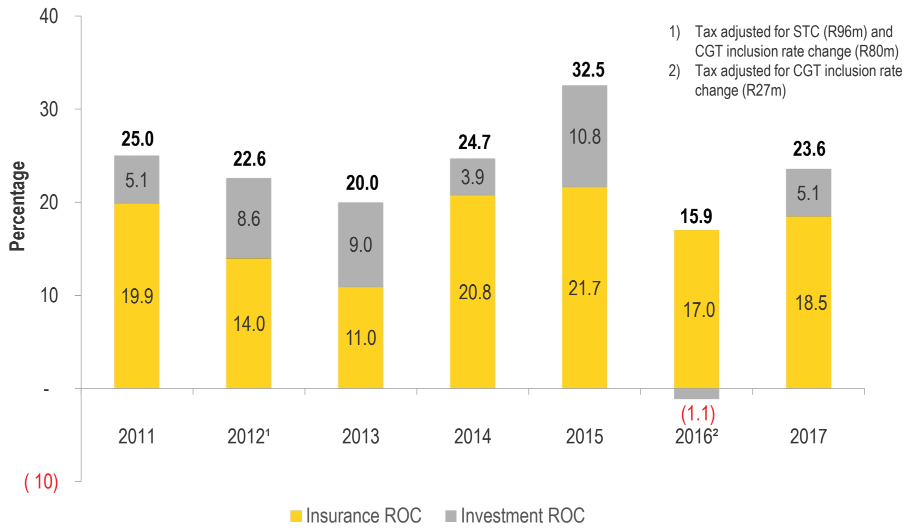
REGION	CARRYING VALUE 2016	ADDITIONS /(DISPOSALS)	FAIR VALUE MOVEMENTS		CARRYING VALUE 2017
			CHANGE IN EXCHANGE RATES	CHANGE IN VALUATION	
	R'm	R'm	R'm	R'm	R'm
Africa	270	(103)	(33)	92	226
Southeast Asia	245	-	-	(58)	187
India	612	-	(24)	88	676
TOTAL	**1 127**	**(103)**	**(57)**	**122**	**1 089**

CAPITAL MANAGEMENT

100 YEARS OF INSURANCE GOOD AND PROPER santam

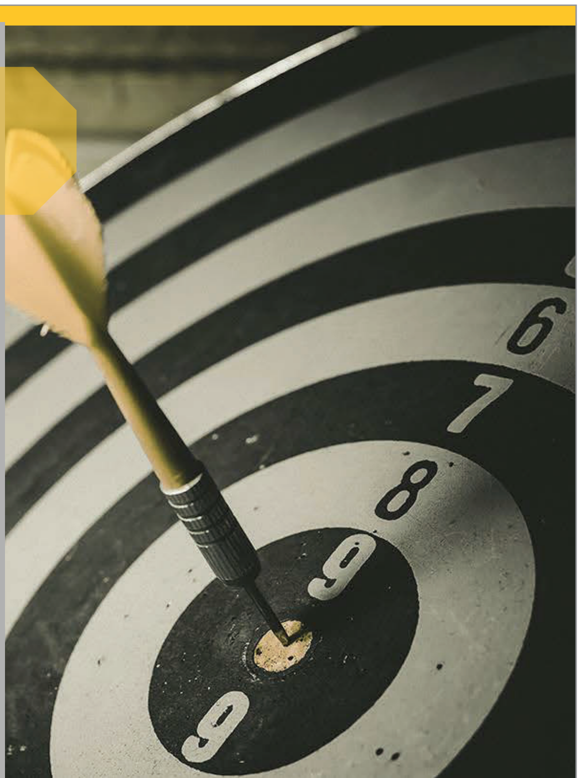
RETURN ON CAPITAL

NET INCOME EXPRESSED AS % OF WEIGHTED AVERAGE SHAREHOLDERS' FUNDS

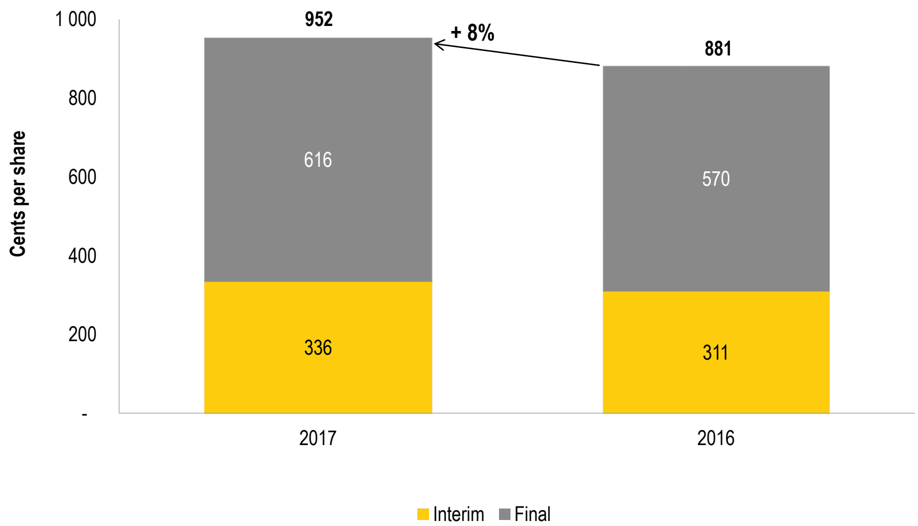


CAPITAL MANAGEMENT

- Group economic capital coverage ratio target of **130% - 170%**
- Economic capital coverage ratio for the Group as at 31 December 2017 of **158%**
- Capital requirements under SAM – will be confirmed through the Internal Model Approval Process (IMAP)



DIVIDEND PER SHARE



GROUP STRATEGY AND PRIORITIES

100 YEARS OF INSURANCE GOOD AND PROPER

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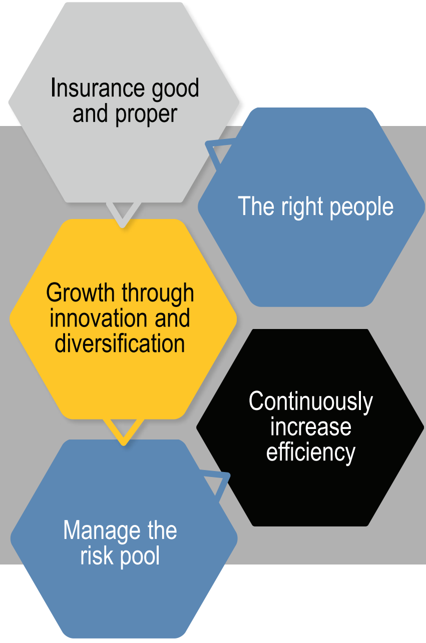
2020 VISION:
MAKING SOLID PROGRESS ON OUR 5 FOCUS AREAS FOR VALUE

OUR METRICS:

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

IN CONTEXT OF:

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



PRIORITIES FOR 2018

- Develop a “future fit” strategy
  - Innovation and technology
  - Clients, Markets and new business models
  - International growth and footprint
  - People
  - ESG factors
- Continue to balance profitable growth with optimal cost ratio
- Maintain continuous underwriting improvement - focus on properties
- Further deepen our work with partners to reduce risk and improve resilience
  - municipal disaster risk reduction
  - industry level fire learnings
  - food and agriculture systemic risk
- Continue to work with industry on wider economic transformation
- Implement regulations

DOING MUCH MORE THAN JUST INSURANCE

Creating employment for more than **5900 people**

Level 2 B-BBEE rating according to the Financial Sector Charter (FSC)

We settled **R19bn in claims in 2017**, safeguarding our clients' valuables and standing true to insurance good and proper

Rated as top short-term insurer by clients and intermediaries

- South African Customer Satisfaction Index 2017
- Financial Intermediaries Association (FIA) 2017

On track to impact **5 million** South Africans through our Partnership for Risk and Resilience (P4RR). **SASRIA and COGTA** joined initiative

Santam Resilient Investment Fund has grown to R122,5 million. To date the fund has invested in 10 SMMEs

Fighting Fire Risks in vulnerable communities

- Donated 5000 fire alarms to save lives
- Donated millions in fire equipment
- Trained 20 000 people

Building a Sustainable Insurance Environment
Signed a landmark agreement to counter illegal fishing

100 YEARS OF INSURANCE GOOD AND PROPER santam

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

Insurance good and proper **now**.

