



# Annual Financial Statements **2017**

Insurance | Financial Planning | Retirement | Investments | Wealth

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# Directors' responsibility for financial reporting

The Board of Sanlam Limited takes responsibility for the integrity, objectivity and reliability of the Group and company Annual Financial Statements of Sanlam Limited in accordance with International Financial Reporting Standards. Adequate accounting records have been maintained. The Board endorses the principle of transparency in financial reporting. The responsibility for the preparation and presentation of the Annual Financial Statements has been delegated to management.

The responsibility of the external auditors, Ernst & Young Inc., is to express an independent opinion on the fair presentation of the financial statements based on their audit of Sanlam Limited and the Group. The Audit, Actuarial and Finance committee has satisfied itself that the external auditors were independent of the Company during the period under review.

The Audit, Actuarial and Finance committee has confirmed that effective systems of internal control and risk management are being maintained. There were no breakdowns in the functioning of the internal financial control systems during the year, which had a material impact on the Sanlam Limited Group Annual Financial Statements. The Board is satisfied that the Annual Financial Statements fairly present the financial position, the results of operations and cash flows in accordance with International Financial Reporting Standards and supported by reasonable and prudent judgements consistently applied.

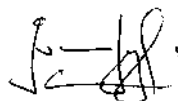
The Board of Sanlam Limited takes responsibility for the integrity, objectivity and reliability of the Shareholders' information. The responsibility for the preparation and presentation of the Shareholders' information had been delegated to management.

The responsibility of the external auditors, Ernst & Young Inc., is to express an independent opinion on preparation of the Shareholders' Information.

A full description of how the Audit, Actuarial and Finance Committee carried out its functions is included in the Corporate Governance Report online.

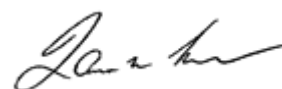
The Board is of the opinion that Sanlam Limited is financially sound and operates as a going concern. The Annual Financial Statements have accordingly been prepared on this basis.

The Annual Financial Statements, the Corporate Governance Report, the Remuneration Report and the Shareholders' Information on pages 145 to 205 of the Integrated Report were approved by the Board and signed on its behalf by:



**Johan van Zyl**  
*Chairman*

Cape Town  
7 March 2018



**Ian Kirk**  
*Group Chief Executive*

# Certificate by **company secretary**

In my capacity as Company Secretary, I hereby certify, in terms of the Companies Act, that for the year ended 31 December 2017, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.



**Sana-Ullah Bray**  
*Company Secretary*

7 March 2018

# Directors' report

for the year ended 31 December 2017

## Nature of business

The Sanlam Group is one of the largest established financial services groups in South Africa. Its core activities are set out in the Integrated Report.

Sanlam Limited is a public company incorporated in terms of the Companies Act No 71 of 2008, as amended, in South Africa and listed on the JSE Limited and the Namibian Stock Exchange.

## Corporate governance

The Board of Sanlam endorses the Code of Corporate Practice and Conduct recommended in the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV™). Disclosures with regard to compliance with the Code are provided in the Corporate Governance Report.

## Group results

Profit attributable to shareholders increased from a high base in 2016 of R9 623 million to R10 923 million in 2017, largely due to the strong operational performance and a profit on disposal of associated companies and subsidiaries of some R1,4 billion. Further details regarding the Group's results and prospects are included in the Financial Review. The information in the Corporate Governance and Remuneration Reports, requiring disclosure in the Directors' report in terms of the Companies Act and JSE Listings Requirements, has been audited. The holding company's interest in the after tax profit of the Group subsidiaries, summarised per cluster, is set out in the shareholder's fund income statement on page 170.

## Share capital

The issued ordinary share capital of the Company is 2 166 million shares. Refer to page 106 for further information.

## Dividend

The Board has declared a normal cash dividend of 290 cents per share (2016: normal dividend of 268 cents), payable on 9 April 2018, to shareholders registered on 6 April 2018. All payments through electronic bank transfer will take place on this date.

## Subsidiaries

Details of the Company's principal subsidiaries are set out on page 158.

## Directors' interests in contracts

No material contracts involving directors' interests were entered into in the year under review.

## Interest of directors and officers in share capital

Details of the shareholding by directors at the date of this report are provided in the Remuneration Report on pages 22 and 23.

## Directors and secretary

Particulars of the directors and Company Secretary at the date of this report, as well as changes in directorships, are set out on pages 1 to 5 and page 5 of the Corporate Governance Report.

# Directors' report (continued)

for the year ended 31 December 2017

## Subsequent events

Subsequent to the 2017 year-end, we concluded agreements to acquire the remaining 53,4% stake in Saham Finances. This transaction significantly enhances the strategic positioning of Sanlam as the leading insurance provider in Africa, and will accelerate the extraction of synergies from the combined footprint. The transaction price of US\$ 1 050 million will be funded through a combination of a Sanlam Limited share issuance, available discretionary capital and debt funding.

The required regulatory approvals are still outstanding and the transaction is expected to be finalised during the second half of 2018.

