SANTAM LIMITED AND ITS SUBSIDIARIES

REVIEWED INTERIM REPORT

FOR THE SIX MONTHS ENDED
30 JUNE 2013

santam

- Gross written premium growth of 9%
- Underwriting margin of 1.3% significantly impacted by difficult underwriting conditions
- Positive investment returns in a volatile market
- Group solvency ratio of 40%
- Cash generation significantly impacted by settlement of 2012 catastrophe event claims
- Interim dividend of 242 cents per share, up 5%

Financial review

The Santam group experienced difficult underwriting conditions during the reporting period that severely impacted the underwriting result, causing a substantially lower net underwriting margin of 1.3% compared to 6.1% achieved in the corresponding period in 2012. Satisfactory gross written premium growth of 9% was achieved in the context of the difficult current economic environment.

The group delivered positive investment returns in a volatile investment market which contributed to net income after tax of R422 million for the period, 15% less than the comparative period. The exceptional taxation charge of R143 million reported in 2012, relating to STC on the special dividend paid in March 2012 and the increase in the CGT inclusion rate was non-recurring. Headline earnings decreased by 12%, while the return on capital was 14.9%, negatively impacted by the difficult underwriting conditions. The solvency margin of 40% is within the targeted range of 35% to 45%.

The following factors contributed to the decrease in underwriting results:

- The crop insurance business was adversely impacted by hail damage to summer crops in the Eastern region of South Africa and drought insurance input claims in the Central and Western regions, resulting in a net underwriting loss of R112 million (2012: profit of R34 million) and reducing the net underwriting margin by 1.8% compared to 2012.
- The profitability in the traditional Santam intermediated business remained under pressure. A rise in the average cost per claim and the claim severity in motor and property classes was experienced, aggravated by the weakening of the exchange rate, impacting the motor repair costs, and a rise in theft-related claims.
- Start-up costs were incurred during the first phase of the strategic project to develop a new administration, underwriting and product management technology for the traditional Santam intermediated business. This resulted in a strategic project cost ratio of 1.8% of net earned premium, exceeding the group's target of 1% (2012: 0.8%). Software development costs will be capitalised on the successful completion of key milestones in the first development phase.

The small underwriting loss in the property class and much lower profitability of the motor book of business are reflective of the difficult conditions being experienced within the traditional Santam intermediated business. A continuing high level of claims frequency and severity were exacerbated by significant flood related claims in Limpopo during January 2013. Various underwriting measures, such as segmented premium increases on policy renewal and risk reviews have been put in place in the Santam traditional intermediated business to address the underwriting performance. The positive impact of these actions is already evident in the results for the second quarter of 2013 and should continue into the remainder of the financial year.

The specialist business classes had mixed results compared to 2012 with the accident and health and engineering classes reporting improved margins. Transportation reported lower underwriting results compared to an exceptional performance during the corresponding period in 2012. The liability and corporate property classes reported reduced results; however, still producing above targeted risk adjusted returns.

The group achieved satisfactory gross written premium growth of 9%, with positive growth across all major classes of business. MiWay continued to support the growth in mainly the motor book of business with an increase in gross premiums of 26% while achieving profitable trading results with a gross loss ratio of below 60%. Net earned premium growth of 5% was impacted by new retrocession treaties for Santam Re in emerging markets and the increase in reinsurance programmes of the crop and specialist business classes.

The net acquisition cost ratio of 28.1% was higher than the 27.8% reported in June 2012. The increase in management expenses from 14.5% in 2012 to 15.5% in 2013 can be ascribed to the higher than expected strategic project costs. The commission expenses ratio declined by 0.6% to 12.7% mainly due to the increased impact of MiWay, where no commission expenses are incurred.

Investment returns on insurance funds of R195 million were slightly lower than the R204 million achieved in 2012, due to lower interest returns in 2013.

The combined effect of insurance activities resulted in a net insurance income of R297 million or a 3.7% margin, compared to R677 million and a margin of 8.8% in 2012.

Santam achieved satisfactory investment results relative to the market during the reporting period. This was mainly driven by lower exposure to the South African bond market, which experienced a significant downturn during the reporting period, and the positive fair value movement of R58 million in the Sanlam Emerging Markets (SEM) preference share linked to the Shriram General Insurance business in India. Santam is currently exploring further investment opportunities with SEM. The weakening of the rand during 2013 had a positive impact on the valuations of our foreign currency assets held by our local operations of R62 million (2012: R1 million).