Insurance good and proper **always**.

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FOR THE YEAR ENDED 31 DECEMBER 2017

santam

100

YEARS OF INSURANCE
GOOD AND PROPER

TABLE OF CONTENTS

Group gross written premium growth 15%	Conventional insurance gross written premium growth 10%
Conventional insurance underwriting margin 6.0%	Group underwriting margin 6.0%
Capital coverage ratio 158%	Return on shareholders' funds 23.6%
Earnings per share increased 37%	Headline earnings per share increased 31%

Final dividend of 616 cents per share, up 8%

FINANCIAL REVIEW

The Santam group reported excellent growth of 15%, and delivered a solid underwriting result under difficult circumstances.

The group has revised the presentation of its insurance results in the following segments:

- Conventional insurance business written on insurance licences controlled by the group consists 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 consists of business written on the insurance licences of Centriq Insurance and Santam Structured Insurance.
- Santam's share of the insurance results of the Sanlam Emerging Markets (SEM) general insurance businesses (including Saham Finances).

The group's conventional insurance book achieved excellent gross written premium growth of 10% and a net underwriting margin of 6% (2016: 6.5%), which was at the midpoint of the group's target range of 4% to 8%. The ART insurance segment grew by 61% following the acquisition of RMB Structured Insurance (rebranded to Santam Structured Insurance) and achieved solid operating results. The SEM general insurance businesses delivered improved operating results, with good contributions from the Saham Finances Group and Shriram General Insurance in India.

Investment income, inclusive of fair value movements on financial assets and liabilities, of R1 374 million (net of return allocated to cell owners and policyholders) was significantly higher than the R832 million reported in the comparative period in 2016. The increase was mainly due to the positive fair value adjustments on the investment portfolios and the release of foreign currency gains on the winding up of Santam International.

Cash generated from operations increased to R3.3 billion (2016: R2.2 billion), positively impacted by an improvement in investment income and working capital levels.

The key driver of the 31% increase in headline earnings per share from 1 086 cps in 2016 to 1 425 cps in 2017 was the increase in investment income. A return on capital of 23.6% was achieved.

CONVENTIONAL INSURANCE

The conventional insurance business reported a net underwriting margin of 6.0% compared to the 6.5% reported in 2016. The current period margin was impacted by significant catastrophe claims, as well as several large commercial fire claims during the first half of 2017. Excellent gross premium growth of 10% (2016: 6.5%) was achieved, including a book acquisition, which contributed growth of 1.0%. The focus on international diversification continued to reflect positively on growth, with gross written premiums from outside of South Africa written on the Santam Ltd and Santam Namibia Ltd licences increasing by 15% to R3 200 million (2016: R2 783 million).

The property class reported growth of 13% on the back of strong organic growth on the personal lines and commercial portfolios, as well as the acquisition of a new block of commercial business. The motor class grew by 10%, with MiWay reporting 10% growth (gross written premium of R2 319 million; 2016: R2 101 million). MiWay saw a slowdown in growth in the second half of the year due to the increased focus on profitability during 2017. The commercial and personal lines intermediated business reported strong growth in the motor class in difficult economic conditions.

The liability class came under significant competitive pressure and reported premium growth of only 2%. Engineering reported growth of 8%, despite the negative impact of fewer large construction projects.

The accident and health class reported growth of 29%, mainly driven by growth in Santam re as well as the travel insurance business. The crop business reported a contraction in premium of 16%, impacted by less hectares being planted given prevailing weather conditions and lower commodity prices.

On 6 June 2017, and through to 8 June 2017, a severe storm hit the Western Cape that resulted in extensive property damage in Cape Town and environs, and a devastating firestorm in the Southern Cape (including large parts of Knysna) destroyed a large number of properties in its wake. Santam incurred gross claims of R823 million and R174 million on a net basis including reinsurance reinstatement premiums.

Santam's ability to support clients in trying times was again put to the test in October 2017 when severe storms hit Gauteng and KwaZulu-Natal, resulting in significant flood damage. The impact on gross claims of this event was R1 096 million with a net impact, after reinstatement premiums, of R186 million. The normalised net underwriting margin, excluding the impact of these two catastrophe events, was 7.7%.

In addition to the catastrophe events, the underwriting performance of the commercial and corporate property class came under pressure after an increase in large property claims during the first half of 2017. During tough economic times, claims often arise as maintenance and safety standards are compromised, public service delivery falters, and fraud and arson, which are often difficult to prove, increase. The poor underwriting performance of the property book has been receiving strategic focus during the second half of 2017 by expanding capacity in the areas of risk management and surveying, implementing premium rate increases, reducing exposure to certain types of risk, and increasing the level of risk sharing and risk management in collaboration with clients. These actions, as well as a lower incidence of large property claims, have resulted in an improvement of the property underwriting results during the latter part of 2017.

The motor class reported strong underwriting performance in both the intermediated and direct distribution channels. MiWay reported excellent results following an improvement in the claims ratio net of catastrophe reinsurance recoveries to 56.9% (2016: 62.7%) as it was positively impacted by disciplined underwriting. The MiWay business contributed an underwriting profit of R317 million (2016: R178 million).

The engineering class of business achieved excellent underwriting results with limited claims activity during 2017, while the guarantee class of business was negatively impacted by the challenging economic environment. The liability class was impacted by a number of large claims and estimate adjustments, and reported underwriting results significantly lower than the strong results reported in 2016. The crop insurance business was negatively impacted by significant hail claims during the weekend of 30 December 2017; it, however, still achieved excellent net underwriting results of R114 million (2016: R69 million), mainly due to the low incidence of drought claims during this period.

Santam re delivered excellent growth and good underwriting results on third-party business, despite the impact of the catastrophe events on the South African book of business.

Following the significant losses incurred by the reinsurance market during 2017, Santam's deductible per catastrophe event increased to R150 million (2017: R100 million) for the 2018 financial year.

The net acquisition cost ratio of 28.1% decreased from 28.6% in 2016. The management expense ratio decreased from 16.3% in 2016 to 16.0% in 2017, after being positively impacted by a continued focus on improved efficiencies, partially offset by the growth initiatives relating to MiWay Business Insurance and Santam Direct.

Strategic project costs, included as part of management expenses, amounted to 0.8% of net earned premium (2016: 0.9%). These costs mainly relate to the continued development of a new core underwriting, administration and product management platform for the Santam intermediated business. The project is progressing according to plan, with most of personal lines policies now being managed on the new platform, as well as majority of new business quotes for commercial business products. The migration process for commercial business products is also well underway. Santam will maintain its focus on cost efficiencies to improve the management expense ratio over the medium term.