No other material facts or circumstances have arisen between the date of the statement of financial position and this report which materially affects the financial position of the Sanlam Limited Group at 31 December 2017 as reflected in these financial statements.

## Approval of Annual Financial Statements

The directors have approved the Annual Financial Statements as reflected on page 3 and 4, including the certificate by the Company Secretary on page 4, the Audit committee report for the 2017 financial year on page 8 of the Corporate Governance Report and the analysis of shareholders on page 99 of the Integrated Report.

## Notice in terms of section 45(5) of the Companies Act, 2008 (the act)

The Company is from time to time, as an essential part of conducting the business of the Sanlam Group, required to provide financial assistance to Group companies as part of its day-to-day operations in the form of loan funding, guarantees or general financial assistance as contemplated in section 45 of the Act. In accordance with section 45(5) of the Act this serves to give notice that the Sanlam Board, in line with existing practice, approved that the Company may, in accordance with and subject to the provisions of section 45 of the Act and in terms of the special resolution passed at the Company's annual general meeting in 2017, provide such direct or indirect financial assistance to related and inter-related companies and corporations as described in section 45 of the Act. The amount and format of financial assistance which may be granted pursuant to the resolution is subject to on-going review by the Sanlam Board and may in total exceed the reporting threshold of 0,1% of the Sanlam Group's net asset value provided for in the Act.

# Independent Auditor's Report of the Consolidated and Separate Financial Statements

## To the Shareholders of Sanlam Limited

### Opinion

We have audited the consolidated and separate financial statements of Sanlam Limited set out on pages 15 to 161, which comprise the statements of financial position as at 31 December 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Sanlam Limited as at 31 December 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of Sanlam Limited in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code), the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA code) and other independence requirements

applicable to performing the audit of Sanlam Limited. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Sanlam Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Key Audit Matter	How the matter was addressed in the audit
<b>1. Valuation of insurance contract liabilities</b>  We considered the valuation of insurance contract liabilities to be significant to the audit of the Sanlam Limited Group (Sanlam or the Group). Specifically, actuarial assumptions and methodologies involve judgements about future events, both internal and external to the Group, for which small changes can result in a material impact to the valuation of insurance contract liabilities. Additionally, the valuation of insurance contract liabilities is dependent on the quality, integrity and accuracy of the data used in the valuations.	Refer to sections 1.a and 1.b below.

# Independent Auditor's Report of the Consolidated and Separate Financial Statements (continued)

Key Audit Matter	How the matter was addressed in the audit
<p><b>1. Valuation of insurance contract liabilities (continued)</b></p> <p>We have therefore identified the following areas of focus in relation to the valuation of insurance contract liabilities:</p> <p>a) Appropriateness of actuarial assumptions, models and methodology; and</p> <p>b) Data processes and controls relevant to the actuarial valuation.</p> <p>Refer to the Policy liabilities and profit entitlement section of the accounting policies (pages 70 to 73), Note 24.2 of the Group financial statements (Critical accounting estimates and judgements, (pages 124 to 127), and Note 15 of the Group financial statements (pages 116 to 117).</p>	
<p><b>1a. Appropriateness of actuarial assumptions, models and methodology</b></p> <p>Actuarial assumptions and methodologies reflected in policyholder liabilities are subject to a considerable level of judgement. The operational assumptions are informed by actual experience, market experience and practice, and expectations as to future trends. Economic assumptions are typically based on latest market conditions and are set in accordance with relevant guidance and the Sanlam Group approved policy. The assumptions that we consider to have the most significant impact on the actuarial valuations are:</p> <ul style="list-style-type: none"><li>→ Mortality, longevity, disability and morbidity;</li><li>→ Persistency;</li><li>→ Expenses;</li><li>→ Risk discount rates; and</li><li>→ Allowance for credit defaults.</li></ul> <p>The integrity and appropriateness of models and methodology are also considered to be critical in the overall valuation of insurance contract liabilities.</p>	<p>Our audit of these actuarial assumptions, models and methodology applied in the valuation of insurance liabilities, <i>inter alia</i>, included the following audit procedures that were executed with the assistance of our actuarial experts, across the areas considered material:</p> <ul style="list-style-type: none"><li>→ We assessed the valuation methodology and assumptions for compliance with the latest actuarial guidance, legislation and approved company policy;</li><li>→ We assessed the design and operating effectiveness of the key controls of the actuarial valuation process for the setting and updating of actuarial assumptions and the process for model and methodology changes;</li><li>→ We focused our analysis on management's key assumptions around mortality, longevity, disability, morbidity, persistency and expenses and assessed the results of management's experience analyses;</li><li>→ We assessed the economic basis, including allowances for credit risk and the risk discount rates, by independently validating the risk free yield curve, product yield curves and the credit spreads;</li><li>→ We confirmed, on a sample basis, that model and methodology changes have been appropriately implemented by comparing the impacts of these changes to our own calculations of what we would expect the impact to be;</li></ul>