Net earnings from associated companies of R34 million decreased from R42 million in 2012 mainly due to the key contributor, Credit Guarantee Insurance Corporation of Africa Ltd, reporting somewhat lower earnings compared to 2012.

Cash generated from operating activities of R516 million decreased from R1.3 billion in 2012. The South African insurance industry was significantly impacted by a number of mini catastrophe events during the last quarter of 2012. A significant portion of these claims were settled in the first quarter of 2013, negatively impacting cash flows.

Financial review

Santam concluded the acquisition of a 100% interest in Travel Insurance Consultants (TIC) in June 2013 for R95 million. The transaction will enable TIC to build its leadership position through its relationships within the travel market and leverage off Santam's support.

The board would like to extend its gratitude to Santam's management, staff, brokers and other business partners for their efforts and contributions during the past six months.

Prospects

Real GDP growth is expected to be as low as 2% in 2013, only picking up somewhat to 3% in 2014. Headline CPI is expected to peak at between 6.5% and 7% in the third quarter of the year before slowing to just below 6% at year-end under pressure of the weak rand as well as petrol and food price increases.

Since our 2012 results announcement, a hardening of insurance premium rates was experienced in the market and is expected to continue in the second half of 2013 which should have a positive impact on underwriting results, assuming that the adverse weather conditions experienced in the fourth quarter of 2012 do not recur. Santam manages premium increases selectively through our market and risk segmentation approach largely on policy renewal. We will continue to focus on the implementation of various underwriting practices and risk management approaches to improve the underwriting margin in the traditional Santam intermediated business. In addition, our growth through diversification strategy continues to enhance insurance premium growth in high-growth segments and territories.

Nominal interest rates are expected to remain at current levels during the remainder of 2013. The investment market is likely to remain uncertain in light of global negative sentiment towards emerging markets, including South Africa.

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 dividend (Number 119)

Notice is hereby given that the board has declared an interim dividend of 242.00000 cents per share (2012: 230.00000 cents). Shareholders are advised that the last day to trade "cum dividend" will be Thursday, 19 September 2013. The shares will trade "ex dividend" from the commencement of business on Friday, 20 September 2013. The record date will be Friday, 27 September 2013 and the payment date will be Monday, 30 September 2013. Certificated shareholders may not dematerialise or rematerialise their shares between 20 September 2013 and 27 September 2013, both dates inclusive.

The dividend has been declared from income reserves and will be subject to dividends tax that was introduced with effect from 1 April 2012. There are R3 430 421.46704 STC credits available for utilisation. Accordingly, the secondary tax on companies ("STC") credit available is 2.87434 per share. The amount per share subject to the withholding of dividends tax at a maximum rate of 15% is therefore 239.12566 cents per share. A net dividend of 206.13115 cents per share will apply to shareholders liable for dividends tax at a rate of 15% and 242.00000 cents per share for shareholders that qualify for complete exemption therefrom. The issued ordinary share capital as at 28 August 2013 is 119 346 417 shares. The company's income tax reference number is 9475/144/71/4.

In terms of the dividends tax legislation, the dividends tax amount due will be withheld and paid over to the South African Revenue Service (SARS) by a nominee company, stockbroker or Central Security Depository Participant (CSDP) (collectively "Regulated Intermediary") on behalf of shareholders. However, all shareholders should declare their status to their Regulated Intermediary, as they may qualify for a reduced dividends tax rate or they may even be exempt from dividends tax.

Preparation and presentation of the financial statements

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

Auditors' report

The consolidated interim financial statements of Santam Limited for the six months ended 30 June 2013 have been reviewed by the company's auditor, PricewaterhouseCoopers Inc. In their review report dated 28 August 2013, which is available for inspection at the Company's Registered Office, PricewaterhouseCoopers Inc. state that their review was conducted in accordance with the International Standard on Review Engagements 2410, Review of Interim Information Performed by the Independent Auditor of the Entity, and expressed an unmodified conclusion on the consolidated interim financial statements. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the company's auditor.