The net commission ratio was 12.1% (2016: 12.3%), positively impacted by reinsurance profit commission on treaty and facultative arrangements.

The investment return on insurance funds increased to R584 million (2016: R558 million), supported by higher average insurance funds for the period, as well as the good investment performance of the investment portfolios backing the insurance funds.

ALTERNATIVE RISK TRANSFER INSURANCE (ART)

During March 2017, the Santam group acquired a shareholding of 100% (economic interest of 90%) in RMB Structured Insurance (rebranded as Santam Structured Insurance) for R193 million in cash.

The ART business reported growth of 61% with gross written premium of R3 867 million (2016: R2 406 million). Centriq reported excellent growth of 16%. The acquisition of the Santam Structured Insurance book of business contributed R1 billion to the ART business. The ART business reported solid operating results before tax and minority interests of R84 million (2016: R78 million).

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

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

Santam's share of the gross written premium of these businesses increased by 23% (5% on a comparative basis) to R2 382 million (2016: R1 939 million) following the inclusion of the Saham Finances results for the full year (2016: ten months) and the additional 8% investment in SGI during the second half of 2016. Good growth was achieved across the other businesses in the portfolio, with the exception of P&O. Saham Finances achieved growth in gross written premium of 8% (on an annualised GWP basis) and SGI of 24%.

Santam's share of the net insurance result of these businesses increased to R244 million compared to R162 million in 2016. The portfolio of businesses achieved a net insurance margin of 13.6% compared to the 11.5% reported in 2016. The performance of Saham Finances and SGI were in line with the business plans. Santam's share of the SGI results was also positively impacted by R33 million of net realised profits recognised on the disposal of held-to-maturity fixed interest instruments included in the investment return on insurance funds. P&O continues to experience negative growth in competitive market conditions while maintaining acceptable underwriting margins.

The Sanlam Group entered into an agreement, in June 2017, to dispose of its various interests in the Enterprise Group in Ghana. In terms of the co-investment arrangement with SEM, Santam, which had an economic interest of 14% in Enterprise Insurance Company (EIC), disposed of its interest in EIC with a carrying value of R68 million for R105 million.

INVESTMENT RESULTS

Listed equities achieved a return of 19.7% for the year ending 31 December 2017, relative to the SWIX benchmark of 21.2%. The lag in performance was mostly as a result of the fund's overweight position in relation to the Steinhoff Group.

After experiencing challenging underwriting conditions in the first half of 2017, on 31 July 2017, the group entered into a zero cost collar on equities to the value of R1.2 billion, based on the SWIX 40, providing full downside protection from the implementation level at the time, with upside participation (excluding dividends) of 2.2%. The SWIX 40 delivered a return of 7% between implementation and the maturity date of 21 December 2017 and Santam had to pay a settlement amount of R58 million. Santam's annualised equity performance, net of the hedge settlement amounted to 15%.

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

Exchange rate volatility due to the strengthening of the Rand in 2017 continued to impact the investment results resulting in a foreign exchange loss of R116 million (2016: R228 million).

Positive fair value movements (excluding the impact of currency movements) of R122 million (2016: negative movement of R67 million) in Santam's interest in SEM's general insurance businesses in Africa, India and Southeast Asia contributed to the improved investment performance.

Net earnings from associated companies of R110 million increased from the R67 million reported in 2016 following the inclusion of the results of Saham Finances for the full year (acquired March 2016), which contributed earnings of R65 million in 2017 (2016: R43 million). The other key contributor to earnings from associated companies was Western Group Holdings Ltd.

During June 2017, the company successfully issued additional unsecured subordinated debt to the value of R1 billion in anticipation of the redemption of the R1 billion subordinated debt issued in 2007, which was redeemed in September 2017.

PROSPECTS

Trading conditions remain very competitive in a low-growth economic environment, which translates into limited growth of insurable assets for the insurance industry. Real annual GDP of 0.8%, by the end of quarter 3 of 2017, and inflation (average CPI) of 4.7% was reported in 2017. We are, however, hopeful that new political leadership in South Africa will create an environment in which economic stagnation is arrested and, in time, turned around. A rebound in the economy will not only enhance growth prospects, but also potentially reduce levels of crime, arson, and fraud – all of which have put pressure on claims costs in recent years.

FINANCIAL REVIEW

The group's focus remains on growing profitably in South Africa and to increase its international diversification through the Santam Specialist Business and Santam re. International diversification is supported by close collaboration with the SEM general insurance businesses, which utilises the extensive emerging markets footprint to source new business opportunities. Santam continues to focus strategically on supporting the development of the SEM general insurance businesses by allocating appropriate technical resources. In South Africa, continued focus is placed on the development of Santam's full multichannel capability.

Following the significant catastrophe events experienced during 2017, reinsurance rates have increased in 2018. Underwriting actions will continue to focus on the commercial and corporate property class of business, taking the increased reinsurance rates into account. We will continue to work with local municipalities to reduce risk and improve resilience.

The group remains focused on balancing profitable growth with efficiency to improve the management expense ratio over the medium term, and to optimise the claims and procurement value chains.

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

The calls for transformation and economic inclusivity demand a deeper and fresher way of thinking to build an inclusive and cohesive society. The group's transformation priorities are focused on the promotion of a diverse workforce, intermediary and supplier base; access to insurance products by non-traditional markets; and further impactful investment in communities.

The group economic capital requirement at 31 December 2017, based on the Santam internal economic model, amounted to R6 billion (2016: R5.8 billion). This resulted in an economic capital coverage ratio of 158% (2016: 155%), slightly above the midpoint of the target range of 130% to 170%.

We remain committed to efficient capital management.

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.

DECLARATION OF ORDINARY DIVIDEND (NUMBER 128)

Notice is hereby given that the board has declared a gross final dividend of 616.00 cents per share (2016: 570 cents per share), 492.80 cents net of dividend withholding taxation, where applicable, per ordinary share for the year ended 31 December 2017 to those members registered on the record date, being Friday, 23 March 2018.

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

Share code:	SNT
ISIN:	ZAE000093779
Company registration number:	1918/001680/06
Company tax reference number:	9475/144/71/4
Gross cash dividend amount per share:	616.00 cents
Net dividend amount per share:	492.80 cents
Issued shares at 1 March 2018:	115 131 417
Declaration date:	1 March 2018
Last day to trade cum dividend:	Monday, 19 March 2018
Shares trade ex-dividend:	Tuesday, 20 March 2018
Record date:	Friday, 23 March 2018
Payment date:	Monday, 26 March 2018

Share certificates may not be dematerialised or rematerialised between Tuesday, 20 March 2018, and Friday, 23 March 2018, both days inclusive.