Key Audit Matter	How the matter was addressed in the audit
<p><b>1a. Appropriateness of actuarial assumptions, models and methodology (continued)</b></p>	<ul style="list-style-type: none"> <li>→ We evaluated the assumptions and methodology against expectations based on our knowledge of the Group, industry practice, and regulatory and reporting requirements. This included an independent evaluation of the sensitivities of the models to various changes in inputs;</li> <li>→ We evaluated the key sources of profit and loss and assessed management's analysis of movements in insurance contract liabilities and obtained evidence to support large or unexpected movements;</li> <li>→ We evaluated and performed procedures over management's modelling of Investment Guarantee Reserves in terms of the applicable actuarial guidance notes;</li> <li>→ We considered the level of margins held, management's justification for holding these margins and how these will be released in future;</li> <li>→ We performed procedures over the calculation of the non-participating annuity liability, to consider whether the minimum prescribed margin is provided and we evaluated how the provision for credit risk is being managed; and</li> <li>→ We performed procedures over the Capital Adequacy Requirements (CAR) calculation to ensure that it is in line with the applicable actuarial guidance notes and we evaluated management actions under the prevailing market conditions.</li> </ul>
<p><b>1b. Data processes and controls relevant to the actuarial valuation</b></p>	<p>In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we, <i>inter alia</i>, performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>→ We assessed the design and operating effectiveness of the key aspects of the control environment over data integrity, including an evaluation of the effectiveness of the IT environment over the policy administration systems and the actuarial valuation systems, together with the data extraction and conversion processes;</li> <li>→ We performed an evaluation of the key controls over management's collection, extraction and data validation processes, which included testing of the reconciliations between the policy administration systems and the actuarial data extract from the actuarial valuation systems; and</li> <li>→ We performed procedures to evaluate management's grouping of data for input into the actuarial valuation models.</li> </ul>

# Independent Auditor's Report of the Consolidated and Separate Financial Statements (continued)

Key Audit Matter	How the matter was addressed in the audit
<p><b>2. Valuation of unlisted financial instruments</b></p> <p>We considered the valuation of unlisted financial instruments to be significant to the audit because of the materiality thereof to the Group's Annual Financial Statements and the sensitivity thereof to the various unobservable valuation inputs, uncertain future cash flows and assumptions that require considerable judgement.</p> <p>The financial instruments we considered most complex and most sensitive to unobservable valuation inputs are private equity and unlisted debt.</p> <p>The Group also has collateralised lending, the recoverability of which was impacted by the significant decrease in the share price of Steinhoff Limited during December 2017.</p> <p>Refer to Note 24.5 of the Group financial statements (Critical accounting estimates and judgements, page 126) and Note 32 of the Group financial statements pages 140 to 149).</p>	<p>Our audit included the following audit procedures across the areas considered material:</p> <ul style="list-style-type: none"><li>→ We assessed the design and operating effectiveness of the financial reporting controls we considered significant in the valuations and model approval process. This included the controls over the maintenance and use of credit ratings utilised in the valuations;</li><li>→ We assessed the valuation methodologies applied for appropriateness against generally accepted market practice;</li><li>→ We compared the assumptions used in the Group's models and methodologies to independent external sources where possible;</li><li>→ Where valuation inputs were unobservable, we involved our valuation experts to assist us in assessing these inputs; and</li><li>→ We independently tested the valuation of a sample from each type of financial instrument.</li></ul> <p>In addition to the above, our specific procedures included the following:</p> <p><b>Private equity:</b></p> <ul style="list-style-type: none"><li>→ We considered whether the application of methodologies is consistent with generally accepted valuation methodologies and prior periods and that assumptions and inputs used are consistent, in all material respects, with the business' past performance and management business strategy, adjusted for the implicit risk of achieving this strategy under prevailing market conditions; and</li><li>→ Where deemed appropriate, we performed an independent corroboration of the valuations to comparable entities in the market.</li></ul>

Key Audit Matter	How the matter was addressed in the audit
<p><b>2. Valuation of unlisted financial instruments (continued)</b></p>	<p><b>Unlisted debt:</b></p> <ul style="list-style-type: none"> <li>→ We evaluated the valuation inputs, in particular, the construction of the risk free curve, liquidity and credit spreads by performing independent checks against external sources; and</li> <li>→ In respect of counter party exposure, we involved our valuation experts to assist us in considering whether credit risk has been appropriately considered and applied in the valuation at year-end.</li> </ul> <p><b>Collateralised lending:</b></p> <ul style="list-style-type: none"> <li>→ We considered the original loan agreements, as well as any subsequent amendments to the agreements, as well as guarantees, sessions or pledges obtained by the Group;</li> <li>→ We considered any collateral held originally as well as any new collateral obtained, together with the impact of collateral calls and/or other settlements effected prior to year-end;</li> <li>→ Through enquiry we obtained information on known legal processes instituted and/or processes followed with other creditors;</li> <li>→ We obtained evidence for all material matters considered in the setting the recoverable amount of the collateralised lending, including evidence of collateral held, and subordination agreements where applicable;</li> <li>→ We conducted searches of publically available information in order to ascertain whether there are any other relevant facts or circumstances that should be considered when evaluating the Group's claim on assets to support outstanding balances;</li> <li>→ We involved our valuation experts to consider the valuation of the material items of collateral held; and</li> <li>→ We performed subsequent events procedures up to the date of our audit report.</li> </ul>

# Independent Auditor's Report of the Consolidated and Separate Financial Statements (continued)

## **Other Information**

The directors are responsible for the other information. The other information comprises the Integrated Report, Corporate Governance Report, the Directors responsibility for financial reporting, Certificate by the Company Secretary and the Directors' Report as required by the Companies Act of South Africa.

Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The directors are responsible for the other information. The other information comprises the Integrated Report, Corporate Governance Report, the Directors responsibility for financial reporting, Certificate by the Company Secretary and the Directors' Report as required by the Companies Act of South Africa.

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## **Responsibilities of the Directors for the Consolidated and Separate Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to

draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

# Independent Auditor's Report of the Consolidated and Separate Financial Statements (continued)

## Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc., and its predecessor firms, were appointed as joint auditors of Sanlam Limited with its incorporation in 1998. In 2006, Ernst & Young Inc. was appointed as the sole auditor of Sanlam Limited and has continuously therefore been the auditor of the company for a total of 20 years.

*Ernst & Young Inc.*

**Director: Johanna Cornelia de Villiers**

Registered Auditor  
Chartered Accountant (SA)

### Ernst & Young House

3 Dock Road  
V&A Waterfront  
Cape Town

7 March 2018

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# Capital and risk management report

## Capital management

### Objective

Responsible capital management and allocation are an essential component of meeting the Group's strategic objective of shared value creation for all stakeholders, including maximising shareholder value. The capital value used by the Group as the primary performance measurement base is Group Equity Value (GEV), as reported on page 75 of the Integrated Report. The management of the Group's capital base requires a continuous review of optimal capital levels, including the use of alternative sources of funding, to maximise return on GEV (RoGEV) and ensure appropriate solvency levels as a safeguard to clients and regulators. The Group has an integrated capital and risk management approach. The amount of capital required by the various businesses is directly linked to their exposure to financial and operational risks. Accordingly, risk management is an important component of responsible capital management and allocation.

### Capital allocation methodology

Group businesses are each allocated an optimal level of capital and are measured against appropriate return hurdles.

The methodology used to determine the allocation of required capital to South African covered business changed at the end of 2016 to allow for the anticipated introduction of the new Solvency Assessment and Management (SAM) regime, which will replace the current Financial Soundness Valuation (FSV) regime.

At the end of 2016 the Group set an appropriate level of required capital for Sanlam Life's covered business under SAM, based on a SAM Solvency Capital Requirement (SCR) targeted cover range of between 1,7 times and 2,1 times over a 10-year projection period. At the lower end of the range, Sanlam Life's covered business should be able to withstand two economic shock scenarios before reaching the minimum 1 times SCR cover. A similar methodology was followed to set ranges for the other South African life insurers. The revised approach remains aligned with the overarching principle to set the level and nature of the supporting capital taking cognisance of minimum regulatory capital requirements, as well as economic, risk and growth considerations. For the non-South African life insurers, the Group sets supporting capital levels as a multiple of their respective regulatory capital adequacy requirements.

The fair value of other Group operations includes the working capital allocated to the respective operations.

The Group's approach to ensure appropriate working capital levels in these operations is twofold:

- The Group's internal dividend policy is based on the annual declaration of all discretionary capital by subsidiaries that is not required for normal operations or expansion; and
- Performance targets are set for other Group operations based on an expected return on the fair value of the businesses, equal to their internal hurdle rates. This ensures that all non-productive working capital is declared as a dividend to the Group.

### Capital management

#### Covered business (life insurance operations)

The Group's covered business requires significantly higher levels of allocated capital than the other Group operations. The optimisation of long term required capital is accordingly a primary focus area of the Group's capital management philosophy given the significant potential to enhance shareholder value, while maintaining appropriate solvency levels. The following main strategies are used to achieve this objective:

- Appropriate matching of assets and liabilities for policyholder solutions. This is especially important for long-duration policyholder solutions that expose the Group to interest rate risk, such as non-participating annuities.
- Managing the impact of new business on capital requirements by limiting volumes of capital-intensive new business.
- The asset mix of the long-term required capital, as well as estate reserves in the policyholder portfolios also impact the overall capital requirement. An increased exposure to hedged equity and interest-bearing instruments reduces the volatility of the capital base and accordingly also the capital requirement. Over the longer term, the expected investment return on these instruments is, however, lower than equity with a potential negative impact on RoGEV. Consequently, there is a trade-off between lower capital levels and the return on capital. The Group's balance sheet management function uses stochastic modelling and the impact on required capital to determine the optimal asset mix in this regard.
- The optimal use of long-term debt in the life insurance operations' capital structure.
- Utilisation of capital diversification benefits, when deemed necessary, whereby the capital requirements of insurance entities can be partly covered by investments



in other Group operations, within the limits available in the particular regulatory regime.

- Management of operational risk: internal controls and various other operational risk management processes are used to reduce operational risk and commensurately the allowance for this risk in the calculation of required capital.