On behalf of the board

GG Gelink
Chairman

IM Kirk
Chief Executive Officer

28 August 2013

Consolidated statement of financial position

	Notes	**Reviewed At 30 June 2013 R million**	Reviewed At 30 June 2012 R million	Audited At 31 Dec 2012 R million
ASSETS				
Non-current assets				
Property and equipment		**97**	81	99
Intangible assets		**1 082**	1 024	990
Deferred income tax		**227**	196	221
Investment in associates		**277**	257	261
Financial assets – at fair value through income				
Equity securities	6	**3 274**	3 230	3 551
Debt securities	6	**7 243**	6 655	6 957
Derivatives	6	**1**	4	6
Financial assets – at amortised cost				
Cell owners' interest		**17**	33	24
Reinsurance assets	7	**126**	149	137
Current assets				
Financial assets – at fair value through income				
Derivatives	6	**10**	–	–
Short-term money market instruments	6	**1 174**	1 251	917
Reinsurance assets	7	**1 936**	1 542	1 618
Deferred acquisition costs		**305**	320	340
Loans and receivables including insurance receivables	6	**2 045**	1 492	2 088
Income tax assets		**17**	44	57
Cash and cash equivalents		**2 333**	1 821	2 471
Total assets		**20 164**	18 099	19 737
EQUITY				
Capital and reserves attributable to the company's equity holders				
Share capital		**107**	107	107
Treasury shares		**(526)**	(588)	(579)
Other reserves		**157**	26	77
Distributable reserves		**5 829**	5 602	5 904
		5 567	5 147	5 509
Non-controlling interest		**99**	98	108
Total equity		**5 666**	5 245	5 617
LIABILITIES				
Non-current liabilities				
Deferred income tax		**276**	195	284
Financial liabilities – at fair value through income				
Debt securities	6	**998**	1 005	1 034
Investment contracts	6	**–**	–	83
Financial liabilities – at amortised cost				
Cell owners' interest		**739**	644	712
Insurance liabilities	7	**1 452**	1 323	1 340
Current liabilities				
Financial liabilities – at fair value through income				
Debt securities	6	**24**	24	24
Investment contracts	6	**77**	71	12
Financial liabilities – at amortised cost				
Collateral guarantee contracts		**79**	72	75
Insurance liabilities	7	**8 233**	7 214	8 318
Deferred reinsurance acquisition revenue		**110**	93	147
Provisions for other liabilities and charges		**147**	103	161
Trade and other payables		**2 339**	2 046	1 886
Current income tax liabilities		**24**	64	44
Total liabilities		**14 498**	12 854	14 120
Total shareholders' equity and liabilities		**20 164**	18 099	19 737

Consolidated statement of comprehensive income

	Notes	Reviewed Six months ended 30 June 2013 R million	Reviewed Six months ended 30 June 2012 R million	Change %	Audited Year ended 31 Dec 2012 R million
Gross written premium		**9 858**	9 050	9%	19 386
Less: Reinsurance premium		**2 089**	1 739		3 564
Net premium		**7 769**	7 311	6%	15 822
Less: change in unearned premium					
Gross amount		**(204)**	(299)		323
Reinsurers' share		**(123)**	(92)		(127)
Net insurance premium revenue		**8 096**	7 702	5%	15 626
Investment income	8	**363**	337	8%	859
Income from reinsurance contracts ceded		**316**	245		516
Net gains on financial assets and liabilities at fair value through income	8	**150**	177		480
Net income		**8 925**	8 461	5%	17 481
Insurance claims and loss adjustment expenses		**6 878**	5 848		12 167
Insurance claims and loss adjustment expenses recovered from reinsurers		**(1 163)**	(759)		(1 488)
Net insurance benefits and claims		**5 715**	5 089	12%	10 679
Expenses for the acquisition of insurance contracts		**1 344**	1 269		2 540
Expenses for marketing and administration		**1 270**	1 118		2 349
Expenses for asset management services rendered		**15**	16		31
Amortisation and impairment of intangible assets		**30**	24		116
Expenses		**8 374**	7 516	11%	15 715
Results of operating activities		**551**	945	(42%)	1 766
Finance cost		**(59)**	(60)		(106)
Net income from associates		**34**	42		83
Impairment on net investment of associates		**(11)**	–		(43)
Profit before tax		**515**	927	(44%)	1 700
Income tax expense	9	**(93)**	(430)		(624)
Profit for the period		**422**	497	(15%)	1 076
Other comprehensive income					
Currency translation differences		**78**	(32)		23
Total comprehensive income for the period		**500**	465		1 099
Profit attributable to:					
– equity holders of the company		**405**	475	(15%)	1 027
– non-controlling interest		**17**	22		49
		422	497		1 076
Total comprehensive income attributable to:					
– equity holders of the company		**483**	443	9%	1 050
– non-controlling interest		**17**	22		49
		500	465		1 099
Earnings attributable to equity shareholders					
Earnings per share (cents)	11				
Basic earnings per share		**356**	419	(15%)	904
Diluted earnings per share		**353**	415	(15%)	895
Weighted average number of shares – millions		**113,89**	113,33		113,56
Weighted average number of ordinary shares for diluted earnings per share – millions		**114,72**	114,43		114,81