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

APPRECIATION

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

PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

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

L Lambrechts

GG Gelink
Chairman

L Lambrechts
Chief executive officer

28 February 2018

TO THE SHAREHOLDERS OF SANTAM LTD

OPINION

The summary consolidated financial statements of Santam Ltd, set out on pages 66 to 84 of the presentation to analysts, which comprise the summary consolidated statement of financial position as at 31 December 2017, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Santam Ltd for the year ended 31 December 2017.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the JSE Limited's (JSE) requirements for summary financial statements, as set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 28 February 2018. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

DIRECTORS' RESPONSIBILITY FOR THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the JSE's requirements for summary financial statements, set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
Director: Zuhdi Abrahams
Registered auditor
Cape Town

28 February 2018

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Audited As at 31 December 2017 R million	Audited As at 31 December 2016 R million
ASSETS			
Non-current assets			
Property and equipment		135	106
Intangible assets		841	885
Deferred income tax		91	105
Investment in associates and joint ventures		1 789	1 536
Financial assets at fair value through income	6	17 554	13 430
Reinsurance assets	7	202	140
Deposit with cell owners		129	163
Total non-current assets		20 741	16 365
Current assets			
Cell owners' and policyholders' interest		10	7
Financial assets at fair value through income	6	2 182	1 362
Reinsurance assets	7	5 622	4 349
Deposit with cell owners		45	56
Deferred acquisition costs		537	469
Loans and receivables including insurance receivables	6	5 253	3 754
Income tax assets		17	19
Cash and cash equivalents		4 321	2 887
Non-current assets held for sale	8	–	8
Total current assets		17 987	12 911
Total assets		38 728	29 276
EQUITY AND LIABILITIES			
Capital and reserves attributable to the company's equity holders			
Share capital		103	103
Treasury shares		(470)	(472)
Other reserves		(214)	(41)
Distributable reserves		7 999	7 286
		7 418	6 876
Non-controlling interest		506	469
Total equity		7 924	7 345
Non-current liabilities			
Deferred income tax		87	101
Financial liabilities at fair value through income			
Debt securities	6	2 031	2 005
Investment contracts		1 583	–
Cell owners' and policyholders' interest		3 227	1 153
Insurance liabilities	7	1 789	1 312
Reinsurance liability relating to cell owners		129	163
Total non-current liabilities		8 846	4 734
Current liabilities			
Financial liabilities at fair value through income			
Debt securities	6	25	48
Investment contracts	6	120	101
Financial liabilities at amortised cost			
Collateral guarantee contracts		130	123
Insurance liabilities	7	16 059	12 284
Reinsurance liability relating to cell owners		45	56
Deferred reinsurance acquisition revenue		326	273
Provisions for other liabilities and charges		106	71
Trade and other payables including insurance payables	6	4 953	4 093
Current income tax liabilities		194	148
Total current liabilities		21 958	17 197
Total liabilities		30 804	21 931
Total shareholders' equity and liabilities		38 728	29 276

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Audited Year ended 31 December 2017 R million	Audited Year ended 31 December 2016 R million	Change
Gross written premium		**29 720**	25 909	15%
Less: reinsurance written premium		**8 027**	6 137	
Net written premium		**21 693**	19 772	10%
Less: change in unearned premium				
Gross amount		**648**	137	
Reinsurers' share		**(285)**	(191)	
Net insurance premium revenue		**21 330**	19 826	8%
Investment income	9	**1 335**	777	72%
Income from reinsurance contracts ceded		**1 794**	1 337	
Net gains on financial assets and liabilities at fair value through income	9	**427**	42	
Investment income and fair value losses on financial assets held for sale	9	**175**	13	
Other income		**127**	–	
Net income		**25 188**	21 995	14%
Insurance claims and loss adjustment expenses		**20 466**	17 100	
Insurance claims and loss adjustment expenses recovered from reinsurers		**(6 400)**	(4 189)	
Net insurance benefits and claims		**14 066**	12 911	9%
Expenses for the acquisition of insurance contracts		**4 218**	3 716	
Expenses for marketing and administration		**3 652**	3 247	
Expenses for investment-related activities		**67**	70	
Amortisation and impairment of intangible assets		**71**	51	
Investment return allocated to cell owners and structured insurance products		**563**	–	
Total expenses		**22 637**	19 995	12%
Results of operating activities		**2 551**	2 000	28%
Finance costs		**(295)**	(212)	
Net income from associates and joint ventures		**110**	67	
Profit on sale of associates	11	**5**	–	
Gain on dilution of associate	11	**18**	–	
Reclassification of foreign currency translation reserve on dilution of associate	11	**(90)**	–	
Impairment of associates		**(3)**	–	
Profit before tax		**2 296**	1 855	24%
Income tax expense	10	**(489)**	(524)	
Profit for the year		**1 807**	1 331	36%
Other comprehensive income, net of tax				
Items that may subsequently be reclassified to income:				
Currency translation differences		**(3)**	(197)	
Release of translation differences on financial assets held for sale		**(175)**	–	
Share of associates' currency translation differences		**(41)**	(255)	
Reclassification of foreign currency translation reserve on dilution of associate		**90**	–	
Hedging reserve movement		**6**	(140)	
Total comprehensive income for the year		**1 684**	739	128%
Profit attributable to:				
– equity holders of the company		**1 667**	1 212	38%
– non-controlling interest		**140**	119	
		1 807	1 331	
Total comprehensive income attributable to:				
– equity holders of the company		**1 544**	620	149%
– non-controlling interest		**140**	119	
		1 684	739	
Earnings attributable to equity shareholders				
Earnings per share (cents)	12			
Basic earnings per share		**1 511**	1 100	37%
Diluted earnings per share		**1 496**	1 088	38%
Weighted average number of ordinary shares (millions)		**110.30**	110.21	
Weighted average number of ordinary shares for diluted earnings per share (millions)		**111.43**	111.37	

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company					Non-	
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	Total R million	controlling interest R million	Total R million
Balance as at 1 January 2016	**103**	**(450)**	**548**	**7 880**	**8 081**	**466**	**8 547**
Profit for the year	–	–	–	1 212	**1 212**	119	**1 331**
Other comprehensive income:							
Currency translation differences	–	–	(197)	–	**(197)**	–	**(197)**
Share of associates' currency translation differences	–	–	(255)	–	**(255)**	–	**(255)**
Hedging reserve movement	–	–	(140)	–	**(140)**	–	**(140)**
Total comprehensive income for the year ended 31 December 2016	**–**	**–**	**(592)**	**1 212**	**620**	**119**	**739**
Issue of treasury shares in terms of share option schemes	–	76	–	(76)	**–**	–	**–**
Purchase of treasury shares	–	(98)	–	–	**(98)**	–	**(98)**
Transfer to reserves	–	–	3	(3)	**–**	–	**–**
Share-based payment costs	–	–	–	79	**79**	–	**79**
Dividends paid	–	–	–	(1 806)	**(1 806)**	(116)	**(1 922)**
Balance as at 31 December 2016	**103**	**(472)**	**(41)**	**7 286**	**6 876**	**469**	**7 345**
Profit for the year	–	–	–	1 667	**1 667**	140	**1 807**
Other comprehensive income:							
Currency translation differences	–	–	(3)	–	**(3)**	–	**(3)**
Release of translation differences on financial assets held for sale	–	–	(175)	–	**(175)**	–	**(175)**
Share of associates' currency translation differences	–	–	(41)	–	**(41)**	–	**(41)**
Reclassification of foreign currency translation reserve on dilution of associate	–	–	90	–	**90**	–	**90**
Hedging reserve movement	–	–	6	–	**6**	–	**6**
Total comprehensive income for the year ended 31 December 2017	**–**	**–**	**(123)**	**1 667**	**1 544**	**140**	**1 684**
Issue of treasury shares in terms of share option schemes	–	78	–	(78)	**–**	–	**–**
Purchase of treasury shares	–	(76)	–	–	**(76)**	–	**(76)**
Release of contingency reserve	–	–	(50)	50	**–**	–	**–**
Share-based payment costs	–	–	–	77	**77**	–	**77**
Dividends paid	–	–	–	(1 003)	**(1 003)**	(103)	**(1 106)**
Balance as at 31 December 2017	**103**	**(470)**	**(214)**	**7 999**	**7 418**	**506**	**7 924**

