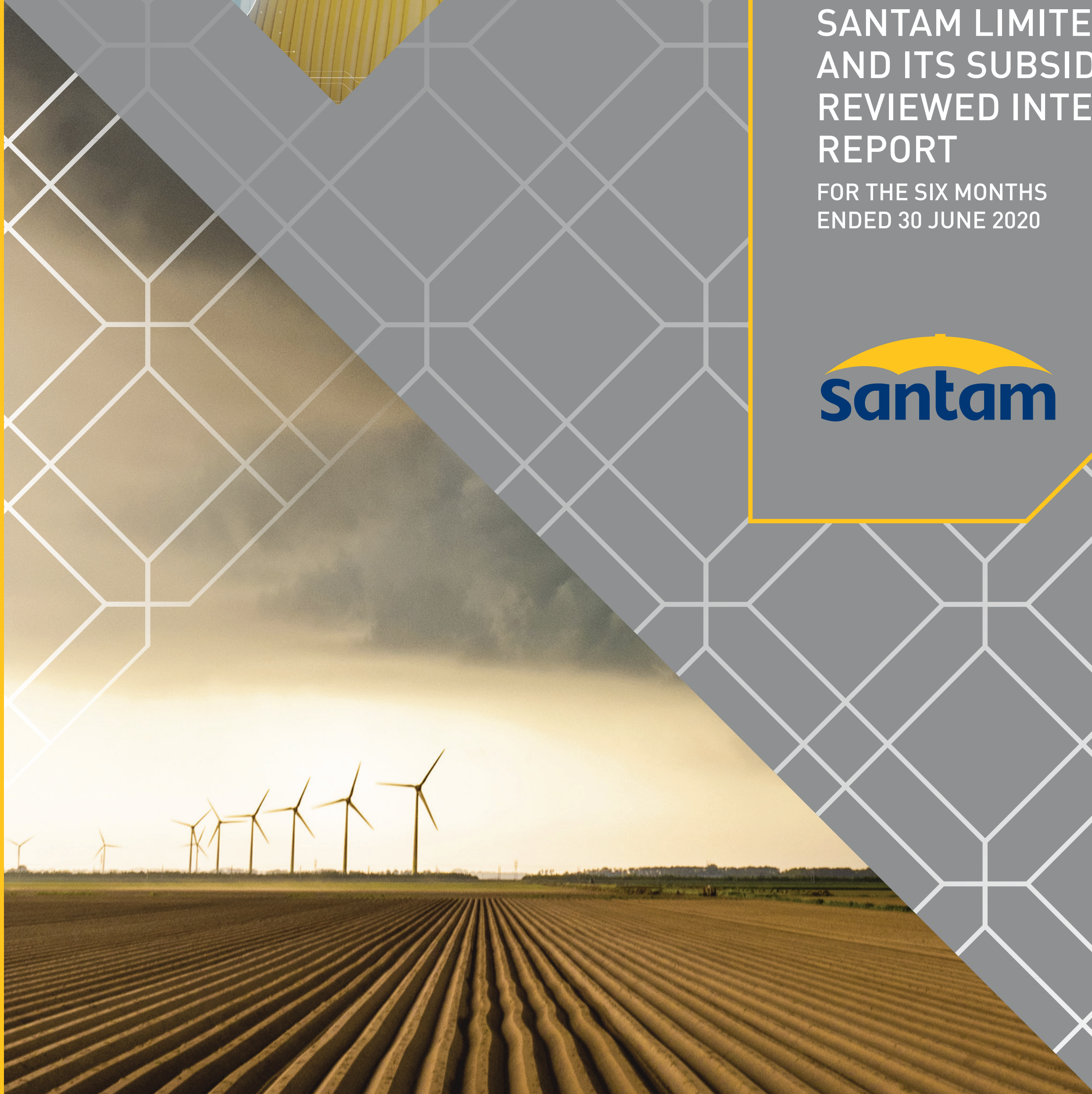

2020

SANTAM LIMITED AND ITS SUBSIDIARIES REVIEWED INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2020

santam

CONTENTS

SALIENT FEATURES
FOR THE SIX MONTHS ENDED 30 JUNE 2020

Group gross written premium growth
7%

Conventional insurance gross written premium growth
4%

Economic capital coverage ratio
150%

Conventional insurance net underwriting margin
4.3%

Return on shareholders' funds
11.6%

Earnings per share decreased
98%

Headline earnings per share decreased
33%

No interim dividend declared

FINANCIAL REVIEW

The Santam group reported solid operational results under very difficult economic circumstances, exacerbated by the impact of COVID-19.

The already weak operating environment in South Africa deteriorated substantially since February 2020 as government implemented strict measures to control the spread of COVID-19, resulting in a significant slowdown in economic activity. Global and South African growth estimates were revised down sharply. This, together with persistent uncertainty around the eventual impact of COVID-19, drove significant volatility in equity, interest rate and currency markets. These conditions continue to impact on the group's results in 2020.

The group's conventional insurance book achieved gross written premium growth of 4% (6% when excluding premium relief support to policyholders during April and May 2020). A net underwriting margin of 4.3% (2019: 5.3%) of net earned premiums was reported, which is at the low end of the group's target range of 4% to 8%. The alternative risk transfer (ART) business segment reported operating results of R54 million (2019: R72 million), negatively impacted by volatile financial market conditions. The Sanlam Emerging Markets general insurance businesses (SEM) delivered overall solid underwriting results. The Saham general insurance businesses' net underwriting margin of 7.6% (2019: 2.3%) showed significant improvement compared to the prior year. The Saham net insurance result was eroded by negative investment returns in Morocco and Côte d'Ivoire. Shriram General Insurance Company Ltd (SGI) in India achieved a net insurance margin of 33.6%, following once-off reserve releases in 2019 when a net insurance margin of 61.5% was reported.

Net investment income attributable to shareholders, inclusive of the investment return on insurance funds, of R582 million (2019: R800 million) was reported. Fair value losses on financial assets were the key contributor to the weaker performance. Significant foreign currency gains of R647 million were recognised in 2020, compared to a foreign currency loss of R25 million in 2019.

Equity-accounted losses from associates amounted to R747 million (2019: profit of R45 million) and were negatively impacted by negative investment returns on insurance funds in the key Saham territories and an impairment of intangible assets of R690 million recorded by SAN JV, the investment holding company of Saham. The carrying value of Saham was adversely affected by the COVID-19-related downturn in financial markets and deteriorating economic conditions in the territories where Saham operates. However, foreign currency translation gains in respect of the Saham investment, which are recognised directly against equity, limited the overall reduction in net asset value to approximately R158 million.

Cash generated from operations increased to R3.9 billion (2019: R1.6 billion), mainly due to lower claims settlement during this period.

Headline earnings decreased to 663 cps compared to 990 cps in 2019. Lower operating results and reduced investment income attributable to shareholders contributed to the decrease.

A return on capital (ROC) of 11.6% was achieved, below the ROC threshold of 24%. The ROC was impacted by the lower insurance and investment results, as well as the Saham impairment. ROC is calculated with reference to total comprehensive income attributable to equity holders of the company. The investment in Saham is included in the calculation at fair value to better reflect the economic return on capital to shareholders.

The balance sheet remained robust during this period of financial markets volatility. The economic capital coverage ratio was 150% – at the low end of the target range of 150% to 170%.

CONVENTIONAL INSURANCE

The conventional insurance business reported a net underwriting margin of 4.3% compared to 5.3% in 2019. A provision for contingent business interruption (CBI) claims negatively impacted the underwriting results in the current period. This was offset to some extent by a benign claims environment which impacted positively on the motor book.

Gross written premium growth

Conventional insurance reported growth of 4% (6% when excluding premium relief support to policyholders), despite the severely constrained economic climate.

The Santam Commercial and Personal intermediated business reported marginally negative growth for the period following lower new business acquisition, exacerbated by the impact of COVID-19, as well as premium support provided to ease financial pressure on policyholders.

The Santam Specialist business experienced continued strong growth in the corporate property and engineering businesses. In contrast, the growth in the travel insurance, aviation, transport and marine businesses was negatively impacted by COVID-19.

MiWay achieved excellent growth of 8% in the current operating environment, inclusive of the R40 million premium relief provided to policyholders.

Santam re achieved strong growth in its third-party business, positively impacted by the weakening rand.

Gross written premiums from outside South Africa written on the Santam Ltd and Santam Namibia Ltd licences amounted to R2 324 million (2019: R1 834 million), equating to 27% growth. Strong growth was achieved by the Santam Specialist Business (corporate property and engineering) and Santam re in Africa, Southeast Asia, India and the Middle East. Weak economic conditions and COVID-19 negatively impacted Santam Namibia's performance. The Pan-African specialist insurance business with Saham started to gain momentum. Santam's share of gross written premiums exceeded R100 million from the Saham partnership for this period.

The property class reported growth of 12% on the back of strong growth in the specialist property business.

The motor class reported gross written premiums in line with 2019. Growth of 4% was achieved, excluding premium relief support to policyholders during the lockdown in April and May 2020. The excellent growth achieved by MiWay and Santam re, was offset by a contraction of the motor business written by the Santam Commercial and Personal business.

The engineering class benefited from strong growth in the Santam Specialist business but was negatively impacted by a reduction in Santam re. The liability class continued to experience competitive pressure and focused on improved profitability, resulting in negative growth of 2% during the period. The accident and health class reported growth of 10%, with the significant pressure experienced in the travel insurance business offset by strong growth reported by Santam re.

Underwriting result

A relatively subdued claims environment characterised the first quarter of 2020 compared to the prior period. The results for the second quarter were significantly impacted by the effect of the national lockdown, as well as COVID-19-related claims for events cancellation, travel insurance and CBI cover.

Santam's position with respect to policies containing the CBI extension for contagious and infectious diseases is that a policyholder's loss must be due to a peril insured in the policy contract. This requires that any interruption of an insured's business must be directly attributable to a localised COVID-19 infection, which is the peril insured under Santam policies, and not for any other reason, such as the national lockdown or other international response, which are not insured perils. This view is in line with the majority of Santam's counterparts and reinsurers in the non-life insurance industry, both locally and globally.

In terms of Santam's application of the policy wording, our best estimate of the net exposure to the Santam group arising from policies with a CBI extension is R250 million.

A recent South African court ruling on another insurance company's policy wording found the insurer liable to indemnify the insured in terms of the business interruption section of the relevant policy for any loss suffered since 27 March 2020 as a result of the COVID-19 outbreak in South Africa. The insurance company was granted leave to appeal, which will be heard during the latter part of 2020. Santam's Ma-Afrika case was heard in the Western Cape High Court on 1 September 2020.

It is important to note that Santam's reinsurance programme will only respond to claims covered under the terms of our policies. In order to formulate a reinsurance claim under a different interpretation of the policy wording to our own, such interpretation would have to be definitively decided by the South African courts.

Santam announced on 26 July 2020 that it would provide up to R1 billion of relief payments to support mainly small and medium-sized commercial policyholders in the hospitality, leisure and non-essential retail services industries that have the CBI cover extension and suffered a loss due to the national lockdown.

Santam has raised a claims provision of R1 290 million at 30 June 2020 as the best estimate of its exposure relating to policies with CBI extensions. Given the current legal process, there is, however, significant uncertainty regarding the quantification of these claims. The claims provision held is higher than the best estimate of our net exposure to reflect this legal uncertainty. The level of claims provisions will be reviewed upon receipt of additional clarifying information. The provision will be utilised for the R1 billion relief payments announced in July 2020.

The motor class reported strong underwriting performance in the intermediated and direct distribution channels. The motor loss ratio benefited from a benign claims environment with the hard lockdown reducing claims activity in April and May 2020. Following the relaxing of lockdown regulations from 1 June 2020, claims frequency started to normalise. Total premium relief of R310 million was provided to motor policyholders in recognition of reduced travelling during the lockdown period. MiWay reported excellent underwriting results with a loss ratio of 45.9% (2019: 54.2%) and an underwriting profit of R308 million (2019: R203 million).

The property class also benefited from the benign claims environment experienced since January 2020, with the lockdown further reducing claims activity from April 2020. This was, however, offset by the provision for CBI claims resulting in a loss of R770 million (2019: loss of R128 million). Catastrophe events in South Africa negatively impacted the 2019 results.

The travel insurance business, included in the accident and health class of business, was negatively impacted by the COVID-19 pandemic. The engineering class continued to deliver excellent underwriting results in the current operating environment. The profitability of the liability class was negatively impacted by adverse reserve developments on a few long-outstanding claims.

The net acquisition cost ratio of 30.2% was on par with 2019. The net commission ratio was 13.0% compared to 13.2% in 2019.

The management expense ratio of 17.2% was higher than the 17.0% reported in 2019. Cost containment measures and a decrease in variable incentive cost compared to 2019 were partly offset by a further provision of R62 million raised to account for the liquidity concerns at a third-party premium-collection agency that went into voluntary curatorship in September 2018.

Strategic project costs, included as part of management expenses, amounted to 0.3% (2019: 0.8%) of net earned premium. The lower spend in 2020 is mainly due to timing differences in spending patterns. These costs relate to the development of a new claims platform, project costs relating to IFRS 17, data enhancements and future digital solutions.