Consolidated statement of changes in equity

	Attributable to equity holders of the company				Non-controlling interest	Total
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	R million	R million
Balance as at 1 January 2012	107	(635)	1 492	5 072	105	**6 141**
Profit for the period	–	–	–	1 027	49	**1 076**
Other comprehensive income:						
Currency translation differences	–	–	23	–	–	**23**
Total comprehensive income for the period ended 31 December 2012	–	–	23	1 027	49	**1 099**
Sale of treasury shares	–	56	–	–	–	**56**
Loss on sale of treasury shares	–	–	–	(57)	–	**(57)**
Transfer to reserves	–	–	(1 438)	1 438	–	**–**
Share-based payments	–	–	–	50	–	**50**
Dividends paid	–	–	–	(1 626)	(48)	**(1 674)**
Interest acquired from non-controlling interest	–	–	–	–	2	**2**
Balance as at 31 December 2012	**107**	**(579)**	**77**	**5 904**	**108**	**5 617**
Profit for the period	–	–	–	405	17	**422**
Other comprehensive income:						
Currency translation differences	–	–	78	–	–	**78**
Total comprehensive income for the period ended 30 June 2013	–	–	78	405	17	**500**
Sale of treasury shares	–	53	–	–	–	**53**
Loss on sale of treasury shares	–	–	–	(53)	–	**(53)**
Transfer to reserves	–	–	2	(2)	–	**–**
Share-based payments	–	–	–	42	–	**42**
Dividends paid	–	–	–	(467)	(25)	**(492)**
Acquisition of subsidiary	–	–	–	–	(1)	**(1)**
Balance as at 30 June 2013	**107**	**(526)**	**157**	**5 829**	**99**	**5 666**
Balance as at 1 January 2012	107	(635)	1 492	5 072	105	**6 141**
Profit for the period	–	–	–	475	22	**497**
Other comprehensive income:						
Currency translation differences	–	–	(32)	–	–	**(32)**
Total comprehensive income for the period ended 30 June 2012	–	–	(32)	475	22	**465**
Sale of treasury shares	–	47	–	–	–	**47**
Loss on sale of treasury shares	–	–	–	(46)	–	**(46)**
Transfer to reserves	–	–	(1 434)	1 434	–	**–**
Share-based payments	–	–	–	32	–	**32**
Dividends paid	–	–	–	(1 365)	(31)	**(1 396)**
Interest acquired from non-controlling interest	–	–	–	–	2	**2**
Balance as at 30 June 2012	**107**	**(588)**	**26**	**5 602**	**98**	**5 245**

Consolidated statement of cash flows

	Notes	**Reviewed Six months ended 30 June 2013 R million**	Reviewed Six months ended 30 June 2012 R million	Audited Year ended 31 Dec 2012 R million
Cash generated from operations		**516**	1 302	2 362
Interest paid		**(34)**	(60)	(106)
Income tax paid		**(88)**	(357)	(521)
Net cash from operating activities		**394**	885	1 735
Cash flows from investing activities				
Cash (utilised in)/generated from investment activities		**(130)**	881	935
Acquisition of subsidiary	10	**(9)**	–	–
Cash acquired through acquisition of subsidiary	10	**15**	–	–
Purchases of equipment		**(17)**	(25)	(63)
Purchases of software		**(8)**	(14)	(31)
Proceeds from sale of equipment		**1**	1	1
Acquisition of associated companies		**–**	(3)	(6)
Acquisition of book of business		**(9)**	(42)	(81)
Net cash from investing activities		**(157)**	798	755
Cash flows from financing activities				
Decrease in investment contract liabilities		**(19)**	(35)	(17)
Increase/(decrease) in collateral guarantee contracts		**5**	(45)	(39)
Dividends paid to company's shareholders		**(467)**	(1 365)	(1 626)
Dividends paid to non-controlling interest		**(25)**	(31)	(48)
Increase in cell owners' interest		**37**	8	90
Net cash used in financing activities		**(469)**	(1 468)	(1 640)
Net (decrease)/increase in cash and cash equivalents		**(232)**	215	850
Cash and cash equivalents at beginning of period		**2 471**	1 598	1 598
Exchange gains on cash and cash equivalents		**94**	8	23
Cash and cash equivalents at end of period		**2 333**	1 821	2 471