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Audited Year ended 31 December 2017 R million	Audited Year ended 31 December 2016 R million
Cash flows from operating activities			
Cash generated from operations		3 289	2 171
Interest paid		(252)	(161)
Income tax paid		(543)	(681)
Net cash from operating activities		2 494	1 329
Cash flows from investing activities			
Acquisition of financial assets		(20 322)	(17 594)
Proceeds from sale of financial assets		20 054	17 764
Settlement of zero cost collar		(58)	75
Cash acquired through acquisition of business, net of cash paid	11	852	70
Cash received through sale of subsidiaries	11	–	208
Purchases of equipment		(68)	(60)
Purchases of intangible assets		(27)	(50)
Proceeds from sale of equipment		3	2
Acquisition of associates and joint ventures	11	(152)	(1 467)
Capitalisation of associates	11	(23)	(10)
Proceeds from sale of associates	11	23	–
Settlement of deferred conditional right relating to non-current assets held for sale		–	509
Net cash from/(used in) investing activities		282	(553)
Cash flows from financing activities			
Purchase of treasury shares		(76)	(98)
Proceeds from issue of unsecured subordinated callable notes		1 000	1 000
Redemption of unsecured subordinated callable notes		(1 000)	–
(Decrease)/increase in investment contract liabilities		(32)	31
(Decrease)/increase in collateral guarantee contracts		(1)	12
Dividends paid to company's shareholders		(1 003)	(1 806)
Dividends paid to non-controlling interest		(103)	(116)
Decrease in cell owners' interest		(51)	(114)
Net cash used in financing activities		(1 266)	(1 091)
Net increase/(decrease) in cash and cash equivalents		1 510	(315)
Cash and cash equivalents at the beginning of year		2 887	3 349
Exchange losses on cash and cash equivalents		(76)	(147)
Cash and cash equivalents at end of year		4 321	2 887

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

1. **Basis of preparation**

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE for summary financial statements, and the requirements of the Companies Act applicable to summary financial statements. The JSE requires summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

2. **Accounting policies**

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except for those referred to below:

The following new IFRSs and/or IFRICs were effective for the first time from 1 January 2017:

- Amendment to IAS 7 *Statement of Cash Flows*
- Amendment to IAS 12 *Income Taxes*
- Annual improvements 2014 – 2016

There was no material impact on the summary consolidated financial statements identified.

Of the standards that are not yet effective, management expects IFRS 9, IFRS 17 and IFRS 15 to have an impact on the group. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Based on management's assessment, the impact is not material. The summary consolidated financial statements do not include the full impact analysis and should be read in conjunction with the group's annual financial statements for the year ended 31 December 2017.

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021. The group is currently facilitating a programme to review the impact of the implementation and ensure a seamless transition.

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

3. **Estimates**

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

In preparing these summary consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated annual financial statements for the year ended 31 December 2017. There have been no changes since 31 December 2016.

4. **Risk management**

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

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

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

There have been no material changes to the risk management policies since 31 December 2016.

5. **Segment information**

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

The group conducts mainly insurance and investment activities.

Insurance activities:

The group has revised the presentation of its insurance results in the following segments:

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

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

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

As noted above, the presentation of insurance activities has been enhanced subsequent to the acquisition of SSI (refer to note 11). The comparative information has been restated to provide the information in the same enhanced format.

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

Investment activities:

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

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

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

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

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

5. **Segment information** (continued)

5.1 **For the year ended 31 December 2017**

Business activity	Insurance Conventional R million	Alternative risk R million	Santam's share of SEM R million	Total R million
Revenue	**25 853**	**3 867**	**2 382**	**32 102**
Net earned premium	20 893	437	1 790	**23 120**
Net claims incurred	13 753	313	1 344	**15 410**
Net commission	2 526	(102)	125	**2 549**
Management expenses (excluding BEE costs)[1]	3 354	206	433	**3 993**
Underwriting result	**1 260**	**20**	**(112)**	**1 168**
Investment return on insurance funds	584	64	356	**1 004**
Net insurance result	**1 844**	**84**	**244**	**2 172**
Other income[2]	84	43	–	**127**
Other expenses[2]	(86)	(43)	–	**(129)**
Operating result before non-controlling interest and tax	**1 842**	**84**	**244**	**2 170**
Reallocation of operating result[3]	–	–	(244)	**(244)**
Investment income/(losses) net of investment-related fees	–	563	84	**647**
Investment return allocated to cell owners and structured insurance products	–	(563)	–	**(563)**
Finance costs	–	–	–	**–**
Income from associates and joint ventures including profit on sale and impairment	–	–	65	**65**
Gain on dilution of associate	–	–	18	**18**
Reclassification of foreign currency translation reserve on dilution of associate	–	–	(90)	**(90)**
Santam BEE costs	–	–	–	**–**
Amortisation and impairment of intangible assets[1]	(31)	–	–	**(31)**
Income before taxation	**1 811**	**84**	**77**	**1 972**

[1] *Amortisation of computer software included as part of management expenses. Santam's share of the costs to manage the SEM portfolio of R33 million has been included in management expenses.*

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

[3] *Reconciling items consist of the reallocation of net insurance results relating to the underlying investments included in strategic diversification activities for management reporting purposes.*

For the year ended 31 December 2016 (restated)

Business activity	Insurance Conventional R million	Alternative risk R million	Santam's share of SEM R million	Total R million
Revenue	**23 503**	**2 406**	**1 939**	**27 848**
Net earned premium	19 245	581	1 414	**21 240**
Net claims incurred	12 482	429	982	**13 893**
Net commission	2 374	5	121	**2 500**
Management expenses (excluding BEE costs)[1]	3 137	131	369	**3 637**
Underwriting result	**1 252**	**16**	**(58)**	**1 210**
Investment return on insurance funds	558	61	220	**839**
Net insurance result	**1 810**	**77**	**162**	**2 049**
Other income[2]	89	38	–	**127**
Other expenses[2]	(89)	(37)	–	**(126)**
Operating result before non-controlling interest and tax	**1 810**	**78**	**162**	**2 050**
Reallocation of operating result[3]	–	–	(162)	**(162)**
Investment income/(losses) net of investment-related fees	–	202	(213)	**(11)**
Investment return allocated to cell owners and structured insurance products	–	(202)	–	**(202)**
Finance costs	–	–	–	**–**
Income from associates including profit on sale	–	–	43	**43**
Santam BEE costs	–	–	–	**–**
Amortisation and impairment of intangible assets[1]	(21)	–	–	**(21)**
Income before taxation	**1 789**	**78**	**(170)**	**1 697**

[1] *Amortisation of computer software included as part of management expenses. Santam's share of the costs to manage the SEM portfolio of R22 million has been included in management expenses.*

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

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

Investment R million	Total R million	Reconciling and unallocated R million	IFRS Total R million
689	32 791	(3 071)	29 720
–	23 120	(1 790)	21 330
–	15 410	(1 344)	14 066
–	2 549	(125)	2 424
–	3 993	(433)	3 560
–	1 168	112	1 280
–	1 004	(356)	648
–	2 172	(244)	1 928
–	127	–	127
–	(129)	–	(129)
–	2 170	(244)	1 926
–	(244)	244	–
575	1 222	–	1 222
–	(563)	–	(563)
(295)	(295)	–	(295)
47	112	–	112
–	18	–	18
–	(90)	–	(90)
–	–	(3)	(3)
–	(31)	–	(31)
327	2 299	(3)	2 296