Investment return on insurance funds

The investment return on insurance funds of 2.3% of net earned premium was less than the 2.5% reported in 2019, following the lower interest rate environment.

ALTERNATIVE RISK TRANSFER BUSINESS (ART)

The ART business reported operating results of R54 million (2019: R72 million). Investment margins were negatively impacted by the volatile financial market conditions. Satisfactory fee income and underwriting results were achieved despite the difficult operating conditions.

SEM GENERAL INSURANCE BUSINESSES INCLUDING SAHAM

Gross written premium growth

Most of the markets where SEM operates were subjected to a form of COVID-19 lockdown or curfew, which inhibited new business sales similar to what occurred in South Africa. Santam's share of SEM gross written premiums increased by 16% in rand terms. All regions achieved solid growth despite COVID-19 restrictions and the deliberate non-renewal of several loss-making schemes aimed at improving the quality of the book, in particular in North and West Africa.

The Saham business achieved gross written premium growth of 2.5% in constant currencies (17% in rand).

SGI experienced 2% growth in constant currencies (12% in rand), while Pacific & Orient Insurance Co. Berhad (P&O) contracted by 7% in constant currencies (5% growth in rand).

Net insurance result

Santam's share of the general insurance net insurance results from the SEM businesses reduced by 41%. Excluding the COVID-19 impact on investment return earned on the Moroccan and Côte d'Ivoire insurance funds, this would have been a reduction of 13%.

Good progress has been made in improving the underwriting performance of the Saham general insurance portfolio. The overall underwriting margin for Saham improved to 7.6% (6.8% excluding Lebanon) compared to 2.3% in 2019 (2.7% excluding Lebanon) of net earned premiums, well within the 5% to 9% target range. The net underwriting margin of all the SEM general insurance businesses (including Saham) in Africa improved to 6.1% (2019: 2.6%).

A negative 2.8% investment return on insurance funds was earned on the Saham portfolio compared to positive 12.1% in 2019, outside of the target range of 7% to 9% of net earned premiums. This was mainly attributable to negative returns in Morocco and Côte d'Ivoire. Management continues to monitor the composition of the investment portfolio in the context of local capital requirements, its risk appetite, and the risk and return profile of the assets.

The operating results before tax and non-controlling interest from the life insurance businesses of Saham declined by 68% mainly due to negative investment variances in the Saham Morocco and Côte d'Ivoire life insurance businesses.

SGI's net underwriting margin declined to 9.1% of net earned premiums compared to the high base of 31.1% in 2019, which included one-off reserve releases in respect of third-party pool business. The investment return on insurance funds of 24.5% (2019: 30.4%) was only slightly lower, following the impact of COVID-19 market conditions.

P&O reported an improved net insurance margin of 13.0% (2019: 6.1%). Claims and acquisition costs remain areas of focus.

INVESTMENT RESULTS

Santam's listed equity portfolio achieved a negative return of 7% for the six months to 30 June 2020, relative to the SWIX benchmark (60% SWIX and 40% Capped SWIX) which delivered a negative return of 8.1%.

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

Foreign currency gains of R647 million (2019: foreign currency loss of R25 million) contributed significantly to the investment performance. This included foreign currency gains of R225 million on Santam's investments in SEM's general insurance businesses in Africa, India and Southeast Asia (2019: R35 million foreign currency losses).

A foreign currency collar on R500 million worth of exposure, which was entered into on 19 August 2019 at a spot rate of 15.25 against the US dollar matured on 19 May 2020, realising a loss of R54 million. As at 31 December 2019, the foreign currency collar was valued at R34 million. No further foreign currency collars were entered into.

Net losses on financial assets and liabilities of R375 million (2019: net gains of R140 million) include market value losses on listed equities, local and foreign bonds and property exposure in the fixed income portfolios as well as the fair value movement on the foreign currency collar and other derivatives.

Negative fair value movements (excluding the impact of currency movements) of R225 million (2019: R260 million positive fair value movements) in Santam's interest in SEM's general insurance businesses in Africa, India and Southeast Asia impacted on investment performance. The main driver of the fair value movements was a decrease in the value of SGI of R174 million, which was mainly attributed to lower growth expectations following the impact of COVID-19. We remain very positive about the future value contribution from the SGI business.

Net losses from associated companies of R747 million included Saham operating losses of R74 million and an impairment of intangible assets of R690 million from Saham (held through SAN JV).

The carrying value of Saham was adversely affected by the downturn in financial markets and deteriorating economic conditions in the territories where Saham operates.

A prudent approach was applied to the impairment testing of the Saham investment at 30 June 2020, given the significant uncertainty around the eventual outcome of COVID-19 and the trajectory of economic recovery. The following key assumptions were adjusted:

- Economic assumptions were revised downwards in the current uncertain environment, in respect of both economic growth forecasts and future investment returns;
- Top-line growth was reduced across the board for general insurance operations;
- The valuation of the Lebanon life and general insurance operations was reduced to zero as a meaningful economic recovery, as well as the potential to repatriate cash flows, are not expected in the foreseeable future; and
- Most of the premium paid for synergies in respect of the Saham acquisition has been written off. The realisation of the synergies will take longer than originally anticipated due to the slowdown in economic growth across the Saham geographical footprint as a result of COVID-19. Management remains confident that the synergies can be realised, but prefer to adopt a cautious position until these become apparent.

The Saham impairment comprises the following:

- Write-down of the premium paid at acquisition for synergies (R282 million);
- Reducing the valuation of the Lebanon businesses to zero (R208 million); and
- Reducing future economic growth and investment return assumptions (R200 million).

However, foreign currency translation gains of R532 million in respect of the Saham investment, which are recognised directly against equity, limited the overall reduction in net asset value to approximately R158 million. The carrying value of Saham at 30 June 2020 is R2 012 million.

The other key contributor to earnings from associated companies was Western National Insurance Ltd.

CAPITAL

The group economic capital requirement at 30 June 2020, based on the internal model, amounted to R7.5 billion (Dec 2019: R7.3 billion). This equates to an economic capital coverage ratio of 150%.

Following the partial internal model approval (including the capital add-on) obtained from the Prudential Authority in 2019, Santam has revised its group economic coverage ratio band to be between 150% and 170%. The group is comfortable to operate at the lower end of this range and remains committed to efficient capital management.

Santam's stress and scenario testing framework assesses the impact on the capital position of the group under a range of different possible events. Several COVID-19 claims scenarios were included in the current review cycle. Santam's economic and regulatory solvency position remains at an acceptable level under all scenarios assessed, although below our target band for worst case scenarios.

PROSPECTS

Trading conditions remain very competitive in a negative economic growth environment in South Africa and globally. Inflation (annual CPI) of 3.2% was reported on 26 August 2020. South Africa's GDP is expected to decline by 8% in 2020. The South African rand depreciated significantly against the US dollar since December 2019, and foreign currency fluctuations continue.

It is expected that economic activity will, in the medium term, be significantly constrained by weak consumer spending due to the impact of COVID-19, as well as the likelihood of further load shedding by Eskom.

The investment markets are likely to remain uncertain and volatile. The lower interest rate environment will negatively impact investment performance while the non-rand-denominated investments increase foreign currency volatility for the group.

Following the outbreak of COVID-19, we have reassessed our FutureFit strategy and remain confident that it provides the building blocks for success. Building technology as an enabler and driver of efficiency and innovation is a core pillar of our future strategy. Extending our leadership position in South Africa and building a specialist Pan-African insurance business with SEM remain priorities.

As Santam we pride ourselves on being a responsible and patriotic corporate citizen. We have to date committed more than R1.4 billion in COVID-19 relief through premium reductions, premium refunds, relief payments, as well as direct support to business partners, NGOs and the Solidarity Fund. Through these initiatives as well as continued focus on improving service to clients and intermediaries, we enable the delivery of our brand promise, ***Insurance Good and Proper***.

Our focus during 2020 will remain on achieving profitable growth and taking advantage of opportunities presented by the current operating environment. We will focus on continued operational effectiveness, tight cost management and customer service. The majority of the Santam workforce is still working from home. Legal certainty on policy response on CBI claims is receiving the highest priority.

We intensified our focus on technology as an enabler for both our clients and intermediaries. Driving efficiencies in management expenses is and will remain of utmost importance in the expected low-growth economy.

The group continues to prioritise and focus on its transformation priorities. Santam achieved a level 1 BBBEE status and will continue to promote transformation to the benefit of the economy.

EVENTS AFTER THE REPORTING PERIOD

Santam announced on 26 July 2020 that it will provide up to R1 billion of relief payments to support mainly small and medium-sized commercial policyholders in the hospitality, leisure and non-essential retail services industries that have the CBI extension to their policies and suffered a loss due to the national lockdown. This will be in the form of a relief payment to support policyholders who are in financial distress and not an indemnity payment under a policy contract, as the scope of the cover still needs to be determined by the South African courts. Policyholders were required to register a claim to qualify for the relief. Santam commenced with the relief payments from the first week in August 2020. By 2 September 2020, R950 million in payments were made to policyholders.

Should the courts ultimately rule in Santam's favour and determine that the lockdown is not an insured peril, then the amount paid will still be considered relief payments in respect of registered claims to policyholders and will not be recovered from policyholders. However, if the courts rule against Santam and determine that the national lockdown is an insured peril, the amount will become an advance payment against any finally determined claims against Santam under the CBI extension.

On 6 August 2020, the group entered into a zero-cost collar over equities to the value of R1 billion, based on the SWIX 40 to provide capital protection in the current volatile market conditions. The structure offers full downside protection from the implementation level of 10 858, with upside participation (excluding dividends) of 0.275% and expires on 6 November 2020.

INTERIM DIVIDEND

Given the current uncertainty around the eventual outcome of COVID-19-related claims, the board has deemed it prudent not to declare an interim 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 first half of 2020.

PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

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

VP Khanyile
Chairman

L Lambrechts
Chief executive officer

2 September 2020

INDEPENDENT AUDITOR'S REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF SANTAM LIMITED

We have reviewed the condensed consolidated interim financial statements of Santam Limited in the accompanying interim report, which comprise the condensed consolidated statement of financial position as at 30 June 2020 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-months then ended, and selected explanatory notes.

Directors' Responsibility for the Interim Financial Statements

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

Auditor's Responsibility

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

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

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Santam Limited for the six months ended 30 June 2020 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Chantel van den Heever
Registered Auditor
Cape Town

2 September 2020

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Reviewed at 30 June 2020 R million	Audited at 31 December 2019 R million
ASSETS			
Intangible assets		**948**	948
Property and equipment		**907**	984
Investment in associates and joint ventures		**2 375**	2 661
Strategic investment – unquoted SEM target shares	7	**1 504**	1 474
Deferred income tax		**145**	107
Deposit with cell owners		**153**	180
Cell owners' and policyholders' interest		**27**	26
Financial assets at fair value through income	7	**25 607**	24 411
Reinsurance assets	8	**7 690**	6 821
Deferred acquisition costs		**793**	727
Loans and receivables including insurance receivables	7	**6 469**	6 237
Current income tax assets		**10**	16
Cash and cash equivalents		**5 613**	4 642
Total assets		**52 241**	49 234
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital		**103**	103
Treasury shares		**(545)**	(482)
Other reserves		**116**	(405)
Distributable reserves		**9 445**	10 326
		9 119	9 542
Non-controlling interest		**512**	521
Total equity		**9 631**	10 063
LIABILITIES			
Deferred income tax		**128**	78
Cell owners' and policyholders' interest		**3 995**	3 964
Reinsurance liability relating to cell owners		**153**	180
Financial liabilities at fair value through income			
Debt securities	7	**2 089**	2 080
Investment contracts	7	**1 497**	1 618
Lease liabilities		**919**	978
Financial liabilities at amortised cost			
Repo liability		**806**	785
Collateral guarantee contracts		**113**	120
Insurance liabilities	8	**26 214**	23 207
Deferred reinsurance acquisition revenue		**488**	489
Provisions for other liabilities and charges		**161**	123
Trade and other payables including insurance payables	7	**5 699**	5 280
Current income tax liabilities		**348**	269
Total liabilities		**42 610**	39 171
Total shareholders' equity and liabilities		**52 241**	49 234