Notes to the interim financial information

1. Basis of preparation

The consolidated interim financial information is prepared in accordance with the requirements of the JSE Limited Listings Requirements for interim reports and the requirements of the Companies Act of South Africa. The JSE Limited Listings Requirements require interim reports to be prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and must also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

2. Accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as described below.

The following new IFRSs and/or IFRICs were effective for the first time for this interim period from 1 January 2013:

- Amendment to IFRS 7, Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosure of Interests in Other Entities
- IFRS 13, Fair Value Measurement
- Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
- Revised IAS 28, Investments in Associates and Joint Ventures

There was no material impact on the interim financial statements identified based on management's assessment of these standards.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to the expected total annual profit or loss.

3. Estimates

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

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

4. Risk management

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

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

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

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

5. Segment information

Segments have been identified by business activity, i.e. insurance activities and investment activities, as these activities mainly affect the group's risk and returns. No geographical segmentation is disclosed as southern Africa is regarded as one reportable segment for management purposes.

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Chief Executive Officer, supported by the group executive committee.

The group's internal reporting is reviewed in order to assess performance and allocate resources. The operating segments identified are representative of the internal structure of the group.

Two core activities of the group, i.e. insurance activities and investment activities, are reviewed on a monthly basis. Insurance activities are all insurance underwriting activities undertaken by the group and comprise commercial insurance, personal insurance and alternative risks. Insurance activities are also further analysed by insurance class. Investment activities are all investment-related activities undertaken by the group.

The performance of insurance activities is considered based on gross written premium as a measure of growth; with underwriting result and net insurance result as measures of profitability.

Investment activities are measured based on net investment income and income from associated companies.

The MiWay DBP, relating to the compensation of the 10% share previously held by management in MiWay, and the Santam BEE transaction costs are unrelated to the core underwriting performance of the group and are therefore not allocated to the operating segments.

5.1 For the six months ended 30 June 2013

Business activity	Insurance activities R million	Investment activities R million	Unallocated R million	Total R million
Revenue	9 858	282	–	**10 140**
Gross written premium	9 858	–	–	**9 858**
Net written premium	7 769	–	–	**7 769**
Net earned premium	8 096	–	–	**8 096**
Claims incurred	5 715	–	–	**5 715**
Net commission	1 028	–	–	**1 028**
Management expenses	1 251	–	–	**1 251**
Underwriting result	102	–	–	**102**
Investment return on insurance funds	195	–	–	**195**
Net insurance result	297	–	–	**297**
Investment income net of management fee and finance costs	–	244	–	**244**
Income from associates net of impairment	–	23	–	**23**
MiWay DBP and Santam BEE transaction costs	–	–	(19)	**(19)**
Amortisation of intangible assets	(30)	–	–	**(30)**
Income before taxation	267	267	(19)	**515**

Insurance class	Gross written premium R million	Underwriting result R million
Accident and health	151	31
Alternative risk	1 153	(8)
Crop	55	(112)
Engineering	529	59
Guarantee	26	4
Liability	552	67
Miscellaneous	15	1
Motor	4 329	60
Property	2 776	(16)
Transportation	272	16
Total	**9 858**	**102**
Comprising:		
Commercial insurance	4 754	119
Personal insurance	3 951	(9)
Alternative risk	1 153	(8)
Total	**9 858**	**102**

5.2 For the six months ended 30 June 2012

Business activity	Insurance activities R million	Investment activities R million	Unallocated R million	Total R million
Revenue	9 050	290	–	**9 340**
Gross written premium	9 050	–	–	**9 050**
Net written premium	7 311	–	–	**7 311**
Net earned premium	7 702	–	–	**7 702**
Claims incurred	5 089	–	–	**5 089**
Net commission	1 024	–	–	**1 024**
Management expenses	1 116	–	–	**1 116**
Underwriting result	473	–	–	**473**
Investment return on insurance funds	204	–	–	**204**
Net insurance result	677	–	–	**677**
Investment income net of management fee and finance costs	–	234	–	**234**
Income from associates	–	42	–	**42**
MiWay DBP and Santam BEE transaction costs	–	–	(2)	**(2)**
Amortisation of intangible assets	(24)	–	–	**(24)**
Income before taxation	653	276	(2)	**927**

Insurance class	Gross written premium R million	Underwriting result R million
Accident and health	137	(12)
Alternative risk	948	5
Crop	76	34
Engineering	444	48
Guarantee	9	3
Liability	552	96
Miscellaneous	10	–
Motor	4 047	186
Property	2 586	66
Transportation	241	47
Total	**9 050**	**473**
Comprising:		
Commercial insurance	4 389	348
Personal insurance	3 713	120
Alternative risk	948	5
Total	**9 050**	**473**

5.3 For the year ended 31 December 2012

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

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

6. Financial assets and liabilities at fair value through income

Fair value estimation

The table below analyses financial instruments, carried at fair value through income, by valuation method. There were no significant changes in the valuation methods applied since 31 December 2012. The different levels have been defined as follows:

– **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities

– **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices)

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

There were no transfers between the different levels defined above during the period.