The Group continues to improve and further develop its capital management models and processes in line with international best practice.

### Other Group operations

The performance measurement of other Group operations is based on the return achieved on the fair value of the businesses. Risk-adjusted return targets are set for the businesses to ensure that each business' return target takes cognisance of the inherent risks of the business. This approach ensures that the management teams are focused on operational strategies that will optimise the return on fair value, thereby contributing to the Group's main objective of optimising RoGEV.

### Group Estate committee

The Group Estate committee, an internal management committee, is responsible for reviewing and overseeing the management of the Group's shareholders capital base (inclusive of the estate reserves) in terms of the specific strategies approved by the Board.

### Discretionary capital

Any capital in excess of requirements, and not optimally utilised, is identified on a continuous basis. The pursuit of structural growth initiatives has been set as the preferred application of Group capital, subject to such initiatives yielding the applicable hurdle rate and being complementary to or in support of Group strategy. Any discretionary capital not efficiently redeployed will be returned to shareholders in the most effective form.

### Capital adequacy – current FSV regime

For regulatory purposes, capital adequacy for the South African operations is measured with reference to the cover provided by the Group's prudential regulatory capital in relation to the Capital Adequacy Requirements as specified by the FSV regime. It is expected that the current FSV regime will be replaced by the SAM regime during the course of 2018. The capital adequacy of Sanlam Investments and Pensions, the Group's life insurance operations in the United Kingdom (UK), is measured in terms of the Prudential Regulation Authority's guidelines in the UK, which are materially in line with SAM.

The valuation of assets and policy liabilities for prudential capital adequacy purposes is generally in line with the methodology for the published results. Some adjustments are, however, required, as set out below.

### Reinsurance

Policy liabilities are valued net of reinsurance and the reinsurance asset is eliminated.

### Investment contracts with investment management services

The liabilities are set equal to the retrospectively accumulated fair value of the underlying assets less the deferred acquisition cost (DAC) asset in the case of individual business. These retrospective liabilities are higher than the prospective liabilities calculated as the present value of expected future benefits and expenses less future premiums at the relevant discount rates. The DAC asset is disregarded for prudential capital adequacy purposes.

### Group undertakings and inadmissible assets

The value of assets is reduced by taking into account the prescribed valuation bases for Group undertakings and to eliminate inadmissible assets (as defined in the relevant prudential regulations).

### Capital Adequacy Requirements (CAR)

The excess of assets over liabilities of life insurance operations on the prudential regulatory basis should be sufficient to cover the CAR in terms of the relevant local regulations, as well as professional practice notes issued by the Actuarial Society in South Africa and the Board of Actuarial Standards in the UK. The CAR provides a buffer against experience worse than that assumed in the valuation of assets and liabilities.

On the valuation date, the ordinary CAR was used for the South African operations as they exceeded the termination and minimum CAR.

The largest element of the CAR relates to stabilised bonus business. Consistent with an assumed fall in the fair value of the assets (the "resilience scenario"), which is prescribed in the actuarial practice notes, the calculation of the CAR takes into account a reduction in non-vesting bonuses and future bonus rates and for the capitalisation of some expected future profits (resulting from discretionary margins in the valuation basis and held as part of the liabilities).

At 31 December 2017, the resilience scenario assumes that:

- equity values decline by 30%;
- property values decline by 15%;

# Capital and risk management report

(continued)

- fixed-interest yields and inflation-linked real yields increase or decrease by 25% of the nominal or real yields (whichever gives the highest total capital adequacy requirements); and
- assets denominated in foreign currencies decline by at least 20% on the valuation date,

and do not subsequently recover within the short-term.

Provision is made for credit and operational risk in the calculation of the CAR.

The excess of the actuarial values of assets over liabilities is disclosed in the table below. The values disclosed for Sanlam Life capture the material solvency position of the entire Sanlam Life Group, including its subsidiaries. Sanlam Investments and Pensions is the only life insurance company in the Group that is not a subsidiary of Sanlam Life, and its solvency position is therefore shown separately. All subsidiaries of Sanlam Life were adequately capitalised.