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Reviewed Six months ended 30 June 2020 R million	Reviewed Six months ended 30 June 2019 R million	Change
Gross written premium		**18 258**	17 018	7%
Less: reinsurance written premium		**6 348**	5 304	
Net written premium		**11 910**	11 714	2%
Less: change in unearned premium				
Gross amount		**653**	437	
Reinsurers' share		**(666)**	(496)	
Net insurance premium revenue		**11 923**	11 773	1%
Interest income on amortised cost instruments	9	**80**	87	
Interest income on fair value through income instruments	9	**804**	750	
Other investment income	9	**672**	141	
Income from reinsurance contracts ceded		**1 013**	915	
Net (losses)/gains on financial assets and liabilities at fair value through income	9	**(749)**	379	
Other income		**180**	112	
Net income		**13 923**	14 157	(2%)
Insurance claims and loss adjustment expenses		**11 122**	9 954	
Insurance claims and loss adjustment expenses recovered from reinsurers		**(3 328)**	(2 336)	
Net insurance benefits and claims		**7 794**	7 618	2%
Expenses for the acquisition of insurance contracts		**2 512**	2 390	
Expenses for marketing and administration		**2 229**	2 107	
Expenses for investment-related activities		**27**	29	
Amortisation of intangible assets		**35**	35	
Investment return allocated to cell owners and structured insurance products		**29**	321	
Total expenses		**12 626**	12 500	1%
Results of operating activities		**1 297**	1 657	(22%)
Finance costs		**(170)**	(207)	
Net (loss)/income from associates and joint ventures		**(747)**	45	
Impairment of joint venture		**(15)**	–	
Income tax recovered from cell owners and structured insurance products	10	**185**	81	
Profit before tax		**550**	1 576	(65%)
Tax expense allocated to shareholders	10	**(294)**	(353)	
Tax expense allocated to cell owners and structured insurance products		**(185)**	(81)	
Total tax expense		**(479)**	(434)	10%
Profit for the period		**71**	1 142	(94%)
Other comprehensive income, net of tax				
Items that may subsequently be reclassified to income:				
Share of associates' currency translation differences		**532**	(47)	
Total comprehensive income for the period		**603**	1 095	(45%)
Profit attributable to:				
– equity holders of the company		**26**	1 094	(98%)
– non-controlling interest		**45**	48	(6%)
		71	1 142	
Total comprehensive income attributable to:				
– equity holders of the company		**558**	1 047	(47%)
– non-controlling interest		**45**	48	(6%)
		603	1 095	
Earnings attributable to equity shareholders				
Earnings per share (cents)	12			
Basic earnings per share		**24**	990	(98%)
Diluted earnings per share		**23**	986	(98%)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company						
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	Total R million	Non-controlling interest R million	Total R million
Balance as at 1 January 2019	**103**	**(467)**	**(90)**	**9 311**	**8 857**	**508**	**9 365**
Profit for the year	–	–	–	2 199	**2 199**	122	**2 321**
Other comprehensive income:							
Share of associates' currency translation differences	–	–	(315)	–	**(315)**	–	**(315)**
Total comprehensive income for the year ended 31 December 2019	–	–	**(315)**	**2 199**	**1 884**	122	**2 006**
Issue of treasury shares in terms of share option schemes	–	91	–	(91)	**–**	–	**–**
Purchase of treasury shares	–	(106)	–	–	**(106)**	–	**(106)**
Share-based payment costs	–	–	–	85	**85**	–	**85**
Share of associates' other movements in retained earnings	–	–	–	(7)	**(7)**	–	**(7)**
Dividends paid	–	–	–	(1 171)	**(1 171)**	(109)	**(1 280)**
Balance as at 31 December 2019	**103**	**(482)**	**(405)**	**10 326**	**9 542**	**521**	**10 063**
Profit for the period	–	–	–	26	**26**	45	**71**
Other comprehensive income:							
Share of associates' currency translation differences	–	–	532	–	**532**	–	**532**
Total comprehensive income for the period ended 30 June 2020	**–**	**–**	**532**	**26**	**558**	**45**	**603**
Issue of treasury shares in terms of share option schemes	–	79	–	(79)	**–**	–	**–**
Purchase of treasury shares	–	(142)	–	–	**(142)**	–	**(142)**
Share-based payment costs	–	–	–	29	**29**	–	**29**
Share of associates' other movements in reserves	–	–	(11)	–	**(11)**	–	**(11)**
Non-controlling interest acquired	–	–	–	(64)	**(64)**	(5)	**(69)**
Dividends paid	–	–	–	(793)	**(793)**	(49)	**(842)**
Balance as at 30 June 2020	**103**	**(545)**	**116**	**9 445**	**9 119**	**512**	**9 631**
Balance as at 1 January 2019	**103**	**(467)**	**(90)**	**9 311**	**8 857**	**508**	**9 365**
Profit for the period	–	–	–	1 094	**1 094**	48	**1 142**
Other comprehensive income:							
Share of associates' currency translation differences	–	–	(47)	–	**(47)**	–	**(47)**
Total comprehensive income for the period ended 30 June 2019	**–**	**–**	**(47)**	**1 094**	**1 047**	**48**	**1 095**
Issue of treasury shares in terms of share option schemes	–	92	–	(92)	**–**	–	**–**
Purchase of treasury shares	–	(72)	–	–	**(72)**	–	**(72)**
Share-based payment costs	–	–	–	45	**45**	–	**45**
Dividends paid	–	–	–	(737)	**(737)**	(48)	**(785)**
Balance as at 30 June 2019	**103**	**(447)**	**(137)**	**9 621**	**9 140**	**508**	**9 648**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Reviewed Six months ended 30 June 2020 R million	Reviewed Six months ended 30 June 2019 R million
Cash flows from operating activities			
Cash generated from operations		**3 941**	1 556
Interest paid		**(178)**	(224)
Income tax paid		**(194)**	(505)
Acquisition of financial assets		**(13 859)**	(12 440)
Proceeds from sale of financial assets		**12 314**	12 778
Net cash from operating activities		**2 024**	1 165
Cash flows from investing activities			
Acquisition of financial assets		**(355)**	(531)
Proceeds from sale of financial assets		**253**	599
Acquisition of subsidiaries, net of cash acquired	11	**(6)**	(21)
Purchases of equipment		**(16)**	(52)
Purchases of intangible assets		**(30)**	(61)
Proceeds from sale of equipment		**1**	–
Capitalisation of associates	11	**–**	(60)
Net cash used in investing activities		**(153)**	(126)
Cash flows from financing activities			
Purchase of treasury shares		**(142)**	(72)
Purchase of non-controlling interest in subsidiary	11	**(69)**	–
Dividends paid to company's shareholders		**(793)**	(737)
Dividends paid to non-controlling interest		**(49)**	(48)
Payment of principal element of lease liabilities		**(64)**	(97)
Net cash used in financing activities		**(1 117)**	(954)
Net increase in cash and cash equivalents		**754**	85
Cash and cash equivalents at beginning of period		**4 642**	3 618
Exchange gains/(losses) on cash and cash equivalents		**217**	(15)
Cash and cash equivalents at end of period		**5 613**	3 688

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements are prepared in accordance with the requirements of the JSE for summary financial statements, and the requirements of the Companies Act, 71 of 2008, as amended, 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*.

The condensed consolidated interim financial statements have been prepared on a going concern basis. In adopting the going concern basis, the board has reviewed the group's ongoing commitments for the next 12 months and beyond. The board's review included the group's strategic plans and updated financial forecasts including capital position, liquidity and credit facilities, and investment portfolio.

In the context of the current challenging environment a range of downside scenarios have been considered. These included scenarios which reflected:

- premium reductions from an economic downturn;
- COVID-19-related claims;
- financial relief measures for customers;
- cost impact of responding to operational challenges from COVID-19 and management actions to reduce costs and discretionary spend; and
- ongoing impact of COVID-19, including lower economic activity, suppressed spending, business confidence, market volatility and multiple future waves.

In addition a stress test exercise has been undertaken to consider the impact on the group's capital position including the following one-off type events: severe COVID-19-related claims, including adverse outcomes of legal cases relating to business interruption claims and a failure in the group's reinsurance programme, adverse catastrophe experience and severe and sudden financial market movements. An aggregated scenario such as this, and the sequence of events it involves, is considered to be remote and there are mitigating recovery actions that can be taken to restore the capital position to the group's target range.

As a result, the board believes that the group is well placed to meet future capital requirements and liquidity demands. Based on this review no material uncertainties that would require disclosure have been identified in relation to the ability of the group to remain a going concern for at least the next 12 months, from the date of the approval of the condensed consolidated interim financial statements.

2. ACCOUNTING POLICIES

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

Standards effective in 2020

The following new IFRSs and/or IFRICs were effective for the first time from 1 January 2020:

- Amendments to IFRS 3 – *Business Combinations*
- Amendments to IFRS 7 – *Financial Instruments: Disclosures*
- Amendments to IFRS 9 – *Financial Instruments*
- Amendments to IAS 1 – *Presentation of Financial Statements*
- Amendments to IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*

No material impact on the condensed consolidated interim financial statements was identified resulting from the adoption of these amendments made to IFRS.

Standards not yet effective in 2020

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

IFRS 17 INSURANCE CONTRACTS

The IASB issued IFRS 17 *Insurance Contracts* in May 2017 and on 25 June 2020, the IASB issued amendments to the standard. These amendments follow from the Exposure Draft (ED) on proposed Amendments to IFRS 17 Insurance Contracts (published on 26 June 2019), and subsequent deliberations based on feedback received on the ED from stakeholders. The effective date of IFRS 17, including the amendments, has been deferred by two years to annual reporting periods beginning on or after 1 January 2023. The standard needs to be applied retrospectively.

2. ACCOUNTING POLICIES (continued)

Standards not yet effective in 2020 (continued)

IFRS 17 INSURANCE CONTRACTS (continued)

In contrast to the requirements of IFRS 4, IFRS 17 provides a comprehensive model (general measurement model) for the measurement of insurance contracts, supplemented by the variable fee approach for contracts with direct participation features and the premium allocation approach applicable mainly for short-duration contracts.

The main features of the general model for insurance contracts are that the groups identified:

- be measured at the present value of future cash flows incorporating an explicit risk adjustment and remeasured every reporting period (the fulfilment cash flows);
- a contractual service margin that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts, is recognised in profit or loss over the service period (coverage period).

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage (fulfilment cash flows related to future service and the contractual service margin) and the liability for incurred claims (fulfilment cash flows related to past service).

Where the requirements are met to measure a group of insurance contracts using the premium allocation approach, the liability for remaining coverage corresponds to premiums received at initial recognition less acquisition costs. However, the general model remains applicable for the measurement of incurred claims.

Based on the group's analysis of insurance policies issued, the group predominantly writes short-term contracts, therefore the premium allocation approach will be applied to the bulk of the insurance book.

Insurance revenue and insurance service expenses are recognised in the statement of comprehensive income based on the concept of services provided during the period. The standard also recognises losses earlier on contracts that are expected to be onerous. The standard requires that the amounts recognised in the statement of comprehensive income be disaggregated into:

- an insurance service result, comprising insurance revenue and insurance service expenses; and
- insurance finance income or expenses.

The standard introduces a new, more granular system of reporting for both insurance revenue and insurance contract liabilities and does not only impact accounting and actuarial reporting, but has a pervasive impact across the group's operating model. Due to the fundamental changes required by the standard, and to ensure successful implementation, an IFRS 17 project team was established. Within the project team are further sub-teams including: data acquisition, data integration, IFRS 17 valuation, general ledger, consolidation and reporting integration.

The group's audit committee and an IFRS 17 steering committee provide oversight and governance over the project. The steering committee is comprised of senior management from various functions including: finance, risk, information technology, operations and group internal audit.

The IFRS 17 project team has prepared draft accounting policies, actuarial methodologies and disclosure requirements to be consistently implemented throughout the group. These policy and methodology papers are in draft and have had a first level review by the external auditors of the group. The project team remains up to date, and closely monitors, all technical developments from the IASB and industry to evaluate the effects of such developments and, where applicable, will align the policy and methodology papers accordingly.

Detailed building and testing of systems and processes to implement IFRS 17 for the group's gross and inward reinsurance business is in progress. The building and testing for the group's outward reinsurance business will commence in the latter part of 2020. Parallel run testing of the IFRS 17 solution is scheduled to take place in 2022.

Once IFRS 17 internal development has been completed, there will be greater clarity on the impact of the standard on the results. The impact of the change on the group's solvency position is expected to be limited.

3. ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated annual financial statements for the year ended 31 December 2019, except as indicated below.

In 2020, the COVID-19 global pandemic has had a significant impact on market conditions and the group's business. Estimates and their underlying assumptions continue to be reviewed on an ongoing basis with revisions to estimates being recognised prospectively. Where an estimate has been made in response to COVID-19, additional disclosure has been provided in the relevant note to provide context to the figures presented:

- Valuation of insurance contract liabilities: the assumptions used in the estimation of the eventual outcome of the claim events that have occurred that are expected to give rise to claims by the end of the reporting period but remain unsettled have been adjusted for the potential impact of COVID-19. This includes frequency, severity and development pattern assumptions. Refer to note 8 for additional information.
- Measurement and impairment of goodwill and associates: key assumptions applied in the valuation of the recoverable amount have been adjusted, and the estimation of useful economic life has been reviewed, to reflect the potential impact of COVID-19. Refer to note 14 for additional information.

4. COVID-19 RELIEF ACTIVITIES

Premium relief

Premium relief of R310 million was granted to policyholders in the form of discounts and premium holidays. It is accounted for as a decrease in gross written premium in the period in which the relief is formally communicated to the individual policyholders.

Contingent business interruption (CBI) relief payments

Santam announced on 26 July 2020 that it will provide up to R1 billion of relief payments to support mainly small and medium-sized commercial policyholders in the hospitality, leisure and non-essential retail services industries that have the CBI extension to their policies and suffered a loss due to the national lockdown. Refer to note 17.

Impact on financial results

The underwriting results in the current period were impacted by the COVID-19 pandemic.