Financial assets at fair value through income	**Reviewed At 30 June 2013 R million**	Reviewed At 30 June 2012 R million	Audited At 31 Dec 2012 R million
The group's financial assets are summarised below by measurement category.			
Financial assets at fair value through income	**11 702**	11 140	11 431
Loans and receivables	**2 045**	1 492	2 088
Total financial assets	**13 747**	12 632	13 519

June 2013	**Level 1 R million**	**Level 2 R million**	**Level 3 R million**	**Total R million**
Equity securities				
Quoted				
Listed	2 830	–	–	**2 830**
Unitised funds	–	118	–	**118**
Irredeemable preference shares	2	–	–	**2**
Unquoted	–	–	324	**324**
Total equity securities	**2 832**	**118**	**324**	**3 274**
Debt securities				
Quoted				
Government and public bonds	1 768	62	–	**1 830**
Redeemable preference shares	–	281	–	**281**
Money market instruments > 1 year	–	1 515	–	**1 515**
Unquoted				
Government and public bonds	–	53	–	**53**
Money market instruments > 1 year	–	3 535	–	**3 535**
Redeemable preference shares	–	–	29	**29**
Total debt securities	**1 768**	**5 446**	**29**	**7 243**
Derivatives				
Interest rate swaps	–	–	2	**2**
Foreign exchange contracts	–	–	1	**1**
Fence	–	–	8	**8**
Total derivatives	–	–	11	**11**
Short-term money market instruments	–	1 174	–	**1 174**
	4 600	**6 738**	**364**	**11 702**

June 2012	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	2 730	–	–	**2 730**
Unitised funds	–	80	–	**80**
Irredeemable preference shares	2	–	–	**2**
Unquoted	–	–	418	**418**
Total equity securities	**2 732**	**80**	**418**	**3 230**
Debt securities				
Quoted				
Government and other bonds	1 647	118	–	**1 765**
Redeemable preference shares	–	269	–	**269**
Money market instruments > 1 year	–	1 496	–	**1 496**
Unquoted				
Government and other bonds	–	42	–	**42**
Money market instruments > 1 year	–	2 800	–	**2 800**
Redeemable preference shares	–	–	283	**283**
Total debt securities	**1 647**	**4 725**	**283**	**6 655**
Derivatives				
Interest rate swaps	–	–	4	**4**
Total derivatives	**–**	**–**	**4**	**4**
Short-term money market instruments	**–**	**1 251**	**–**	**1 251**
	4 379	**6 056**	**705**	**11 140**
December 2012				
Equity securities				
Quoted				
Listed	3 183	–	–	**3 183**
Unitised funds	–	94	–	**94**
Irredeemable preference shares	2	–	–	**2**
Unquoted	–	–	272	**272**
Total equity securities	**3 185**	**94**	**272**	**3 551**
Debt securities				
Quoted				
Government and other bonds	1 644	87	–	**1 731**
Redeemable preference shares	–	275	–	**275**
Money market instruments > 1 year	–	1 513	–	**1 513**
Unquoted				
Government and other bonds	–	31	–	**31**
Money market instruments > 1 year	–	3 378	–	**3 378**
Redeemable preference shares	–	–	29	**29**
Total debt securities	**1 644**	**5 284**	**29**	**6 957**
Derivatives				
Interest rate swaps	**–**	**–**	**6**	**6**
Total derivatives	**–**	**–**	**6**	**6**
Short-term money market instruments	**–**	**917**	**–**	**917**
	4 829	**6 295**	**307**	**11 431**

6. **Financial liabilities at fair value through income (continued)**

June 2013	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Debt securities	1 022	–	–	**1 022**
Investment contracts	–	77	–	**77**
	1 022	**77**	**–**	**1 099**

June 2012				
Debt securities	1 029	–	–	**1 029**
Investment contracts	–	71	–	**71**
	1 029	**71**	**–**	**1 100**

December 2012				
Debt securities	1 058	–	–	**1 058**
Investment contracts	–	95	–	**95**
	1 058	**95**	**–**	**1 153**

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

Per the conditions set by the Regulator, Santam is required to maintain liquid assets equal to the value of the callable notes until maturity. The callable notes are therefore measured at fair value to minimise undue volatility in the statement of comprehensive income.