Investment R million	Total R million	Reconciling and unallocated R million	IFRS Total R million
449	28 297	(2 388)	25 909
–	21 240	(1 414)	19 826
–	13 893	(982)	12 911
–	2 500	(121)	2 379
–	3 637	(369)	3 268
–	1 210	58	1 268
–	839	(220)	619
–	2 049	(162)	1 887
–	127	–	127
–	(126)	–	(126)
–	2 050	(162)	1 888
–	(162)	162	–
355	344	–	344
–	(202)	–	(202)
(212)	(212)	–	(212)
24	67	–	67
–	–	(9)	(9)
–	(21)	–	(21)
167	1 864	(9)	1 855

5. **Segment information** (continued)

5.2 **Additional information on insurance activities**

	2017 Gross written premium R million	2017 Underwriting result R million	2016 Gross written premium R million	2016 Underwriting result R million
Insurance activities				
The group's conventional insurance activities are spread over various classes of general insurance.				
Accident and health	**482**	**58**	374	49
Crop	**829**	**114**	984	69
Engineering	**1 290**	**296**	1 196	196
Guarantee	**182**	**(18)**	86	(31)
Liability	**1 227**	**85**	1 202	301
Miscellaneous	**4**	**2**	9	(3)
Motor	**12 125**	**860**	11 004	622
Property	**9 000**	**(165)**	7 972	22
Transportation	**714**	**28**	676	27
Total	**25 853**	**1 260**	23 503	1 252
Comprising:				
Commercial insurance	**14 589**	**513**	13 330	735
Personal insurance	**11 264**	**747**	10 173	517
Total	**25 853**	**1 260**	23 503	1 252

5.3 **Additional information on investment activities**

	2017 R million	2016 R million
Investment activities		
The group's return on investment-related activities can be analysed as follows:		
Investment income	**557**	158
Net gains on financial assets and liabilities at fair value through income	**85**	267
Income from associates and joint ventures	**47**	24
Investment-related revenue	**689**	449
Expenses for investment-related activities	**(67)**	(70)
Finance costs	**(295)**	(212)
Net total investment-related transactions	**327**	167

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

5.4 Additional information on Santam's share of SEM

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

For the year ended 31 December 2017

	SEM R million	SAN JV (Saham Finances) R million	Total R million
Revenue	**1 267**	**1 115**	**2 382**
Net earned premium	881	909	**1 790**
Net claims incurred	723	621	**1 344**
Net commission	30	95	**125**
Management expenses (excluding BEE costs)	236	197	**433**
Underwriting result	**(108)**	**(4)**	**(112)**
Investment return on insurance funds	234	122	**356**
Net insurance result/operating result	**126**	**118**	**244**
Reallocation of operating result[1]	(126)	(118)	**(244)**
Investment income net of investment-related fees	84	–	**84**
Income from associates and joint ventures	–	65	**65**
Gain on dilution of associate	–	18	**18**
Reclassification of foreign currency translation reserve on dilution of associate	–	(90)	**(90)**
Income/(loss) before taxation	**84**	**(7)**	**77**

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

For the year ended 31 December 2016

	SEM R million	SAN JV (Saham Finances) R million	Total R million
Revenue	**962**	**977**	**1 939**
Net earned premium	665	749	**1 414**
Net claims incurred	484	498	**982**
Net commission	32	89	**121**
Management expenses (excluding BEE costs)	184	185	**369**
Underwriting result	**(35)**	**(23)**	**(58)**
Investment return on insurance funds	119	101	**220**
Net insurance result/operating results	**84**	**78**	**162**
Reallocation of operating result[1]	(84)	(78)	**(162)**
Investment loss net of investment-related fees	(213)	–	**(213)**
Income from associates including profit on sale	–	43	**43**
(Loss)/income before taxation	**(213)**	**43**	**(170)**

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

5. **Segment information** (continued)

5.5 **Geographical analysis**

	Gross written premium	
	31 December 2017 R million	31 December 2016 R million
South Africa	**26 520**	23 126
Rest of Africa[1]	**3 810**	3 479
Southeast Asia, India, Middle East and China[2]	**1 549**	1 009
Other[3]	**223**	234
	32 102	27 848
Reconciling items[4]	**(2 382)**	(1 939)
Group total	**29 720**	25 909

	Non-current assets	
	31 December 2017 R million	31 December 2016 R million
South Africa	**1 125**	1 126
Rest of Africa	**1 967**	1 670
Southeast Asia, India, Middle East and China	**886**	857
	3 978	3 653

[1] *Includes gross written premium of R1 197 million (Dec 2016: R1 118 million) relating to Namibia.*
[2] *Includes gross written premium of R119 million (Dec 2016: R116 million) relating to China.*
[3] *Includes gross written premium predominantly relating to Europe.*
[4] *Reconciling items relate to the underlying investments SEM and SAN JV (Saham Finances) for management reporting purposes.*

	Audited As at 31 December 2017 R million	Audited As at 31 December 2016 R million
6. Financial assets and liabilities		
The group's financial assets are summarised below by measurement category.		
Financial assets		
Financial assets at fair value through income	**19 736**	14 792
Loans and receivables	**5 253**	3 754
	24 989	18 546
Financial liabilities		
Financial liabilities at fair value through income	**3 759**	2 154
Financial liabilities at amortised cost	**130**	123
Trade and other payables	**4 953**	4 093
	8 842	6 370

Financial instruments measured at fair value on a recurring basis

The table that follows analyses financial instruments, carried at fair value through income, by valuation method. There were no significant changes in the valuation methods applied since 31 December 2016. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Input other than quoted prices included within level 1 that is observable for the asset or liability, either directly (that is, by prices) or indirectly (that is, derived from prices). The fair value of level 2 instruments is predominantly determined using discounted cash flow models based on market observable input.
- Level 3: Input for the asset or liability that is not based on observable data (that is, unobservable input).

All government and corporate bonds were transferred from level 1 to level 2 during the second half of 2016 based on management's assessment of an active market for debt instruments. There were no significant transfers between level 1 and level 2 during the current year.

All derivative instruments are classified as investments held for trading. The rest of the investment portfolio is designated as financial assets at fair value through income based on the principle that the entire portfolio is managed on a fair value basis and reported as such to the investment committee.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

31 December 2016 Financial assets at fair value through income				
Equity securities				
Quoted				
Listed	1 321	–	–	**1 321**
Irredeemable preference shares	2	–	–	**2**
Unquoted	–	–	1 181	**1 181**
Total equity securities	**1 323**	**–**	**1 181**	**2 504**
Debt securities				
Quoted				
Government and other bonds	–	2 469	–	**2 469**
Collateralised securities	–	407	–	**407**
Money market instruments more than one year	–	2 592	–	**2 592**
Equity-linked notes	–	244	–	**244**
Unquoted				
Government and other bonds	–	151	–	**151**
Collateralised securities	–	10	–	**10**
Money market instruments more than one year	–	4 516	–	**4 516**
Redeemable preference shares	–	163	29	**192**
Total debt securities	**–**	**10 552**	**29**	**10 581**
Unitised investments				
Quoted				
Underlying equity securities	–	77	–	**77**
Underlying debt securities	–	268	–	**268**
Total unitised investments	**–**	**345**	**–**	**345**
Derivative instruments				
Exchange traded futures	–	1	–	**1**
Interest rate swaps[1]	–	–	–	**–**
Total derivative instruments	**–**	**1**	**–**	**1**
Short-term money market instruments	**–**	**1 361**	**–**	**1 361**
Total financial assets at fair value through income	**1 323**	**12 259**	**1 210**	**14 792**