The motor class reported strong underwriting performance, benefiting from a benign claims environment with the hard lockdown reducing claims activity in April and May 2020. Following the relaxing of lockdown regulations from 1 June 2020, claims frequency started to normalise. Total premium relief of R310 million was provided to motor policyholders in recognition of reduced travelling during the lockdown period.

The property class also benefitted from reduced claims activity during the lockdown from April 2020. This was however offset by a technical provision for CBI claims of R1 290 million.

Investment income was negatively impacted by fair value losses on financial assets resulting from the volatility in the financial markets due to the impact of COVID-19. This was offset to some extent by foreign currency gains due to the weakening of the South African Rand.

Santam's stress and scenario testing framework assesses the impact on the capital position of the group under a range of different possible events. A number of COVID-19 claims scenarios have been included in the current review cycle and it can be confirmed that both Santam's economic and regulatory solvency position remains at an acceptable level under all scenarios assessed.

5. RISK MANAGEMENT

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

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

The condensed consolidated interim financial statements do not include all risk management information and disclosures required in the annual financial statements and should be read in conjunction with the group's annual financial statements for the year ended 31 December 2019.

There have been no material changes to the risk management policies since 31 December 2019 except as indicated below.

The global outbreak of COVID-19 during the first half of 2020 has had a significant impact on market conditions and the insurance industry and has triggered the need to consider the impact on the principal risks managed by the group. A detailed assessment of the risks faced specifically in relation to COVID-19 has, therefore, been undertaken. This includes risks we believe could threaten the group's business model, future performance, solvency or liquidity.

The group has implemented a robust governance framework charged with the definition and ongoing management of the strategies designed to accelerate decision-making and mitigate the increased risk arising as a result of COVID-19 as far as possible. In response to COVID-19, key mitigants and controls have been considered and several key actions have been implemented to mitigate the additional risks that have been identified:

Key risks and exposures	Key mitigants and controls
Reserving risk	
There is a risk that the group's estimate of future claims payments is insufficient. COVID-19 has increased the risk of estimation uncertainty as the impact on future claims patterns such as frequency and severity are just emerging. The ongoing legal action on CBI coverage wording and how the group's reinsurance programmes would react in the event of an adverse outcome further increases the risk of estimation uncertainty.	• Experienced actuaries responsible for estimation of the actuarial valuation of the required reserves based on claims experience, business volume, anticipated change in the claims environment and claims cost. • This has involved extensive discussion and interaction among the underwriting, claims and legal functions to understand the exposure and claims experience to date, and to confirm legal position on cover. • Reserves were reviewed by the chief risk officer (CRO) and considered by the Executive Risk Forum attended by the chief executive officer (CEO), chief financial officer (CFO), CRO and chief underwriting officer, and the board audit and risk committees. • Claims case reserves represent the best estimate of outstanding value and were reviewed by the CRO. • Legal counsel supports the group's view on CBI policy wording in response to COVID-19. • Margins are held in excess of the 75th percentile in accordance with group policy for uncertainties.

5. RISK MANAGEMENT (continued)

Key risks and exposures	Key mitigants and controls
Underwriting and claims risk	
There is a risk that underwritten business is less profitable than planned due to insufficient pricing and settling of claims reserves. COVID-19 has increased the risk of exposure on CBI policy extensions and increased the level of uncertainty over claims outcomes given the court proceedings in relation to CBI policy wordings.	• Additional monitoring procedures have been implemented to track COVID-19-related claims including frequency and changes in payment patterns. • A continuous process has been initiated by the commercial underwriting function to identify and assess potential COVID-19 underwriting impacts and take necessary actions. • Well-defined risk appetite statements, which are rigorously monitored at quarterly board risk committee meetings, with remediation action taken where deemed necessary. • Extensive control validation and assurance activities are performed over underwriting pricing and claims.
Market, credit and currency risk	
There is a risk to the group's insurance funds arising from movements in macroeconomic variables, including widening credit spreads, fluctuating bond yields and currency fluctuations. COVID-19 has generated increased levels of market volatility, in particular in late March 2020 increasing the risk of credit default and downgrade. Customers facing financial difficulty may not make premium payments.	• The group's investment strategy to back insurance funds with cash and high-quality money market and other interest-bearing instruments reduces the risk of default and ensures sufficient liquidity. Shareholder funds are invested in high-quality interest-bearing instruments, a listed equity portfolio and diversified strategic equity investments on the African continent, India and Malaysia. The group also entered into a zero cost collar to protect the value of the equity portfolio, refer to note 17. • The group matches its foreign currency liabilities and capital requirements with appropriate foreign currency assets. The impact of exchange-rate movements on the group's performance and capital position is closely monitored. When deemed necessary, the group implements foreign currency hedging structures in order to manage its financial exposure to exchange rate movements. • Strategy continues to be reviewed in light of COVID-19 developments and frequency of engagement with the group fund managers has been increased. • Increased credit risk monitoring is in place to proactively manage financial risk arising from potential default of policyholders on their premiums. • The group has provided payment relief to customers experiencing financial difficulty as a result of COVID-19.
Operational risk	
This risk relates to customers and/or reputational damage arising from operational failure such as information technology (IT) system failure. The operational environment as a result of government imposed lockdown measures has increased this risk with new ways of working and servicing the customer.	• Remote working across the group was enabled rapidly in a controlled manner, through distribution of IT equipment and home working control procedures to continue servicing the group's customers during lockdown. The return to office will be carefully planned to ensure operational impact is minimised and government guidelines are met. • IT services have been maintained across the group with infrastructure continuing to support the remote working environment. • Operational risk and resilience processes and procedures are in place, including incident management. • IT and data risks remain under close monitoring, especially cyber threat.

5.1 Credit risk – financial assets and insurance receivables

There have been no significant changes in the way that the group assesses and manages credit risk since 31 December 2019, except as indicated in note 5. The group continues to monitor all credit exposures and follow up on overdue amounts. Premiums that are overdue in terms of the cancellation policy are provided for. There has been no significant change in premium collections.

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

As can be seen from the table on the following page, the majority of financial asset investments have moved one level down in terms of credit rating from BBB- to BB+ following the downgrade of the South African government's issuer ratings by major credit rating agencies. Most issuers in South Africa will have their credit ratings capped at the sovereign credit rating, and therefore the rating BB+ represents the best available ratings within the South African investable universe. This still falls within Santam's documented risk appetite and does not pose a significant risk for the group. It has had no significant impact on expected credit losses provided for. The current year includes an additional provision of R69 million (included in receivables due from contract holders/intermediaries) that was raised for liquidity concerns at a third-party premium-collection agency that went into voluntary curatorship in September 2018.

5. RISK MANAGEMENT (continued)

5.1 Credit risk – financial assets and insurance receivables (continued)

Reviewed at 30 June 2020	Credit rating AAA R million	AA+ R million	AA R million	AA- R million	A+ R million	A R million	A- R million
Financial assets:							
Government interest-bearing investments	–	–	–	–	–	–	–
Corporate interest-bearing investments	123	23	–	51	21	78	87
Mortgages and loans	–	–	–	–	–	–	–
Interest-bearing investments	**123**	**23**	**–**	**51**	**21**	**78**	**87**
Structured notes	–	–	–	–	–	–	–
Structured transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Investment funds	–	–	–	–	–	–	–
Cash, deposits and similar securities	–	–	143	–	139	–	–
Other loans and receivables	–	–	6	130	41	50	19
Cash and cash equivalents	–	56	410	492	16	–	61
Total financial assets	**123**	**79**	**559**	**673**	**217**	**128**	**167**
Insurance receivables:							
Receivables due from contract holders/intermediaries	–	28	–	323	–	50	14
Reinsurance receivables	–	58	49	97	13	3	35
Total insurance receivables	**–**	**86**	**49**	**420**	**13**	**53**	**49**

Audited at 31 December 2019 (Restated)	Credit rating AAA R million	AA+ R million	AA R million	AA- R million	A+ R million	A R million	A- R million
Financial assets:							
Government interest-bearing investments	–	–	–	–	–	–	–
Corporate interest-bearing investments	16	18	–	–	–	–	–
Mortgages and loans	–	–	–	–	–	–	–
Interest-bearing investments	**16**	**18**	**–**	**–**	**–**	**–**	**–**
Structured notes	–	–	–	–	–	–	–
Structured transactions	**–**	**–**	**–**	**–**	**–**		
Investment funds	–	–	–	–	–	–	–
Cash, deposits and similar securities	–	–	225	–	–	–	–
Other loans and receivables	–	12	8	23	3	–	–
Cash and cash equivalents	–	92	267	113	15	–	–
Total financial assets	**16**	**122**	**500**	**136**	**18**	**–**	**–**
Insurance receivables:							
Receivables due from contract holders/intermediaries	–	–	187	30	–	6	69
Reinsurance receivables	–	5	4	80	24	3	37
Total insurance receivables	**–**	**5**	**191**	**110**	**24**	**9**	**106**

Due to the reclassification of financial assets (refer to note 7.4), total assets rated as BBB- and Not rated are different to amounts presented in the annual financial statements for the year ended 31 December 2019. In the table above, BBB- includes derivatives to the value of R35 million and Not rated includes investment funds with underlying equity securities, which were both omitted from the note in the annual financial statements.

Credit rating								
BBB+ R million	BBB R million	BBB- R million	BB+ R million	BB R million	BB- R million	Below BB- R million	Not rated R million	Carrying value R million
–	–	29	2 085	1 110	1	–	61	**3 286**
52	79	151	10 099	689	898	183	1 234	**13 768**
–	–	–	–	72	56	37	–	**165**
52	**79**	**180**	**12 184**	**1 871**	**955**	**220**	**1 295**	**17 219**
–	–	90	220	15	7	3	–	**335**
–	**–**	**90**	**220**	**15**	**7**	**3**	**–**	**335**
–	–	–	1	–	–	–	4 492	**4 493**
–	–	–	1 321	20	–	–	125	**1 748**
9	1	88	93	14	67	1	720	**1 239**
103	20	–	4 239	–	128	81	7	**5 613**
164	**100**	**358**	**18 058**	**1 920**	**1 157**	**305**	**6 639**	**30 647**
–	–	–	15	11	41	–	4 083	**4 565**
16	–	1	13	–	–	–	380	**665**
16	**–**	**1**	**28**	**11**	**41**	**–**	**4 463**	**5 230**

Credit rating								
BBB+ R million	BBB R million	BBB- R million	BB+ R million	BB R million	BB- R million	Below BB- R million	Not rated R million	Carrying value R million
–	–	2 892	64	18	5	1	39	**3 019**
11	10	9 259	463	608	585	226	893	**12 089**
–	–	–	–	18	85	55	7	**165**
11	**10**	**12 151**	**527**	**644**	**675**	**282**	**939**	**15 273**
–	–	339	3	33	17	8	–	**400**
–	**–**	**339**	**3**	**33**	**17**	**8**	**–**	**400**
–	–	7	–	218	–	–	4 255	**4 480**
–	–	1 366	–	–	–	–	164	**1 755**
10	61	73	5	9	4	1	910	**1 119**
2	11	3 595	72	262	98	94	21	**4 642**
23	**82**	**17 531**	**607**	**1 166**	**794**	**385**	**6 289**	**27 669**
–	–	10	1	–	–	–	4 442	**4 745**
–	–	1	20	–	–	–	199	**373**
–	**–**	**11**	**21**	**–**	**–**	**–**	**4 641**	**5 118**

5. RISK MANAGEMENT (continued)

5.2 Liquidity risk

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

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

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

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

Reviewed at 30 June 2020	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Open ended R million	Carrying value R million
Financial and insurance assets					
Equity securities					
Listed equities and similar securities	–	–	–	1 735	**1 735**
Unlisted equities and similar securities	–	–	–	1 581	**1 581**
Interest-bearing investments					
Government interest-bearing investments	1 671	594	1 021	–	**3 286**
Corporate interest-bearing investments	4 705	7 447	1 536	80	**13 768**
Mortgages and loans	31	124	10	–	**165**
Structured transactions					
Structured notes	104	213	18	–	**335**
Investment funds	–	–	–	4 493	**4 493**
Cash, deposits and similar securities	1 091	657	–	–	**1 748**
Total investment assets	**7 602**	**9 035**	**2 585**	**7 889**	**27 111**
Receivables due from contract holders/intermediaries	4 565	–	–	–	**4 565**
Reinsurance receivables	665	–	–	–	**665**
Cell owners' and policyholders' interest	27	–	–	–	**27**
Other loans and receivables	1 216	20	3	–	**1 239**
Reinsurance assets (including DAC)	6 833	1 339	230	81	**8 483**
Deposit with cell owners	55	97	1	–	**153**
Total	**13 361**	**1 456**	**234**	**81**	**15 132**
Cash and cash equivalents	**5 613**	**–**	**–**	**–**	**5 613**
Total financial and insurance assets	**26 576**	**10 491**	**2 819**	**7 970**	**47 856**

	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Total R million
Financial and insurance liabilities				
Debt securities	699	1 710	–	**2 409**
Investment contracts	28	–	1 469	**1 497**
Cell owners' and policyholders' interest	–	3 995	–	**3 995**
Repo liability	427	379	–	**806**
Collateral guarantee contracts	113	–	–	**113**
Insurance liabilities (including reinsurance DAC)	21 700	4 285	717	**26 702**
Reinsurance liability relating to cell owners	55	97	1	**153**
Trade and other payables including insurance payables	5 485	72	142	**5 699**
Total financial and insurance liabilities	**28 507**	**10 538**	**2 329**	**41 374**

5. RISK MANAGEMENT (continued)

5.2 Liquidity risk (continued)

Audited at 31 December 2019 (Restated)	Within 1 year R million	1 – 5 years R million	More than 5 years R million	Open ended R million	Carrying value R million
Financial and insurance assets					
Equity securities					
Listed equities and similar securities	–	–	–	2 420	**2 420**
Unlisted equities and similar securities	–	–	–	1 557	**1 557**
Interest-bearing investments					
Government interest-bearing investments	1 900	534	585	–	**3 019**
Corporate interest-bearing investments	3 102	7 960	947	80	**12 089**
Mortgages and loans	26	129	10	–	**165**
Structured transactions					
Structured notes	153	229	18	–	**400**
Investment funds	–	–	–	4 480	**4 480**
Cash, deposits and similar securities	975	780	–	–	**1 755**
Total investment assets	**6 156**	**9 632**	**1 560**	**8 537**	**25 885**
Receivables due from contract holders/intermediaries	4 745	–	–	–	**4 745**
Reinsurance receivables	373	–	–	–	**373**
Cell owners' and policyholders' interest	26	–	–	–	**26**
Other loans and receivables	1 114	–	–	5	**1 119**
Reinsurance assets (including DAC)	6 268	951	236	93	**7 548**
Deposit with cell owners	58	117	5	–	**180**
Total	**12 584**	**1 068**	**241**	**98**	**13 991**
Cash and cash equivalents	**4 642**	**–**	**–**	**–**	**4 642**
Total financial and insurance assets	**23 382**	**10 700**	**1 801**	**8 635**	**44 518**

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

6. SEGMENT INFORMATION

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

The group conducts mainly insurance and investment activities.