The unquoted equity instruments recognised as level 3 instruments consist mainly of the irredeemable preference shares issued by Sanlam Emerging Markets as well as Santam´s international run-off business. The net fair value movements recognised on level 3 instruments amounted to R56 million for the six months ended 30 June 2013 (2012: -R7 million).

We continued to employ our strategy of proactively and tactically hedging equity investments.

During the first half of 2013, Santam entered into three derivative fence structures on 28 March 2013, 3 April 2013 and 8 May 2013 covering equities to the value of R700 million, R700 million and R600 million respectively. The implementation level of the first tranche was 7593 (SWIX40 index) with downside protection of 10% from a market level of 7441 and upside participation of 9.7%. The implementation level of the second tranche was 7515 with downside protection of 10% from a market level of 7365 and upside participation of 9.6%. The implementation level of the third tranche was 7694 with downside protection of 10% from a market level of 7540 and upside participation of 9.5%. The upside participation is calculated from the implementation level and the average duration of the structures is twelve months.

At 30 June 2012, the SWIX40 index closed at 7628 and the structures had a fair value of R8 million.

	Reviewed At 30 June 2013 R million	Reviewed At 30 June 2012 R million	Audited At 31 Dec 2012 R million
7. Insurance liabilities and reinsurance assets			
Gross			
Long-term insurance contracts			
– claims reported and loss adjustment expenses	**7**	–	–
– claims incurred but not reported	**15**	9	14
Short-term insurance contracts			
– claims reported and loss adjustment expenses	**5 071**	4 458	4 948
– claims incurred but not reported	**1 423**	1 333	1 311
– unearned premiums	**3 169**	2 737	3 385
Total insurance liabilities – gross	**9 685**	8 537	9 658
Non-current liabilities	**1 452**	1 323	1 340
Current liabilities	**8 233**	7 214	8 318
Recoverable from reinsurers			
Long-term insurance contracts			
– claims reported and loss adjustment expenses	**2**	–	–
– claims incurred but not reported	**3**	1	2
Short-term insurance contracts			
– claims reported and loss adjustment expenses	**1 050**	895	977
– claims incurred but not reported	**277**	229	192
– unearned premiums	**730**	566	584
Total reinsurers' share of insurance liabilities	**2 062**	1 691	1 755
Non-current assets	**126**	149	137
Current assets	**1 936**	1 542	1 618
Net			
Long-term insurance contracts			
– claims reported and loss adjustment expenses	**5**	–	–
– claims incurred but not reported	**12**	8	12
Short-term insurance contracts			
– claims reported and loss adjustment expenses	**4 021**	3 563	3 971
– claims incurred but not reported	**1 146**	1 104	1 119
– unearned premiums	**2 439**	2 171	2 801
Total insurance liabilities – net	**7 623**	6 846	7 903

	Reviewed At 30 June 2013 R million	Reviewed At 30 June 2012 R million	Audited At 31 Dec 2012 R million
8. Investment income and net gains/(losses) on financial assets and liabilities at fair value through income			
Investment income	**363**	337	859
Dividend income	**59**	88	342
Interest income	**242**	248	503
Foreign exchange differences	**62**	1	14
Net realised gains on financial assets	**320**	322	358
Net fair value (losses)/gains on financial assets designated as at fair value through income	**(222)**	(103)	360
Net fair value gains/(losses) on financial assets held for trading	**13**	(3)	(166)
Net realised fair value gains on derivatives	**5**	3	5
Net fair value gains/(losses) on financial liabilities designated as at fair value through income	**34**	(42)	(77)
Net fair value gains/(losses) on debt securities	**36**	(40)	(70)
Net fair value losses on investment contracts	**(2)**	(2)	(7)
	513	514	1 339

** December 2012 dividend income for the group includes a dividend of R181 million from Santam's international run-off business.*