R million	Sanlam Life Insurance Limited		Sanlam Investments and Pensions UK Limited	
	2017	2016	2017	2016
<b>Assets</b>				
Fair value of assets	514 397	469 894	46 766	44 065
Less: Liabilities	421 021	386 028	46 276	43 628
Actuarial value of policy liabilities	401 332	370 414	45 470	42 827
Investment contracts	263 776	232 587	41 158	38 483
Insurance contracts	137 556	137 827	4 312	4 344
Long-term and current liabilities	19 689	15 614	806	801
<b>Excess of assets over liabilities for financial reporting</b>	<b>93 376</b>	<b>83 866</b>	<b>490</b>	<b>437</b>
Adjustment for prudential regulatory purposes	(46 685)	(39 127)	673	598
Adjustment for Group undertakings				
Sanlam Investment Management	(3 839)	(3 890)	-	-
Santam	(11 612)	(10 136)	-	-
SDM Limited	(8 270)	(7 228)	-	-
SEM Pty Limited	(9 331)	(6 191)	-	-
Capital requirements of life insurance subsidiaries, adjusted for minority interests	(1 426)	(2 408)	-	-
Inadmissible assets	(798)	(807)	-	-
Other	(11 409) <sup>(1)</sup>	(8 467) <sup>(1)</sup>	673	598
Unsecured subordinated debt	2 216	2 198	-	-
Excess of assets over liabilities for prudential regulatory purposes	48 907	46 937	1 163	1 035
<b>Capital adequacy requirements</b>				
Capital adequacy requirements (CAR) before management actions	15 650	16 250	815	770
Management actions assumed	(7 275)	(8 100)	-	-
Reduction in future bonus rates	(4 398)	(4 996)	-	-
Reduction in non-vested bonuses	(783)	(751)	-	-
Capitalisation of a portion of expected future profits held as discretionary margins	(960)	(610)	-	-
Reduction in grossing up of the assets covering CAR and other	(1 134)	(1 743)	-	-
<b>CAR after management actions assumed</b>	<b>8 375</b>	<b>8 150</b>	<b>815</b>	<b>770</b>
Times CAR covered by excess of assets over liabilities for prudential regulatory purposes	5,8	5,8	1,4	1,3

<sup>(1)</sup> Includes write-down of Sanlam Limited treasury shares of R10 124 million (2016: R7 319 million).

## Capital adequacy under SAM

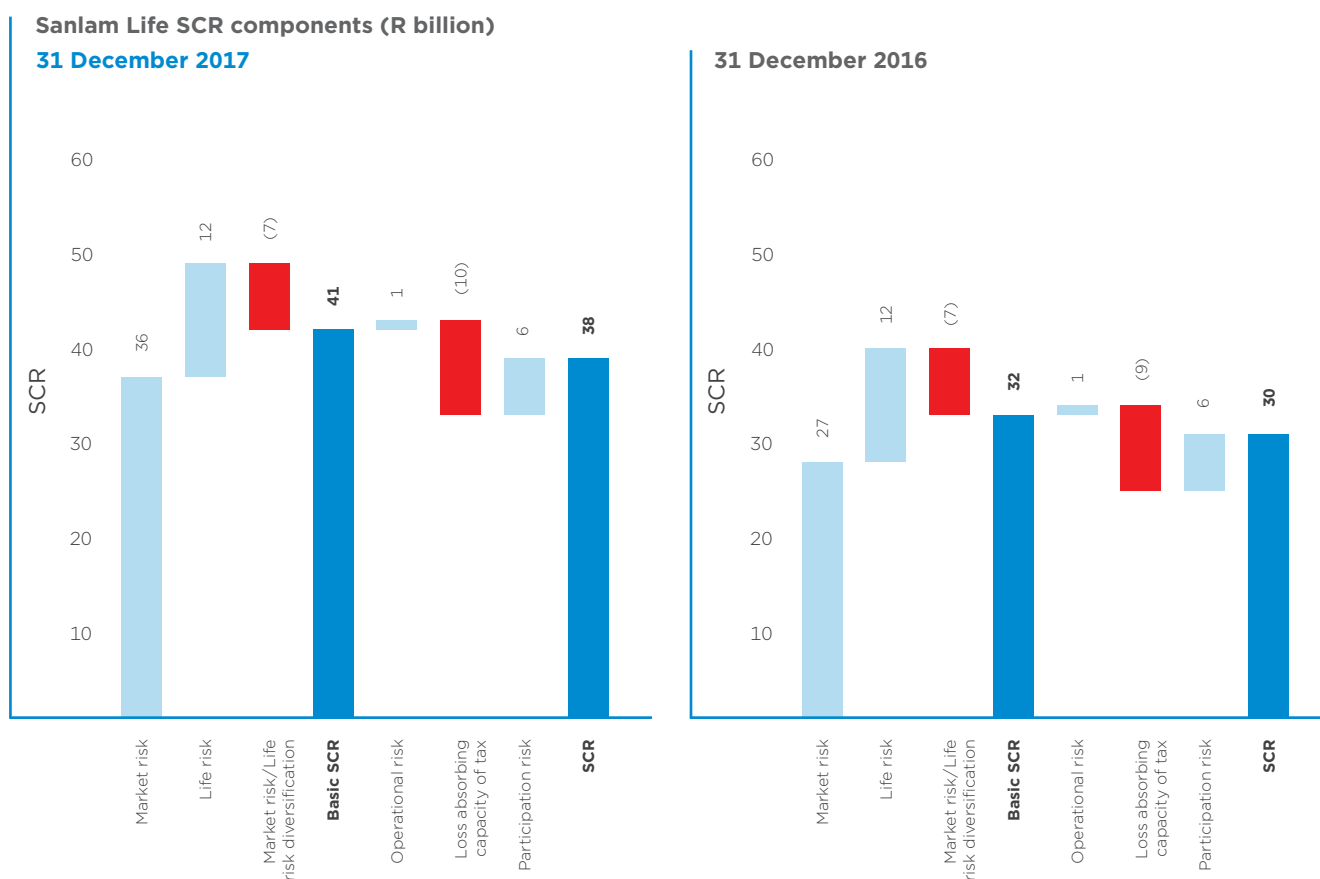
The following table summarises the SAM solo position for Sanlam Life Insurance Limited as at 31 December 2017.