INSURANCE ACTIVITIES:

The group presents its insurance results in the following segments:

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

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

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

6. SEGMENT INFORMATION (continued)

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

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

INVESTMENT ACTIVITIES

Investment activities are all investment-related activities undertaken by the group. Due to the nature of the activities conducted, investment activities are considered to be one operating segment. Investment activities are measured based on net investment income. Revenue is earned from the various investment portfolios managed in the form of interest, dividends and fair value gains or losses, as well income from associates and joint ventures that are not considered to be strategic investments.

ALL ACTIVITIES

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

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

Santam Ltd is domiciled in South Africa. Geographical analysis of the gross written premium and non-current assets 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.

Since the group reported its segmental results for the six months ended 30 June 2019, the segmental disclosure has been adjusted as follows:

- Detail regarding conventional insurance business has been removed from the main table and is included as a subsection.
- Further information has been provided in relation to the key statement of comprehensive income line items for SAN JV (Saham) as this better reflects how management reviews the results. Previously, results from reinsurance business for SAN JV was disclosed separately, but as it relates only to general insurance business and not life business, it has been included with the general insurance business, as these businesses are managed together.

6.1 Segment report

FOR THE SIX MONTHS ENDED 30 JUNE 2020 (REVIEWED)

	Insurance							
Business activity	Conventional R million	Alternative risk transfer R million	Santam's share of SAN JV and other SEM businesses R million	Total R million	Investment R million	Total R million	Reconciling and unallocated[4] R million	IFRS total R million
Revenue	14 812	3 446	1 698	19 956	484	20 440	(2 182)	18 258
External	14 705	3 446	1 698	19 849	484	20 333	(2 182)	18 151
Intersegment[5]	107	–	–	107	–	107	–	107
Operating result before non-controlling interest and tax[1]	776	54	171	1 001	–	1 001	(171)	830
Reallocation of operating result	–	–	(171)	(171)	–	(171)	171	–
Investment income net of investment-related fees	–	29	–	29	432	461	–	461
Investment return allocated to cell owners and structured insurance products	–	(29)	–	(29)	–	(29)	–	(29)
Finance costs[2]	–	–	–	–	(123)	(123)	–	(123)
Income from associates and joint ventures including impairment	–	–	(787)	(787)	25	(762)	–	(762)
Santam BEE costs	–	–	–	–	–	–	(1)	(1)
Amortisation and impairment of intangible assets[3]	(11)	–	–	(11)	–	(11)	–	(11)
Income tax recovered from cell owners and structured insurance products	–	185	–	185	–	185	–	185
Profit before tax	765	239	(787)	217	334	551	(1)	550

[1] *Includes depreciation of R105 million for Conventional and R5 million for Alternative risk transfer.*
[2] *Finance costs relating to lease liabilities have been included in operating results.*
[3] *Amortisation of computer software is included as part of operating result. Santam's share of the costs to manage the SEM portfolio of R5 million has been included in operating result.*
[4] *Reconciling items consist of the reallocation of net operating results relating to the underlying investments of the SEM target shares and SAN JV for management reporting purposes (as a result of the investments in SEM being carried at fair value through income, and SAN JV being equity-accounted), the reallocation of investment revenue for IFRS purposes as well as the elimination of intersegmental revenue.*
[5] *Intersegment revenue includes revenue earned from the Santam's share of SAN JV and other SEM businesses segment.*

6. SEGMENT INFORMATION (continued)

6.1 Segment report (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (REVIEWED AND RESTATED)

Business activity	Insurance: Conventional R million	Insurance: Alternative risk transfer R million	Insurance: Santam's share of SAN JV and other SEM businesses R million	Insurance: Total R million	Investment R million	Total R million	Reconciling and unallocated[4] R million	IFRS total R million
Revenue	**14 220**	**2 798**	**1 465**	**18 483**	**504**	**18 987**	**(1 969)**	**17 018**
External	14 144	2 798	1 465	**18 407**	504	**18 911**	(1 969)	**16 942**
Intersegment[5]	76	–	–	**76**	–	**76**	–	**76**
Operating result before non-controlling interest and tax[1]	**891**	**72**	**290**	**1 253**	–	**1 253**	**(290)**	**963**
Reallocation of operating result	–	–	(290)	**(290)**	–	**(290)**	290	**–**
Investment income net of investment-related fees	–	368	169	**537**	452	**989**	–	**989**
Investment return allocated to cell owners and structured insurance products	–	(321)	–	**(321)**	–	**(321)**	–	**(321)**
Finance costs[2]	–	(47)	–	**(47)**	(121)	**(168)**	–	**(168)**
Income from associates and joint ventures including impairment	–	–	22	**22**	23	**45**	–	**45**
Santam BEE costs	–	–	–	**–**	–	**–**	(1)	**(1)**
Amortisation and impairment of intangible assets[3]	(12)	–	–	**(12)**	–	**(12)**	–	**(12)**
Income tax recovered from cell owners and structured insurance products	–	81	–	**81**	–	**81**	–	**81**
Profit before tax	**879**	**153**	**191**	**1 223**	**354**	**1 577**	**(1)**	**1 576**

1 *Includes depreciation of R102 million for Conventional and R6 million for Alternative risk transfer.*
2 *Finance costs relating to lease liabilities have been included in operating results.*
3 *Amortisation of computer software is included as part of operating result. Santam's share of the costs to manage the SEM portfolio of R6 million has been included in operating result.*
4 *Reconciling items consist of the reallocation of net operating results relating to the underlying investments of the SEM target shares and SAN JV for management reporting purposes (as a result of the investments in SEM being carried at fair value through income, and SAN JV being equity-accounted), the reallocation of investment revenue for IFRS purposes as well as the elimination of intersegmental revenue.*
5 *Intersegment revenue includes revenue earned from the Santam's share of SAN JV and other SEM businesses segment.*

ADDITIONAL INFORMATION ON CONVENTIONAL INSURANCE ACTIVITIES

	Reviewed Six months ended 30 June 2020 R million	Reviewed Six months ended 30 June 2019 R million
Revenue	**14 812**	14 220
Net earned premium	**11 761**	11 457
Net claims incurred	**7 699**	7 388
Net commission	**1 529**	1 514
Management expenses (excluding BEE costs)[1,2]	**2 028**	1 953
Net underwriting result	**505**	602
Investment return on insurance funds	**275**	285
Net insurance result	**780**	887
Other income	**69**	84
Other expenses	**(73)**	(80)
Operating result before non-controlling interest and tax	**776**	891

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

6. SEGMENT INFORMATION (continued)

6.1 Segment report (continued)

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

	Reviewed Six months ended 30 June 2020		Reviewed Six months ended 30 June 2019	
	Gross written premium R million	Underwriting result R million	Gross written premium R million	Underwriting result R million
Accident and health	**337**	**41**	306	3
Crop	**160**	**5**	89	(88)
Engineering	**791**	**167**	824	143
Guarantee	**37**	**(21)**	115	(17)
Liability	**614**	**2**	627	117
Miscellaneous	**(11)**	**3**	12	2
Motor	**6 522**	**1 050**	6 549	593
Property	**5 976**	**(770)**	5 322	(128)
Transportation	**386**	**28**	376	(23)
Total	**14 812**	**505**	14 220	602
Comprising:				
Commercial insurance	**8 491**	**(499)**	8 008	213
Personal insurance	**6 321**	**1 004**	6 212	389
Total	**14 812**	**505**	14 220	602

ADDITIONAL INFORMATION ON ALTERNATIVE RISK TRANSFER INSURANCE ACTIVITIES

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

	Reviewed Six months ended 30 June 2020 R million	Reviewed Six months ended 30 June 2019 R million
Income from clients	**151**	166
Participation in underwriting results[1]	**24**	30
	175	196
Administration expenses	**(121)**	(124)
Operating result before non-controlling interest and tax	**54**	72

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

ADDITIONAL INFORMATION ON SANTAM'S SHARE OF SAHAM AND OTHER SEM BUSINESSES

	Reviewed Six months ended 30 June 2020			Reviewed Six months ended 30 June 2019		
	SEM R million	Saham R million	Total R million	SEM R million	Saham R million	Total R million
Revenue	**654**	**1 044**	**1 698**	574	891	1 465
Operating result before non-controlling interest and tax	**141**	**30**	**171**	204	86	290

ADDITIONAL INFORMATION FOR SANTAM'S SHARE OF OTHER SEM BUSINESSES

	Reviewed Six months ended 30 June 2020 R million	Reviewed Six months ended 30 June 2019 R million
Revenue	**654**	574
Net earned premium	**505**	429
Net claims incurred	**295**	211
Net acquisition cost	**176**	120
Net underwriting result	**34**	98
Investment return on insurance funds	**106**	106
Other income	**1**	–
Operating result before non-controlling interest and tax	**141**	204

6. SEGMENT INFORMATION (continued)

6.1 Segment report (continued)

ADDITIONAL INFORMATION FOR SANTAM'S SHARE OF SAHAM'S GENERAL AND REINSURANCE BUSINESS

	Reviewed Six months ended 30 June 2020 R million	Reviewed Six months ended 30 June 2019 R million
Revenue	**1 044**	891
Net earned premium	**652**	592
Net claims incurred	**382**	372
Net acquisition cost	**221**	206
Net underwriting result	**49**	14
Investment return on insurance funds	**(19)**	72
Operating result before non-controlling interest and tax	**30**	86

ADDITIONAL INFORMATION FOR SAHAM (100%)

	Life business		General insurance[1]		Consolidation and other[2]		Saham total	
Reviewed	30 June 2020 R million	30 June 2019 R million	30 June 2020 R million	30 June 2019 R million	30 June 2020 R million	30 June 2019 R million	30 June 2020 R million	30 June 2019 R million
Financial service income	**522**	665	**6 553**	6 963	**159**	275	**7 234**	7 903
Long-term insurance contracts	**474**	635	**–**	–	**–**	–	**474**	635
General insurance contracts	**–**	–	**6 523**	5 923	**–**	–	**6 523**	5 923
Investment return on insurance funds	**48**	19	**(189)**	792	**–**	–	**(141)**	811
Other	**–**	11	**219**	248	**159**	275	**378**	534
Sales remuneration	**(153)**	(118)	**(896)**	(839)	**–**	–	**(1 049)**	(957)
Underwriting policy benefits	**(131)**	(171)	**(3 819)**	(3 724)	**–**	–	**(3 950)**	(3 895)
Administration cost	**(190)**	(226)	**(1 542)**	(1 475)	**(267)**	(411)	**(1 999)**	(2 112)
Gross results from financial services	**48**	150	**296**	925	**(108)**	(136)	**236**	939
Tax	**(43)**	(36)	**5**	(224)	**32**	(29)	**(6)**	(289)
Profit after tax	**5**	114	**301**	701	**(76)**	(165)	**230**	650
Non-controlling interest	**(15)**	(19)	**(22)**	(162)	**1**	1	**(36)**	(180)
Net results from financial services	**(10)**	95	**279**	539	**(75)**	(164)	**194**	470
Project expenses	**(13)**	–	**(17)**	–	**–**	–	**(30)**	–
Net investment return on shareholders' funds	**(495)**	(7)	**(311)**	7	**(13)**	9	**(819)**	9
Amortisation of intangibles	**–**	(4)	**(22)**	(13)	**(5)**	(4)	**(27)**	(21)
Foreign currency translation differences	**–**	(3)	**60**	(13)	**39**	(13)	**99**	(29)
Attributable earnings[3]	**(518)**	81	**(11)**	520	**(54)**	(172)	**(583)**	429

[1] *General insurance includes the following lines of business: general insurance, health, property, reinsurance and Elite.*
[2] *Consolidation and other includes the following: central corporate costs, withholding tax incurred by holdings companies in the structure, Netis Group.*
[3] *This excludes amortisation of R198 million and impairments of R6 904 million at a consolidated SAN JV level.*

ADDITIONAL INFORMATION ON INVESTMENT ACTIVITIES

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

	Reviewed Six months ended 30 June 2020 R million	Reviewed Six months ended 30 June 2019 R million
Investment income	**849**	316
Net (losses)/gains on financial assets and liabilities at fair value through income	**(390)**	165
Income from associates and joint ventures	**25**	23
Investment-related revenue	**484**	504
Expenses for investment-related activities	**(27)**	(29)
Finance costs	**(123)**	(121)
Net total investment-related transactions	**334**	354

For a detailed analysis of investment activities, refer to notes 7 and 9.