	Reviewed At 30 June 2013 R million	Reviewed At 30 June 2012 R million	Audited At 31 Dec 2012 R million
9. Income tax			
South African normal taxation			
Current year	**90**	319	433
Charge for the year	**90**	180	294
STC	**–**	139	139
Prior year	**2**	10	10
Foreign taxation	**17**	14	38
Income taxation for the year	**109**	343	481
Deferred taxation	**(16)**	87	143
Current year	**(1)**	83	139
Prior year	**(15)**	–	–
STC	**–**	4	4
	93	430	624
Reconciliation of taxation rate (%)			
Normal South African taxation rate	**28.0**	28.0	28.0
Adjust for			
– Exempt income	**(3.6)**	(2.5)	(2.6)
– Investment results	**(2.6)**	(2.0)	(3.2)
– Change in CGT inclusion rate	**–**	6.5	4.7
– STC	**–**	15.5	8.4
– Deferred tax not raised in prior years	**(2.9)**	–	–
– Other	**(0.8)**	0.9	1.4
Net (reduction)/increase	**(9.9)**	18.4	8.7
Effective rate	**18.1**	46.4	36.7

	Reviewed Six months ended 30 June 2013	Reviewed Six months ended 30 June 2012	Audited Year ended 31 Dec 2012

10. Business combinations

2013

Additions

Travel Insurance Consultants (Pty) Ltd

Santam Limited has acquired 100% of the shareholding in Travel Insurance Consultants (Pty) Ltd (TIC), with effect from 1 June 2013. TIC is one of the leading travel insurance underwriting managers and has been in operation for over 25 years. The purchase price amounted to R95 million. The goodwill of R62 million arises from a number of factors including obtaining economies of scale and unrecognised assets such as the workforce.

Provisional accounting has been applied for interim reporting purposes.

	Reviewed Six months ended 30 June 2013	Reviewed Six months ended 30 June 2012	Audited Year ended 31 Dec 2012
Details of the assets and liabilities acquired at fair value are as follows:			
Intangible assets	**32**		
Loans and receivables	**7**		
Cash and cash equivalents	**15**		
Deferred taxation	**(9)**		
Trade and other payables	**(12)**		
Net asset value acquired	**33**		
Goodwill	**62**		
Deferred purchase consideration payable in July 2013	**(95)**		
Purchase consideration paid	**–**		

Beyonda Group (Pty) Ltd

Centriq Insurance Holdings Limited acquired the additional 51% of the shareholding in Beyonda Group (Pty) Ltd for an amount of R9 million with effect 1 March 2013.

2012

Additions

Riscor Underwriting Managers (Pty) Ltd

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

The total purchase price amounted to R29 million. Intangible assets of R39 million and deferred taxation of R10 million were recognised. Net operating assets amounted to approximately R1 million.

Sale of subsidiary

Stilus Underwriting Managers (Pty) Ltd

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

	Reviewed Six months ended 30 June 2013	Reviewed Six months ended 30 June 2012	Audited Year ended 31 Dec 2012
Details of the assets and liabilities sold are as follows:			
Deferred taxation			(2)
Trade and other payables			4
Net asset value sold			2
Plus: Non-controlling interest			(2)
Purchase consideration received			–

	Reviewed Six months ended 30 June 2013	Reviewed Six months ended 30 June 2012	Audited Year ended 31 Dec 2012
11. Earnings per share			
Basic earnings per share			
Profit attributable to the company's equity holders (R million)	**405**	475	1 027
Weighted average number of ordinary shares in issue (million)	**113.89**	113.33	113.56
Earnings per share (cents)	**356**	419	904
Diluted earnings per share			
Profit attributable to the company's equity holders (R million)	**405**	475	1 027
Weighted average number of ordinary shares in issue (million)	**113.89**	113.33	113.56
Adjusted for share options	**0.83**	1.10	1.25
Weighted average number of ordinary shares for diluted earnings per share (million)	**114.72**	114.43	114.81
Diluted basic earnings per share (cents)	**353**	415	895
Headline earnings per share			
Profit attributable to the company's equity holders	**405**	475	1 027
Adjust for:			
Impairment charge on net investment of associates	**11**	–	43
Impairment of goodwill	**–**	–	35
Impairment of software	**–**	–	25
Tax charge and non-controlling interest	**–**	–	–
Headline earnings (R million)	**416**	475	1 130
Weighted average number of ordinary shares in issue (million)	**113.89**	113.33	113.56
Headline earnings per share (cents)	**365**	419	995
Diluted headline earnings per share			
Headline earnings (R million)	**416**	475	1 130
Weighted average number of ordinary shares for diluted earnings per share (million)	**114.72**	114.43	114.81
Diluted headline earnings per share (cents)	**363**	415	984
12. Dividends per share			
Dividend per share (cents)	**242**	230	640

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