### SAM solo solvency position

R million	Sanlam Life Insurance Limited			
	2017		2016	
	IFRS <sup>(4)</sup>	SAM	IFRS	SAM
Total assets	511 494	502 450	469 238	461 043
Total liabilities	(418 118)	(387 912)	(385 372)	(358 033)
Shareholders' fund/basic own funds	93 376	114 538	83 866	103 010
Adjustments	-	(10 124)	-	(10 248)
Investment in financial and credit institutions	-	-	-	(2 929)
Treasury shares	-	(10 124)	-	(7 319)
<b>Own funds eligible to meet SCR</b>	<b>93 376</b>	<b>104 414</b>	83 866	92 762
<b>SCR</b>		<b>38 113</b>		30 298
<b>SCR cover</b>		<b>2,74</b>		3,06

<sup>(4)</sup> The valuation of IFRS total assets and liabilities is disclosed in accordance with the SAM Financial Soundness Standards.

The Group uses the Standard Formula SCR calculation to determine Sanlam Life's solo solvency cover. Although the SAM subordinate legislation has not been promulgated, Sanlam has been submitting solo results to the FSB on a quarterly basis since the second half of 2014. The decline in the SCR cover ratio in 2017 is attributable to changes in the specifications on how participations (subsidiaries, associates, joint ventures) are treated for own funds purposes, as well as a more severe shock scenario for equities and participations based on the higher level of equity markets at the end of 2017 relative to 31 December 2016. The table below shows Sanlam Life's solo SCR under SAM as at 31 December 2017. The calculations have been based on Sanlam's interpretation of the latest available SAM technical specifications



# Capital and risk management report

(continued)

The following table includes a build-up of Sanlam Life's solo SCR cover between covered business and non-covered business as at 31 December 2017.

## Analysis of SAM solvency position

R million	31 December 2017		SCR	SCR cover times
	IFRS	SAM		
<b>Covered business</b>	<b>9 709</b>	<b>37 829</b>	<b>16 212</b>	<b>2,3</b>
Policyholders' fund	-	25 904		
Assets backing policyholder liabilities	402 064	400 180		
<i>Net investment assets</i>	401 664	400 180		
<i>Deferred acquisition cost - policyholders</i>	400	-		
Policyholder liabilities	(402 064)	(374 276)		
<i>Long-term policy liabilities</i>	(401 332)	(363 470)		
<i>Deferred tax - policyholders' fund</i>	(732)	(10 806)		
Required capital	9 500	9 500		
Net subordinated debt	43	2 259		
<i>Subordinated debt liabilities</i>	(2 216)	-		
<i>Assets backing subordinated debt</i>	2 259	2 259		
Working capital and other	166	166		
<i>Working capital assets</i>	4 332	6 713		
<i>Deferred acquisition cost - shareholders</i>	2 381	-		
<i>Working capital liabilities</i>	(6 547)	(6 547)		
<b>Participations</b>	<b>78 586</b>	<b>62 198</b>	<b>19 257</b>	<b>3,2</b>
Financial and credit institutions	7 806	3 633		
<i>Sanlam Investment Management</i>	4 633	887		
<i>Sanlam Personal Loans</i>	1 228	801		
<i>Shriram Transport Finance Company</i>	1 942	1 942		
<i>Other</i>	3	3		
Strategic insurance participations	31 406	30 050		
<i>Santam</i>	18 108	18 108		
<i>Sanlam Developing Markets</i>	10 550	9 885		
<i>Sanlam Namibia<sup>(1)</sup></i>	-	-		
<i>Other</i>	2 748	2 057		
Other strategic participations	29 250	28 515		
<i>Sanlam Emerging Markets<sup>(1)</sup></i>	27 750	27 750		
<i>Other</i>	1 500	765		
Treasury shares	10 124	-		
<b>Intangible assets</b>	<b>896</b>	<b>-</b>		
Goodwill	753	-		
Other intangible assets	143	-		
<b>Other net assets</b>	<b>4 185</b>	<b>4 387</b>	<b>2 644</b>	<b>1,7</b>
Deferred tax - shareholders' fund	(1)	201		
Discretionary capital	1 074	1 074		
Dividend allowance	2 651	2 651		
Other capital	461	461		
<b>Shareholders' fund/Own funds eligible to meet SCR</b>	<b>93 376</b>	<b>104 414</b>	<b>38 113</b>	<b>2,7</b>

<sup>(1)</sup> Sanlam Namibia transferred from Sanlam Life Insurance Limited to Sanlam Emerging Markets.