6. SEGMENT INFORMATION (continued)

6.2 Geographical analysis

	Gross written premium		Non-current assets	
	Reviewed Six months ended 30 June 2020 R million	Reviewed Six months ended 30 June 2019 R million	Reviewed at 30 June 2020 R million	Audited at 31 December 2019 R million
South Africa	**15 934**	15 183	**2 219**	2 269
Rest of Africa[1,2]	**2 132**	2 072	**2 131**	2 414
Southeast Asia, India and Middle East[2]	**1 735**	1 075	**1 386**	1 384
Other	**155**	153	**–**	–
	19 956	18 483	**5 736**	6 067
Reconciling items[2]	**(1 698)**	(1 465)	**–**	–
Group total	**18 258**	17 018	**5 736**	6 067

[1] *Includes gross written premium relating to Namibia of R474 million (June 2019: R501 million).*

[2] *Reconciling items relate to the underlying investments included in the SEM target shares and SAN JV for management reporting purposes (as a result of the investments in SEM being carried at fair value through income, and SAN JV being equity-accounted).*

7. FINANCIAL ASSETS AND LIABILITIES (INCLUDING INSURANCE RECEIVABLES AND PAYABLES)

The group's financial assets and liabilities including insurance receivables and payables are summarised below by measurement category.

	Reviewed at 30 June 2020 R million	Audited at 31 December 2019 R million
Financial assets		
Strategic investment - unquoted SEM target shares	**1 504**	1 474
Financial assets at fair value through income	**25 607**	24 411
	27 111	25 885
Expected to be realised after 12 months	**20 672**	20 094
Expected to be realised within 12 months	**6 439**	5 791
Loans and receivables including insurance receivables	**6 469**	6 237
Receivables arising from insurance and reinsurance contracts	**5 230**	5 118
Loans and receivables excluding insurance receivables	**1 239**	1 119
Loans and receivables including insurance receivables are expected to be realised within 12 months.		
Financial liabilities		
Financial liabilities at fair value through income	**3 586**	3 698
	3 586	3 698
Expected to be settled after 12 months	**3 023**	3 590
Expected to be settled within 12 months	**563**	108
Trade and other payables including insurance payables	**5 699**	5 280
Payables arising from insurance and reinsurance contracts	**3 518**	3 044
Trade and other payables excluding insurance payables	**2 181**	2 236

Trade and other payables including insurance payables are expected to be settled within 12 months.

7. FINANCIAL ASSETS AND LIABILITIES (INCLUDING INSURANCE RECEIVABLES AND PAYABLES) (continued)

7.1 Financial instruments measured at fair value on a recurring basis

The table below analyses financial instruments, carried at fair value through income, by valuation method. There were no significant changes in the valuation methods applied since 31 December 2019. 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 determined as follows:
  - Listed equity securities are valued using quoted prices with the main assumption that quoted prices might require adjustments due to an inactive market.
  - Unlisted equity securities are valued using the discounted cash flow (DCF) or net asset value method based on market input.
  - Quoted interest-bearing investments are valued using yield of benchmark bond, DCF benchmarked against similar instruments with the same issuer, price quotations of JSE interest rate market or issue price of external valuations based on market input.[1]
  - Unquoted interest-bearing investments are valued using DCF, real interest rates, benchmark yield plus fixed spread or deposit rates based on market input.
  - Quoted investment funds with underlying equity securities are valued using quoted prices with the main assumption that quoted prices might require adjustments due to an inactive market.
  - Quoted investment funds with underlying debt securities are valued using DCF, external valuations and published price quotations on the JSE equity and interest rate market or external valuations that are based on published market input with the main assumptions being market input, uplifted with inflation.[1]
  - Derivatives are valued using the Black-Scholes model, net present value of estimated floating costs less the performance of the underlying index over contract term, DCF (using fixed contract rates and market related variable rates adjusted for credit risk, credit default swap premiums, offset between strike price and market projected forward value, yield curve of similar market-traded instruments) with the main assumptions being market input, credit spreads and contract inputs.
- Level 3: Input for the asset or liability that is not based on observable data (that is, unobservable input).

There were no significant transfers between level 1 and level 2 during the current or prior period.[2]

[1] *These investments are classified as level 2 as the markets that they trade on are not considered to be active.*
[2] *The group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.*

Reviewed at 30 June 2020	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equities and similar securities				
Listed equities and similar securities	1 735	–	–	**1 735**
Unlisted equities and similar securities	–	3	1 578	**1 581**
Interest-bearing investments				
Government interest-bearing investments	–	3 286	–	**3 286**
Corporate interest-bearing investments	–	13 708	60	**13 768**
Mortgages and loans	–	165	–	**165**
Structured transactions				
Structured notes	–	335	–	**335**
Investment funds	–	4 493	–	**4 493**
Cash, deposits and similar securities	–	1 748	–	**1 748**
Financial assets at fair value through income	**1 735**	**23 738**	**1 638**	**27 111**

Audited at 31 December 2019	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equities and similar securities				
Listed equities and similar securities	2 420	–	–	**2 420**
Unlisted equities and similar securities	–	4	1 553	**1 557**
Interest-bearing investment				
Government interest-bearing investments	–	3 019	–	**3 019**
Corporate interest-bearing investments	–	12 029	60	**12 089**
Mortgages and loans	–	165	–	**165**
Structured transactions				
Structured notes	–	400	–	**400**
Investment funds	–	4 480	–	**4 480**
Cash, deposits and similar securities	–	1 755	–	**1 755**
Financial assets at fair value through income	**2 420**	**21 852**	**1 613**	**25 885**

7. FINANCIAL ASSETS AND LIABILITIES (INCLUDING INSURANCE RECEIVABLES AND PAYABLES) (continued)

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

	Equity securities R million	Debt securities R million	Total R million
30 June 2020 (reviewed)			
Opening balance	1 553	60	**1 613**
Acquisitions	30	–	**30**
Losses recognised in profit or loss	(5)	–	**(5)**
Closing balance	**1 578**	**60**	**1 638**
31 December 2019 (audited)			
Opening balance	1 390	61	**1 451**
Acquisitions	18	–	**18**
Settlements	(114)	–	**(114)**
Gains/(losses) recognised in profit or loss	259	(1)	**258**
Closing balance	**1 553**	**60**	**1 613**

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

Of the R5 million loss (December 2019: R259 million gain) recognised on equity securities, a R0.27 million loss (December 2019: R256 million gain) relates to the SEM target shares, of which R224 million (December 2019: R82 million losses) relates to foreign exchange gains, and R224 million to a decrease (December 2019: R338 million increase) in fair value in local currency terms. The key drivers of the fair value movements of Santam's share of the SEM investment portfolio were:

- The decrease in the value of Shriram General Insurance (SGI) of R174 million (excluding the impact of exchange rate movements) is mainly attributable to lower premium growth forecasts in the short term, due to the impact of the COVID-19 pandemic and an economic down-turn on sales volumes. The P&O valuation is adversely impacted by similar trends.

Santam's economic participation via the SEM African target share portfolio was amended to reduce the participation percentage from 35% to 10% effective 1 January 2019. As a result Santam received a cash target share distribution of R167 million from SEM on 28 June 2019, comprising a capital distribution of R112 million and an income distribution of R55 million. The capital distribution was recognised directly in the statement of financial position as a reduction of the target share investment value. The income distribution was recognised in the statement of comprehensive income, where it was countered with a release of the realised fair value adjustment of the same value. On 30 June 2020, Santam subscribed for a further target share in FBNGI at a cost of R30 million. As a result, Santam's participatory interest in FBNGI increased to 10%.

The fair value of the SEM target shares is determined using predominantly discounted cash flow (DCF) models, with the remainder valued at or within close proximity of the latest available net asset value of the underlying company. The most significant assumptions used in these DCF models are the discount rate, exchange rate and net insurance margin expectations. Should the discount rates increase or decrease by 10%, the cumulative value of the most significant target shares valued by way of DCF models would decrease by R239 million (December 2019: R259 million) or increase by R389 million (December 2019: R453 million), respectively. If the relative foreign exchange rates increase or decrease by 10%, the cumulative fair values will increase or decrease by R110 million (December 2019: R138 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 or decrease by R139 million (December 2019: R116 million). The remaining target shares are mostly impacted by changes in exchange rates.

7.2 Debt securities

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

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

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

7. FINANCIAL ASSETS AND LIABILITIES (INCLUDING INSURANCE RECEIVABLES AND PAYABLES) (continued)

7.3 Derivatives

At 30 June 2020, the group had exchange traded futures with an exposure value of R1 101 million (Dec 2019: R386 million). The group also had interest rate derivative assets as part of the international bond portfolio with a gross exposure asset and liability at 30 June 2020 of R50 million (Dec 2019: R69 million) and R50 million (Dec 2019: R69 million) respectively.

On 10 September 2018, Santam entered into a foreign currency collar against the US dollar. As at 31 December 2018, the instrument's valuation amounted to R24.8 million. The collar expired in two equal tranches on 4 January 2019 and 7 January 2019 and realised a total profit of R36.5 million. On 12 June 2019 Santam entered into another foreign currency collar against the US dollar. As at 30 June 2019, the instrument's valuation amounted to R16.9 million. The collar unwound on 27 December 2019 resulting in a profit of R5 million.

A further foreign currency collar on R500 million worth of US dollar exposure was entered into on 19 August 2019 at a spot rate of 15.25 ZAR and cap of 16.59 ZAR against the US dollar. As at 31 December 2019, the foreign currency collar was valued at R34 million. The collar expired on 19 May 2020 realising a loss of R54 million.

7.4 Reclassification of financial assets

In order to align with the group's holding company, Sanlam Ltd, the classification categories of financial assets at fair value through income were changed and restated. In total, financial assets at fair value through income did not change.

GROUP	As published 31 December 2019	Restatement	Restated 31 December 2019
Financial assets at fair value through income			
Equity securities			
– quoted	2 420	(2 420)	–
Listed equities and similar securities*	–	2 420	2 420
– unquoted	–	–	–
Strategic investment – SEM target shares	1 474	(1 474)	–
Unquoted other	83	(83)	–
Unlisted equities and similar securities*	–	1 557	1 557
Total equity securities	**3 977**	**–**	**3 977**
Debt securities/interest-bearing investments			
– quoted			
Government and other bonds	4 276	(4 276)	–
Collateralised securities	315	(315)	–
Money market instruments (long-term instruments)	3 338	(3 338)	–
– unquoted	–	–	
Government and other bonds	922	(922)	–
Money market instruments (long-term instruments)	5 517	(5 517)	–
Redeemable preference shares	130	(130)	–
Government interest-bearing investments*	–	3 019	3 019
Corporate interest-bearing investments*	–	12 089	12 089
Mortgages and loans*	–	165	165
Structured notes*	–	400	400
Total debt securities/interest-bearing investments	**14 498**	**1 175**	**15 673**
Unitised funds/investment funds			
Unitised investments			
Underlying equity securities	697	(697)	–
Underlying debt securities	3 783	(3 783)	–
Investment funds*	–	4 480	4 480
Total unitised funds/investment funds	**4 480**	**–**	**4 480**
Derivatives			
Foreign currency collar	34	(34)	–
Futures	1	(1)	–
Total derivatives	**35**	**(35)**	**–**
Short-term money market instruments	**2 895**	**(2 895)**	**–**
Cash deposits and similar securities*	**–**	**1 755**	**1 755**
Financial assets at fair value through income	**25 885**	**–**	**25 885**

* *These categories are presented for the first time for the six months ended 30 June 2020.*

The disclosure of equity securities remains largely unchanged. The category of debt securities has been replaced with interest-bearing investments. With the exception of some floating rate notes which were previously included as short-term money market, interest-bearing investments contain largely the same securities that were previously classified as debt securities. In the previous disclosure government and corporate bonds were classified in the same line, whereas in the new disclosure government bonds and other notes are disclosed separately to corporate bonds and other notes. These two types of interest-bearing investments have different risk characteristics. The old category of long-term money market has been reallocated to corporate interest-bearing investments and cash deposits and similar securities as appropriate. Cash deposits and similar securities include negotiable certificates of deposit (NCDs) and fixed deposits held with major banks. These instruments, which are included in the group's investment portfolios and are not used in the day to day cash requirements, would have previously been disclosed as long-term or short-term money market instruments. Floating rate notes previously categorised as long-term or short-term money market instruments are now included in corporate interest-bearing investments. Structured transactions contain investments which were previously disclosed as collateralised securities and derivatives. Investment funds were previously labelled as unitised investments.

8. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	Reviewed at 30 June 2020 R million	Audited at 31 December 2019 R million
Gross insurance liabilities		
Long-term insurance contracts		
– claims reported and loss adjustment expenses	**177**	37
– claims incurred but not reported	**45**	45
General insurance contracts		
– claims reported and loss adjustment expenses	**10 404**	9 171
– claims incurred but not reported	**3 970**	3 064
– unearned premiums	**11 618**	10 890
Total gross insurance liabilities	**26 214**	23 207
Expected to be settled after 12 months	**2 645**	2 353
Expected to be settled within 12 months	**23 569**	20 854
Recoverable from reinsurers		
Long-term insurance contracts		
– claims reported and loss adjustment expenses	**10**	10
– claims incurred but not reported	**13**	13
General insurance contracts		
– claims reported and loss adjustment expenses	**4 538**	4 297
– claims incurred but not reported	**946**	699
– unearned premiums	**2 183**	1 802
Total reinsurers' share of insurance liabilities	**7 690**	6 821
Expected to be realised after 12 months	**952**	521
Expected to be realised within 12 months	**6 738**	6 300
Net insurance liabilities		
Long-term insurance contracts		
– claims reported and loss adjustment expenses	**167**	27
– claims incurred but not reported	**32**	32
General insurance contracts		
– claims reported and loss adjustment expenses	**5 866**	4 874
– claims incurred but not reported	**3 024**	2 365
– unearned premiums	**9 435**	9 088
Total net insurance liabilities	**18 524**	16 386

INSURANCE LIABILITY ESTIMATES

Estimation methodologies and reserving processes remained consistent and are discussed in note 3 of the group's annual financial statements for the year ended 31 December 2019. The ultimate costs of claims are always uncertain, increasingly so at present given the impact of the COVID-19 pandemic. Materially different outcomes to those assumed are possible. Current year claims exhibit different characteristics to those normally observed. Open claims from prior periods before the pandemic are also impacted by changing circumstances during the claim settlement period. Assumptions have been made in key areas in order to estimate the ultimate cost of claims, such as:

- frequency, based on different levels of reported claim counts observed thus far during the six months to 30 June 2020;
- severity, based on different average claims costs observed thus far during the six months to 30 June 2020;
- claims development patterns, taking into account both internal operations and external impacts;
- direct COVID-19 ultimate claims costs, including the outcome of legal proceedings.

The heightened level of uncertainty around the estimates of ultimate claim costs will persist for some time.

Details of the group accounting policies in respect of insurance contract liabilities can be found in note 4 of the group's annual financial statements for the year ended 31 December 2019.

Santam has raised a technical provision of R1 290 million at 30 June 2020 as the best estimate of its exposure relating to policies with CBI extensions. There remains, however, significant uncertainty regarding these claims against Santam.

9. INVESTMENT INCOME AND NET (LOSSES)/GAINS ON FINANCIAL ASSETS AND LIABILITIES

	Reviewed Six months ended 30 June 2020 R million	Reviewed Six months ended 30 June 2019 R million
Investment income	**1 556**	978
Interest income derived from	**884**	837
Financial assets measured at amortised cost	**80**	87
Financial assets mandatorily measured at fair value through income	**804**	750
Other investment income	**672**	141
Dividend income	**162**	135
Foreign exchange differences	**510**	6
Net (losses)/gains on financial assets and liabilities at fair value through income	**(749)**	379
Net fair value (losses)/gains on financial assets mandatorily at fair value through income	**(760)**	491
Net realised (losses)/gains on financial assets excluding derivative instruments	**(108)**	(87)
Net fair value (losses)/gains on financial assets excluding derivative instruments	**(550)**	548
Net realised/fair value (losses)/gains on derivative instruments	**(102)**	30
Net fair value gains/(losses) on financial liabilities designated as at fair value through income	**11**	(112)
Net fair value losses on debt securities	**(12)**	(17)
Net realised gains/(losses) on investment contracts	**23**	(95)
	807	1 357

10. INCOME TAX

Normal taxation		
Current period	**448**	310
Prior period	**7**	(1)
Other taxes	**1**	–
Foreign taxation – current period	**17**	19
Total income taxation for the period	**473**	328
Deferred taxation		
Current period	**6**	106
Total deferred taxation for the period	**6**	106
Total taxation as per statement of comprehensive income	**479**	434
Income tax recovered from cell owners and structured insurance products	**(185)**	(81)
Total tax expense attributable to shareholders	**294**	353
Profit before taxation per statement of comprehensive income	**550**	1 576
Adjustment for income tax recovered from cell owners and structured insurance products	**(185)**	(81)
Total profit before tax attributable to shareholders	**365**	1 495
Reconciliation of taxation rate (%)		
Normal South African taxation rate	**28.0**	28.0
Adjusted for:		
Disallowable expenses	**0.7**	0.2
Foreign tax differential	**0.7**	0.1
Exempt income	**(11.4)**	(2.1)
Investment results	**1.8**	(0.9)
Loss/(income) from associates and joint ventures	**58.3**	(0.8)
Previous period's under/(over)provision	**1.8**	(0.1)
Other permanent differences	**0.3**	(0.7)
Other taxes	**0.3**	(0.1)
Net increase/(reduction)	**52.5**	(4.4)
Effective rate attributable to shareholders (%)	**80.5**	23.6

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. CORPORATE TRANSACTIONS

2020

ACQUISITIONS

JaSure Financial Services (Pty) Ltd

On 1 January 2020, the Santam group acquired a shareholding of 51.01% in JaSure Financial Services (Pty) Ltd for R6 million in cash. Goodwill relates to synergies expected to be received.

	R million
Details of the assets and liabilities acquired are as follows:	
Deferred income tax	(1)
Trade and other payables	(5)
Net asset value acquired	**(6)**
Non-controlling interest	3
Goodwill	9
Purchase consideration paid	**6**

Echelon Underwriting Managers (Pty) Ltd

The Santam group purchased the 40% non-controlling interest in three tranches between 6 March 2020 and 8 April 2020 for a total of R69 million.

2019

ACQUISITIONS

Vantage Insurance Acceptances (Pty) Ltd

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

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

X'S Sure (Pty) Ltd

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

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

SAN JV (RF) (Pty) Ltd

During May 2019 a pro rata funding took place in terms of which Santam injected a further R60 million into SAN JV (RF) (Pty) Ltd. A further similar funding took place in November 2019 and Santam injected R98 million into SAN JV (RF) (Pty) Ltd.

12. EARNINGS PER SHARE

	Reviewed Six months ended 30 June 2020	Reviewed Six months ended 30 June 2019
Basic earnings per share		
Profit attributable to the company's equity holders (R million)	**26**	1 094
Weighted average number of ordinary shares in issue (million)	**110.29**	110.47
Earnings per share (cents)	**24**	990
Diluted earnings per share		
Profit attributable to the company's equity holders (R million)	**26**	1 094
Weighted average number of ordinary shares in issue (million)	**110.29**	110.47
Adjusted for share options	**0.45**	0.50
Weighted average number of ordinary shares for diluted earnings per share (million)	**110.74**	110.97
Diluted basic earnings per share (cents)	**23**	986
Headline earnings per share		
Profit attributable to the company's equity holders (R million)	**26**	1 094
Adjusted for:		
Impairment of joint venture	**15**	–
Share of associates' impairment of intangible assets	**726**	–
Tax charge on share of associates' impairment of intangible assets	**(36)**	–
Headline earnings (R million)	**731**	1 094
Weighted average number of ordinary shares in issue (million)	**110.29**	110.47
Headline earnings per share (cents)	**663**	990
Diluted headline earnings per share		
Headline earnings (R million)	**731**	1 094
Weighted average number of ordinary shares for diluted headline earnings per share (million)	**110.74**	110.97
Diluted headline earnings per share (cents)	**660**	986

13. DIVIDEND PER SHARE

Dividend per share (cents)	**–**	392

Given the current uncertainty around the eventual outcome of COVID-19-related claims, the board has deemed it prudent not to declare an interim dividend.

14. IMPAIRMENT TESTS

14.1 Goodwill

In accordance with the group's accounting policy, the group tests annually whether goodwill has suffered any impairment. Given the economic conditions between 31 December 2019 and 30 June 2020, management has reviewed whether there were indicators of impairment on goodwill balances recognised.

Each cash generating unit (CGU) was critically examined with reference to the following key metrics to determine if any impairment exists:

- Forecasted growth in gross written premium for 2020 taking the impact of COVID-19 into account.
- Forecasted profitability based on net underwriting result and profit after tax, taking the impact of COVID-19 into account.

The result of this assessment was that goodwill relating to the Accident and Health business required a formal impairment test due to its exposure to COVID-19. A total of R76 million in goodwill is recognised on the Accident and Health business, out of a total R676 million goodwill recognised by the group.

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

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

The salient features of the impairment test were as follows:

- A discount rate of 24% was applied, taking into account uncertainty resulting from COVID-19.
- A capital requirement of 25% of net earned premium.
- Forecasted income statements including a reduction in gross written premium and underwriting losses due to COVID-19.
- A terminal growth rate of 5%.

No impairment was deemed necessary from the testing.

The nature of goodwill mainly relates to employee skill and industry knowledge.

14. IMPAIRMENT TESTS (continued)

14.2 Associates – impairment of goodwill and value of business acquired and other assets

The recoverable amount of goodwill, value of business acquired and other intangible assets for impairment testing purposes has been determined based on the value in use of the businesses. For life businesses this is determined as the embedded value of life insurance businesses plus a value of new life insurance business multiple. For general insurance businesses the value in use was determined on a discounted cash flow valuation basis.

The embedded value (plus a value of new life insurance business multiple) for life businesses or fair value of general insurance businesses therefore has a significant impact on whether an impairment of goodwill and/or value of business acquired is required.

SAHAM (100%)

The carrying value of Saham comprises net asset value (NAV), value of business acquired (VOBA) and goodwill. The recoverable amount is based on the value in use. The impairment test compares the value in use with the carrying value.

Changes to Saham's NAV impact the carrying value directly. Some valuation impacts will correspond to changes in the NAV. Other valuation impacts, such as assumption changes that affect longer-term cash flows, affect the carrying value through VOBA and goodwill.

Saham's value in use reduced from R25 billion at 31 December 2019 to R22 billion at June 2020, mainly due to the impact of COVID-19 and the increased sovereign risk in Lebanon, partially offset by the impact of a weaker rand. At 30 June 2020, the largest driver of the valuation is attributable to the general insurance businesses, contributing 87% of the total value with the life businesses contributing the remaining 13%.

Given the significant uncertainty around the eventual outcome of COVID-19 and the trajectory of economic recovery, a prudent approach was applied in valuing the Saham operations at 30 June 2020. This resulted in generally lower valuations and necessitated an impairment of the carrying values of certain businesses.

Most of the premium paid for synergies as part of the Saham Finances acquisition has been written off to R600 million at 30 June 2020. Realisation of the synergies will take longer than originally anticipated due to the slowdown in economic growth across the Saham Finances footprint as a result of COVID-19.

The following key assumptions were adjusted:

General insurance businesses

- Economic assumptions were revised downwards in the current uncertain environment, in respect of both economic growth forecasts and future investment returns. This resulted in lower assumed growth on the assets held backing the claims liabilities which affects the valuations of the general insurance operations;
- Top-line growth was reduced across the board for general insurance operations, through lower assumed premiums growth in the valuation models for the general insurance operations; and
- The valuation of the general insurance operations in Lebanon was reduced to zero as a meaningful economic recovery is not expected in the foreseeable future.

Life insurance businesses

- The valuation of the life insurance business in Lebanon was reduced to zero in line with the general insurance operations; and
- New business inflow assumptions for the other life businesses were revised downwards on the lowered economic growth forecasts.

Key assumptions

Key assumptions in determining the value in use for cash generating units (Lebanon has been written down to zero):

	30 June 2020
Weighted average local discount rate (Dec 2019: 12.3%)*	12.0%
Weighted average perpetuity growth rate	5.5%
Revenue: compounded annual growth rate (10 years)	5.7% – 11.5%
Net insurance result margin**	11% – 18%

* *It represents the total weighted average risk discount rate (RDR) in local currency terms. The devaluation of the rand is expected to increase this return over time.*
** *Expressed as a percentage of net earned premiums.*

For life embedded values, cash flows are projected over the lifetime of the in-force book. Future life new business and general insurance cash flows are projected over 10 years.