[1] *Carrying value as at 31 December 2016 is less than R1 million.*

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
6. Financial assets and liabilities (continued)				
31 December 2016 (continued)				
Financial liabilities at fair value through income				
Debt securities	–	2 053	–	2 053
Investment contracts	–	101	–	101
Total financial liabilities at fair value through income	–	2 154	–	2 154

The following table presents the changes in level 3 instruments:

31 December 2017	Equity securities R million	Debt securities R million	Short-term money market instruments R million	Derivatives R million	Total R million
Opening balance	1 181	29	–	–	**1 210**
Acquisitions	2	–	–	–	**2**
Business combination	–	(4)	–	–	**(4)**
Disposals	(106)	–	–	–	**(106)**
Settlements	–	–	–	58	**58**
Gains/(losses) recognised in profit or loss	66	–	–	(58)	**8**
Closing balance	**1 143**	**25**	**–**	**–**	**1 168**
31 December 2016					
Opening balance	1 019	65	44	(1)	**1 127**
Acquisitions	376	–	–	–	**376**
Disposals	(2)	–	–	–	**(2)**
Settlements	–	–	–	(75)	**(75)**
Transfers between asset classes	–	44	(44)	–	**–**
Transfers to level 1 and/or 2	–	(90)	–	–	**(90)**
(Losses)/gains recognised in profit or loss	(212)	10	–	76	**(126)**
Closing balance	**1 181**	**29**	**–**	**–**	**1 210**

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

Of the R66 million gain (Dec 2016: R212 million loss) recognised on equity securities, a R65 million gain (Dec 2016: R212 million loss) relates to the SEM target shares, of which R57 million (Dec 2016: R145 million) relates to foreign exchange losses, and R122 million to an increase (Dec 2016: R67 million to a decrease) in fair value in local currency terms. Key drivers of the fair value movements of Santam's share of the SEM investment portfolio were:

- A downward adjustment to the value of the Pacific & Orient Insurance Co. Berhad (P&O) business in Malaysia of R58 million due to lower premium growth in competitive market conditions. There is a significant focus on expanding the current P&O product offering, and growth reported on non-motor business lines was positive.
- An increase in the value of Shriram General Insurance Company Ltd of R88 million was mainly attributed to good performance achieved in the Indian insurance market.

The fair value of the SEM target shares is determined using predominantly discounted cash flow models. The most significant assumptions used in these models are the discount rate, exchange rate and net insurance margin expectations. Should the discount rates increase or decrease by 10%, the cumulative value of the most significant target shares would decrease by R140 million (Dec 2016: R140 million) or increase by R211 million (Dec 2016: R213 million), respectively. If the relative foreign exchange rates increase or decrease by 10%, the cumulative fair values will increase or decrease by R86 million (Dec 2016: R85 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 R93 million (Dec 2016: R91 million) or decrease by R93 million (Dec 2016: R90 million), respectively.

At 31 December 2017, the group had exchange traded futures with an exposure value of R235 million (Dec 2016: R345 million). The group also had interest rate derivative assets as part of the international bond portfolio with a gross exposure asset and liability at 31 December 2017 of R33 million (Dec 2016: R27 million) and R33 million (Dec 2016: R27 million) respectively.

As at 31 December 2016, the interest rate derivative liabilities represented the fair value of interest rate swaps effected on a total of R100 million of fixed interest securities held in the investment portfolio underlining the subordinated callable notes. The interest rate swaps had the effect of swapping a variable interest rate for a fixed interest rate on these assets to eliminate interest rate risk on assets supporting the bond liability. The derivatives matured on 12 June 2017. The gross exposure asset and liability at 31 December 2016 amounted to R3 million and R3 million respectively.

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

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

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

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

In May 2016, a zero cost collar structure was entered into based on the SWIX 40, providing 10% downside protection from the implementation level of 10 621, with upside participation (excluding dividends) of 10.3%. The structure matured on 15 December 2016 (resulting in a realised gain of R75 million) and was not renewed. These were economic hedges over R1 billion of the listed equity portfolio.

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

		Audited As at 31 December 2017 R million	Audited As at 31 December 2016 R million
7.	**Insurance liabilities and reinsurance assets**		
	Gross insurance liabilities		
	Long-term insurance contracts		
	– claims reported and loss adjustment expenses	**75**	25
	– claims incurred but not reported	**62**	42
	General insurance contracts		
	– claims reported and loss adjustment expenses	**8 273**	6 789
	– claims incurred but not reported	**2 310**	1 873
	– unearned premiums	**7 128**	4 867
	Total gross insurance liabilities	**17 848**	13 596
	Non-current liabilities	**1 789**	1 312
	Current liabilities	**16 059**	12 284
	Recoverable from reinsurers		
	Long-term insurance contracts		
	– claims reported and loss adjustment expenses	**18**	6
	– claims incurred but not reported	**15**	12
	General insurance contracts		
	– claims reported and loss adjustment expenses	**3 918**	2 835
	– claims incurred but not reported	**496**	329
	– unearned premiums	**1 377**	1 307
	Total reinsurers' share of insurance liabilities	**5 824**	4 489
	Non-current assets	**202**	140
	Current assets	**5 622**	4 349
	Net insurance liabilities		
	Long-term insurance contracts		
	– claims reported and loss adjustment expenses	**57**	19
	– claims incurred but not reported	**47**	30
	General insurance contracts		
	– claims reported and loss adjustment expenses	**4 355**	3 954
	– claims incurred but not reported	**1 814**	1 544
	– unearned premiums	**5 751**	3 560
	Total net insurance liabilities	**12 024**	9 107

8. Non-current assets held for sale

Santam Ltd initially set up the Santam International group in 2002 to facilitate its expansion into Europe. Santam International Ltd (Santam International) directly and indirectly held three subsidiaries called Santam UK Ltd, Westminster Motor Insurance Agency Ltd (WMIA) and Santam Europe Ltd (Europe). The holdings in WMIA and Europe were sold in 2008 and Santam International only retained deferred conditional rights relating to the sale contracts. WMIA and Europe were renamed subsequent to the sale to Cardrow Insurance Ltd (Cardrow) and Beech Hill Insurance Ltd (Beech Hill), respectively.

The deferred conditional rights relating to Cardrow were realised during the first half of 2016 when it paid a dividend of R394 million. The deferred conditional rights relating to Beech Hill were substantially realised during the second half of 2016 with the receipt of a distribution of R115 million. The remaining balance of R8 million was realised during the first half of 2017. The winding up of the Santam International group resulted in the release of the foreign currency translation reserve relating to the investment in Santam International of R175 million (refer to note 9).