14. IMPAIRMENT TESTS (continued)

14.2 Associates – impairment of goodwill and value of business acquired and other assets (continued)

Management has determined the values assigned to each of the key assumptions above as follows:

Assumption	Approach used to determine the values
Discount rates	*This is a function of the local risk-free rates (reflecting country risk) plus a specific risk premium per business.*
Perpetuity growth rate	*This is a function of expected long-term inflation and gross domestic product (GDP) growth rates of each country.*
Revenue annual growth rates	*This is a function of expected long-term inflation and GDP growth rates of each country, including industry growth rates and management's expectations for the future.*

The gross impairment of goodwill and VOBA amounts to R6.9 billion.

Saham Impairment comprises the following on a 100% view:

- Write-down of goodwill in respect of the premium paid at acquisition for synergies of R2 822 million;
- Reducing the valuation of the Lebanon businesses to zero, resulting in impairments of goodwill of R815 million, net VOBA of R816 million and other net assets of R444 million; and
- Write-down of goodwill as a result of COVID-19 as well as decrease in future economic growth and investment return assumptions amounts to R2 007 million.

R million	General insurance	Life	Lebanon	Total
Value in use	19 300	2 733	–	22 033
Carrying value	23 627	3 235	2 075	28 937
Gross impairment	(4 327)	(502)	(2 075)	(6 904)

Goodwill, included in the carrying value above, is allocated to the CGUs as follows: R13.8 billion (general insurance), R2.6 billion (life) and R816 million (Lebanon) respectively. Remaining goodwill after impairments amounts to R9.5 billion (general insurance) and R2.1 billion (life) respectively.

GENERAL INSURANCE BUSINESSES SENSITIVITY ANALYSIS

The sensitivities below are based on 10% shareholding of Santam.

R million	Value	% change
Base value*	1 930	
Risk Discount Rate +1 %	1 688	(12.5)
Risk Discount Rate -1 %	2 267	17.5
Perpetuity growth rate +1%	2 124	10.1
Rand exchange rate depreciation +10%	2 123	10.0

* *This value includes notional dividends.*

Life businesses sensitivity analysis (excluding Lebanon)

The sensitivities below are based on 10% shareholding of Santam. The total value in use of the businesses comprises the embedded value of R209 million and the value of future new business of R65 million of which the sensitivities are provided below:

1. Embedded value sensitivity analysis

R million	Embedded value	% change
Base value	209	
Risk discount rate increase by 1%	203	(2.9)

2. Value of new business sensitivity analysis

R million	Present value of future new business	% change
Base value	65	
Risk discount rate increase by 1%	58	(10.2)

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15. RELATED PARTIES

During the first half of 2020, there have been no related party transactions that have materially affected the financial position or the results for the period. There have also been no changes in the nature of the related party transactions as disclosed in note 27 of the group's annual financial statements for the year ended 31 December 2019.

16. CONTINGENT LIABILITIES

Santam has raised a technical provision of R1 290 million at 30 June 2020 as a best estimate of its exposure relating to policies with CBI extensions. There remains, however, significant uncertainty regarding these claims against Santam.

Santam's position with respect to policies containing the CBI extension for contagious and infectious diseases is that a policyholder's loss must be due to a peril insured in the policy contract. This requires that any interruption of an insured's business must be directly attributable to a localised COVID-19 infection, which is the peril insured under Santam policies, and not for any other reason, such as the national lockdown or other international responses, which are not insured perils. This view is in line with the majority of Santam's counterparts and reinsurers in the non-life insurance industry, both locally and globally.

A recent South African court ruling on another insurance company's policy wording found the insurer liable to indemnify the insured in terms of the business interruption section of the relevant policy for any loss suffered since 27 March 2020 as a result of the COVID-19 outbreak in South Africa. The insurance company was granted leave to appeal, which will be heard during the latter part of 2020. Santam's Ma-Afrika case was heard in the Western Cape High Court on 1 September 2020.

It is important to note that Santam's reinsurance programme will only respond to claims covered under the terms of the group's policies. In order to formulate a reinsurance claim under a different interpretation of the policy wording to our own, such interpretation would have to be definitively decided by the South African courts.

17. SUBSEQUENT EVENTS

Relief payments

Santam announced on 26 July 2020 that it will provide up to R1 billion of relief payments to support mainly small and medium-sized commercial policyholders in the hospitality, leisure and non-essential retail services industries that have the CBI extension to their policies and suffered a loss due to the national lockdown. This will be in the form of a relief payment to support policyholders who are in financial distress and not an indemnity payment under a policy contract, as the scope of the cover still needs to be determined by the South African courts. Policyholders were required to register a claim in order to qualify for the relief. Santam commenced with the relief payments from the first week of August 2020. By 2 September 2020, R950 million in payments were made to policyholders.

Should the courts ultimately rule in Santam's favour and determine that the lockdown is not an insured peril, then the amount paid will still be considered relief payments in respect of registered claims to policyholders and will not be recovered from policyholders. However, in the event that the courts rule against Santam and determine that the national lockdown is an insured peril, the amount will become an advance payment against any finally determined claims against Santam under the CBI extension.

Equity collar

On 6 August 2020, the group entered into a zero-cost collar over equities to the value of R1 billion, based on the SWIX 40 to provide capital protection in the current volatile market conditions. The structure offers full downside protection from the implementation level 10 858, with upside participation (excluding dividends) of 0.275% and expires on 6 November 2020.

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

18. ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS

This note provides information on cell owner/policyholder versus shareholder statement of financial position and statement of comprehensive income. Cell owner/policyholder activities relates mainly to alternative risk transfer insurance business written on the insurance licences of Centriq and SSI.

18.1 Analysis of policyholder/shareholder statement of financial position

	Group Reviewed at 30 June 2020 R million	Shareholder Reviewed at 30 June 2020 R million	Policyholder/ cell owner Reviewed at 30 June 2020 R million
ASSETS			
Intangible assets	948	948	–
Property and equipment	907	907	–
Investment in associates and joint ventures	2 375	2 375	–
Strategic investment – unquoted SEM target shares	1 504	1 504	–
Deferred income tax	145	145	–
Deposit with cell owners	153	–	153
Cell owners' and policyholders' interest	27	–	27
Financial assets at fair value through income	25 607	14 425	11 182
Reinsurance assets	7 690	7 092	598
Deferred acquisition costs	793	703	90
Loans and receivables including insurance receivables	6 469	3 912	2 557
Current income tax assets	10	5	5
Cash and cash equivalents	5 613	3 881	1 732
Total assets	**52 241**	**35 897**	**16 344**
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital	103	103	–
Treasury shares	(545)	(545)	–
Other reserves	116	116	–
Distributable reserves	9 445	9 445	–
	9 119	9 119	–
Non-controlling interest	512	512	–
Total equity	**9 631**	**9 631**	**–**
LIABILITIES			
Deferred income tax	128	134	(6)
Cell owners' and policyholders' interest	3 995	–	3 995
Reinsurance liability relating to cell owners	153	–	153
Financial liabilities at fair value through income			
Debt securities	2 089	2 089	–
Investment contracts	1 497	–	1 497
Lease liabilities	919	919	–
Financial liabilities at amortised cost			
Repo liability	806	–	806
Collateral guarantee contracts	113	–	113
Insurance liabilities	26 214	17 634	8 580
Deferred reinsurance acquisition revenue	488	411	77
Provisions for other liabilities and charges	161	161	–
Trade and other payables including insurance payables	5 699	4 622	1 077
Current income tax liabilities	348	296	52
Total liabilities	**42 610**	**26 266**	**16 344**
Total shareholders' equity and liabilities	**52 241**	**35 897**	**16 344**

18. ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS (continued)

18.1 Analysis of policyholder/shareholder statement of financial position (continued)

	Group Audited at 31 December 2019 R million	Shareholder Audited at 31 December 2019 R million	Policyholder/ cell owner Audited at 31 December 2019 R million
ASSETS			
Intangible assets	948	948	–
Property and equipment	984	984	–
Investment in associates and joint ventures	2 661	2 661	–
Strategic investment – unquoted SEM target shares	1 474	1 474	–
Deferred income tax	107	95	12
Deposit with cell owners	180	–	180
Cell owners' and policyholders' interest	26	–	26
Financial assets at fair value through income	24 411	13 116	11 295
Reinsurance assets	6 821	6 125	696
Deferred acquisition costs	727	649	78
Loans and receivables including insurance receivables	6 237	3 970	2 267
Current income tax assets	16	15	1
Cash and cash equivalents	4 642	3 345	1 297
Total assets	49 234	33 382	15 852
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital	103	103	–
Treasury shares	(482)	(482)	–
Other reserves	(405)	(405)	–
Distributable reserves	10 326	10 326	–
	9 542	9 542	–
Non-controlling interest	521	521	–
Total equity	10 063	10 063	–
LIABILITIES			
Deferred income tax	78	80	(2)
Cell owners' and policyholders' interest	3 964	–	3 964
Reinsurance liability relating to cell owners	180	–	180
Financial liabilities at fair value through income			
Debt securities	2 080	2 080	–
Investment contracts	1 618	–	1 618
Lease liabilities	978	978	–
Financial liabilities at amortised cost			
Repo liability	785	–	785
Collateral guarantee contracts	120	–	120
Insurance liabilities	23 207	15 080	8 127
Deferred reinsurance acquisition revenue	489	419	70
Provisions for other liabilities and charges	123	123	–
Trade and other payables including insurance payables	5 280	4 298	982
Current income tax liabilities	269	261	8
Total liabilities	39 171	23 319	15 852
Total shareholders' equity and liabilities	49 234	33 382	15 852

18. ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS (continued)

18.2 Analysis of policyholder/shareholder statement of comprehensive income

	Group Reviewed Six months ended 30 June 2020 R million	Shareholder Reviewed Six months ended 30 June 2020 R million	Policyholder/ cell owner Reviewed Six months ended 30 June 2020 R million
Gross written premium	18 258	14 937	3 321
Less: reinsurance written premium	6 348	3 390	2 958
Net written premium	11 910	11 547	363
Less: change in unearned premium			
Gross amount	653	33	620
Reinsurers' share	(666)	(333)	(333)
Net insurance premium revenue	11 923	11 847	76
Interest income on amortised cost instruments	80	80	–
Interest income on fair value through income instruments	804	474	330
Other investment income	672	573	99
Income from reinsurance contracts ceded	1 013	789	224
Net losses on financial assets and liabilities at fair value through income	(749)	(378)	(371)
Other income	180	180	–
Net income	13 923	13 565	358
Insurance claims and loss adjustment expenses	11 122	10 078	1 044
Insurance claims and loss adjustment expenses recovered from reinsurers	(3 328)	(2 343)	(985)
Net insurance benefits and claims	7 794	7 735	59
Expenses for the acquisition of insurance contracts	2 512	2 310	202
Expenses for marketing and administration	2 229	2 188	41
Expenses for investment-related activities	27	27	–
Amortisation and impairment of intangible assets	35	35	–
Investment return allocated to cell owners and structured insurance products	29	–	29
Expenses	12 626	12 295	331
Results of operating activities	1 297	1 270	27
Finance costs	(170)	(143)	(27)
Net income from associates and joint ventures	(747)	(747)	–
Impairment of joint venture	(15)	(15)	–
Income tax recovered from cell owners and structured insurance products	185	–	185
Profit before tax	550	365	185
Income tax expense	(479)	(294)	(185)
Profit for the period	71	71	–

18. ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS (continued)

18.2 Analysis of policyholder/shareholder statement of comprehensive income (continued)

	Group Audited Year ended 30 June 2019 R million	Shareholder Audited Year ended 30 June 2019 R million	Policyholder/ cell owner Audited Year ended 30 June 2019 R million
Gross written premium	17 018	14 394	2 624
Less: reinsurance written premium	5 304	3 102	2 202
Net written premium	11 714	11 292	422
Less: change in unearned premium			
Gross amount	437	(106)	543
Reinsurers' share	(496)	(128)	(368)
Net insurance premium revenue	11 773	11 526	247
Interest income on amortised cost instruments	87	87	–
Interest income on fair value through income instruments	750	445	305
Other investment income	141	113	28
Income from reinsurance contracts ceded	915	771	144
Net gains on financial assets and liabilities at fair value through income	379	332	47
Other income	112	112	–
Net income	14 157	13 386	771
Insurance claims and loss adjustment expenses	9 954	8 880	1 074
Insurance claims and loss adjustment expenses recovered from reinsurers	(2 336)	(1 473)	(863)
Net insurance benefits and claims	7 618	7 407	211
Expenses for the acquisition of insurance contracts	2 390	2 222	168
Expenses for marketing and administration	2 107	2 095	12
Expenses for investment-related activities	29	29	–
Amortisation and impairment of intangible assets	35	35	–
Investment return allocated to cell owners and structured insurance products	321	–	321
Expenses	12 500	11 788	712
Results of operating activities	1 657	1 598	59
Finance costs	(207)	(148)	(59)
Net income from associates and joint ventures	45	45	–
Income tax recovered from cell owners and structured insurance products	81	–	81
Profit before tax	1 576	1 495	81
Income tax expense	(434)	(353)	(81)
Profit for the period	1 142	1 142	–

ADMINISTRATION

NON-EXECUTIVE DIRECTORS

B Campbell, MP Fandeso, PB Hanratty, VP Khanyile (chairman)
MLD Marole, JJ Ngulube, MJ Reyneke, PE Speckmann

EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

M Allie

TRANSFER SECRETARIES

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A2X share code: SNT

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