	Audited As at 31 December 2017 R million	Audited As at 31 December 2016 R million
Assets that are classified as held for sale		
Financial assets at fair value through income		
Loans and receivables including insurance receivables	**–**	8
	–	8
Opening balance	**8**	541
Settlements	**(8)**	(509)
Dividend income	**–**	394
Foreign exchange losses	**–**	(37)
Net fair value losses	**–**	(381)
Closing balance	**–**	8

	Audited Year ended 31 December 2017 R million	Audited Year ended 31 December 2016 R million
9. Investment income and net gains/(losses) on financial assets and liabilities		
Investment income	**1 335**	777
Dividend income	**131**	64
Interest income	**1 320**	941
Foreign exchange differences	**(116)**	(228)
Net gains on financial assets and liabilities at fair value through income	**427**	42
Net realised gains on financial assets	**121**	284
Net fair value gains/(losses) on financial assets designated as at fair value through income	**286**	(300)
Net realised/fair value (losses)/gains on derivative instruments	**(34)**	75
Net fair value (losses)/gains on short-term money market instruments	**(3)**	14
Net fair value gains/(losses) on financial liabilities designated as at fair value through income	**57**	(31)
Net fair value gains/(losses) on debt securities	**19**	(31)
Net realised losses on debt securities	**(45)**	–
Net realised gains on investment contracts	**83**	–
Investment income and net losses on financial assets held for sale[1]	**175**	13
Dividend income	**–**	394
Net fair value losses	**–**	(381)
Foreign exchange differences	**175**	–
	1 937	832

[1] *The release of the foreign currency translation reserve of R175 million for the group relates to Santam International. Dividend income for the group in prior periods includes a dividend of R394 million resulting from the realisation of the value in the non-current assets held for sale relating to Cardrow. This resulted in the net fair value of the related investment being reduced by R381 million. Please refer to note 8 for more detail.*

		Audited Year ended 31 December 2017 R million	Audited Year ended 31 December 2016 R million
10.	**Income tax**		
	Normal taxation		
	Current year	**535**	553
	Prior year	**32**	(8)
	Recovered from cell owners	**(80)**	(89)
	Foreign taxation – current year	**88**	56
	Total income taxation for the year	**575**	512
	Deferred taxation		
	Current year	**(34)**	12
	Prior year	**(52)**	–
	Total deferred taxation for the year	**(86)**	12
	Total taxation as per statement of comprehensive income	**489**	524
	Reconciliation of taxation rate (%)		
	Normal South African taxation rate	**28.0**	28.0
	Adjusted for:		
	Disallowable expenses	**0.3**	0.6
	Foreign tax differential	**0.4**	0.4
	Exempt income	**(2.4)**	(1.4)
	Investment results	**(1.1)**	(0.5)
	Change in CGT inclusion rate[1]	**–**	2.4
	Income from associates and joint ventures	**(1.5)**	(1.1)
	Exempt foreign currency translation differences	**(1.0)**	–
	Previous years' overprovision	**(0.8)**	(0.4)
	Non-current assets held for sale and discontinued operations	**(0.4)**	–
	Other permanent differences	**(0.4)**	0.1
	Other taxes	**0.2**	0.1
	Net (reduction)/increase	**(6.7)**	0.2
	Effective rate (%)	**21.3**	28.2

[1] *The increase in the CGT inclusion rate resulted in an increase in the deferred tax provision on fair value movements of R45 million in the prior year.*

11. Corporate transactions

2017

Acquisitions

Santam Structured Insurance (Pty) Ltd

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

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

SAN JV (RF) (Pty) Ltd

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

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

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

Disposals

Paladin Underwriting Managers (Pty) Ltd

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

2016

Acquisitions

SAN JV (RF) (Pty) Ltd

The transaction to acquire a 25% shareholding in SAN JV (with SEM acquiring 75%), announced in November 2015, was finalised during the first quarter of 2016. The total cash consideration was US$400 million. Santam's share of the purchase consideration, amounting to US$100 million, was funded from internal cash resources. In November 2015, Santam acquired sufficient foreign currency, in addition to existing dollar assets, to cover the purchase consideration before the transaction was concluded. A cash flow hedge was implemented on 24 November 2015 to cover Santam's foreign currency exposure by designating these US dollar-denominated cash balances to the transaction. The impact of this was that foreign currency gains of R140 million for the period ended 31 December 2016, 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. Therefore, the cost price of the investment, net of the cash flow hedge impact, was R1 412 million.

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

During March 2016, Santam purchased 49% of PST for R55 million in cash. During November 2016, a pro rata recapitalisation took place in terms of which Santam injected a further R10 million into the company.

Absa Intermediated Commercial Lines business

During November 2016, Santam purchased the Absa Intermediated Commercial Lines business from Absa Insurance Company Ltd for R13 million in cash, including contingent payments estimated at R28 million.

	R million
Details of the assets and liabilities acquired are as follows:	
Intangible assets – key business relationships	59
Cash and cash equivalents	83
Insurance liabilities	(83)
Trade and other payables	(2)
Deferred tax liabilities	(16)
Net asset value acquired	**41**
Future contingent consideration payable	(28)
Purchase consideration received	**13**

Disposals

Indwe Broker Holdings Group (Pty) Ltd

On 31 December 2015, Santam Ltd, as well as Swanvest 120 (Pty) Ltd, Main Street 409 (Pty) Ltd and Thebe Risk Services Holdings (Pty) Ltd (all wholly-owned subsidiaries of Santam Ltd), sold 26.34%, 13.82%, 16.8% and 19.04%, respectively, of their shareholding in Indwe Broker Holdings Group (Pty) Ltd to Sanlam Life Insurance Ltd (25%) and African Rainbow Capital (Pty) Ltd (51%) for R208 million in total. The net profit realised was R15 million and capital gains tax of R5 million was recognised. The remaining 24%, held by Swanvest 120 (Pty) Ltd, was classified as a joint venture and remeasured to fair value, resulting in a gain of R3 million (included in the profit on sale).

	R million
Details of the assets and liabilities disposed of are as follows:	
Property and equipment	23
Intangible assets	223
Deferred taxation	5
Loans and receivables	6
Cash and cash equivalents	183
Provisions for other liabilities and charges	(1)
Trade and other payables	(170)
Current income tax liabilities	(10)
Net asset value disposed of	**259**
Profit on sale	15
Less: Fair value of remaining investment	(66)
Less: Purchase price receivable	(208)
Purchase consideration received	**–**

The purchase consideration was received in 2016.

	Audited Year ended 31 December 2017 R million	Audited Year ended 31 December 2016 R million
Goodwill reconciliation		
Opening balance	**595**	598
Impairment	**(9)**	(3)
Closing balance	**586**	595

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

		Audited Year ended 31 December 2017	Audited Year ended 31 December 2016
12.	**Earnings per share**		
	Basic earnings per share		
	Profit attributable to the company's equity holders (R million)	1 667	1 212
	Weighted average number of ordinary shares in issue (million)	110.30	110.21
	Earnings per share (cents)	1 511	1 100
	Diluted earnings per share		
	Profit attributable to the company's equity holders (R million)	1 667	1 212
	Weighted average number of ordinary shares in issue (million)	110.30	110.21
	Adjusted for share options	1.13	1.16
	Weighted average number of ordinary shares for diluted earnings per share (million)	111.43	111.37
	Diluted basic earnings per share (cents)	1 496	1 088
	Headline earnings per share		
	Profit attributable to the company's equity holders (R million)	1 667	1 212
	Adjusted for:		
	Impairment of goodwill and other intangible assets	8	3
	Impairment of associate	3	–
	Reclassification of foreign currency translation reserve on dilution of associate	90	–
	Gain on dilution of associate	(18)	–
	Profit on sale of associates	(5)	–
	Tax charge on profit on sale of associates	2	–
	Capital gains tax overprovision on sale of associates	–	(18)
	Foreign currency translation reserve reclassified to profit and loss	(175)	–
	Headline earnings (R million)	1 572	1 197
	Weighted average number of ordinary shares in issue (million)	110.30	110.21
	Headline earnings per share (cents)	1 425	1 086
	Diluted headline earnings per share		
	Headline earnings (R million)	1 572	1 197
	Weighted average number of ordinary shares for diluted headline earnings per share (million)	111.43	111.37
	Diluted headline earnings per share (cents)	1 411	1 075
13.	**Dividend per share**		
	Dividend per share (cents)	952	881
	Special dividend per share (cents)	–	800

14. 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.

ADMINISTRATION

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

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

COMPANY SECRETARY
M Allie

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NSX share code: SNM

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