## Analysis of SAM solvency position

R million	31 December 2016		SCR	SCR cover times
	IFRS	SAM		
<b>Covered business</b>	10 034	35 204	15 977	2,2
Policyholders' fund	-	22 972		
Assets backing policyholder liabilities	371 082	369 116		
<i>Net investment assets</i>	370 682	369 116		
<i>Deferred acquisition cost – policyholders</i>	400	-		
Policyholder liabilities	(371 082)	(346 144)		
<i>Long-term policy liabilities</i>	(370 414)	(336 543)		
<i>Deferred tax – policyholders' fund</i>	(668)	(9 601)		
Required capital	10 000	10 000		
Net subordinated debt	36	2 234		
<i>Subordinated debt liabilities</i>	(2 198)	-		
<i>Assets backing subordinated debt</i>	2 234	2 234		
Working capital and other	(2)	(2)		
<i>Working capital assets</i>	3 820	6 172		
<i>Deferred acquisition cost – shareholders</i>	2 352	-		
<i>Working capital liabilities</i>	(6 174)	(6 174)		
<b>Participations</b>	64 468	48 900	12 785	3,8
Financial and credit institutions	7 074	-		
<i>Sanlam Investment Management</i>	4 592	-		
<i>Sanlam Personal Loans</i>	1 161	-		
<i>Shriram Transport Finance Company</i>	1 162	-		
<i>Other</i>	159	-		
Strategic insurance participations	30 399	29 797		
<i>Santam</i>	15 868	15 868		
<i>Sanlam Developing Markets</i>	9 383	9 269		
<i>Sanlam Namibia</i>	3 175	3 175		
<i>Other</i>	1 973	1 485		
Other strategic participations	19 676	19 103		
<i>Sanlam Emerging Markets</i>	18 437	18 437		
<i>Other</i>	1 239	666		
Treasury shares	7 319	-		
<b>Intangible assets</b>	909	-		
Goodwill	753	-		
Other intangible assets	156	-		
<b>Other net assets</b>	8 455	8 658	1 536	5,6
Deferred tax – shareholders' fund	-	203		
Discretionary capital	550	550		
Dividend allowance	2 610	2 610		
Other capital	5 295	5 295		
<b>Shareholders' fund/Own funds eligible to meet SCR</b>	<b>83 866</b>	<b>92 762</b>	<b>30 298</b>	<b>3,1</b>

# Capital and risk management report

(continued)

The Sanlam Group solvency ratio was 2,2 times at 31 December 2017, in line with the ratio at the end of 2016.

## Sensitivity analysis: SAM solvency position as at 31 December 2017

<b>Sanlam Life</b> R million	<b>Available capital resources</b>	<b>SCR</b>	<b>Surplus</b>	<b>SCR cover</b>
<b>Base position</b>	104 414	38 113	66 301	274%
Equities -30%	80 693	28 243	52 450	286%
Equities -10%	96 607	33 245	63 362	291%
Interest rates -1%	105 606	38 550	67 056	274%
Credit spreads +1%	104 204	38 482	65 722	271%
ZAR appreciation 10%	103 783	38 327	65 456	271%
Shock scenario <sup>(1)</sup>	77 473	28 344	49 129	273%

<b>Sanlam Group</b> R million	<b>Available capital resources</b>	<b>SCR</b>	<b>Surplus</b>	<b>SCR cover</b>
<b>Base position</b>	83 504	38 260	45 244	218%
Equities -30%	76 202	35 596	40 606	214%
Equities -10%	81 218	36 464	44 754	223%
Interest rates -1%	85 104	38 560	46 544	221%
Credit spreads +1%	82 371	38 293	44 078	215%
ZAR appreciation 10%	81 166	37 600	43 566	216%
Shock scenario <sup>(1)</sup>	72 795	34 558	38 237	211%

<sup>(1)</sup> Equities decline by 30% and implied equity volatility increases by 25%  
 Property values decline by 15%  
 Fixed interest yields and inflation-linked real yields increase or decrease by 25% of the nominal or real yields  
 Emerging market currencies decline by 20% against developed market currencies  
 Credit spreads widening by 1%

## Credit rating

Standard & Poor's (S&P) issued the following ratings for Group companies during 2017:

	<b>Most recent ratings issued</b>
Sanlam Limited	South Africa National Scale: zaA
Sanlam Life Insurance Limited	South Africa National Scale: zaAA+
Subordinated debt issued by Sanlam Life Insurance Limited	South Africa National Scale: zaA
Santam Limited	South Africa National Scale: zaAA+

Group solvency is determined by applying the deduction and aggregation method as specified in the SAM specifications. Entities are included at the following values as per the current SAM specifications:

- South African insurers: Available capital resources (ACR) and SCR are based on SAM values. In respect of Santam, a prudent approach was followed by not including the Santam surplus capital, thereby effectively including it at a 1 times cover ratio.
- Non-South African insurers regulated in an equivalent jurisdiction: Local statutory resources and capital requirements are used (at present only applicable to the United Kingdom for Sanlam).
- Non-South African insurers regulated in a non-equivalent jurisdiction: Adjusted IFRS net asset value for ACR, and the maximum of local and SAP104 capital requirements for SCR.
- Regulated banks and credit institutions: Regulatory capital resources and capital requirements as per the Basel III framework.
- Other regulated entities: Regulated entities (other than insurers, banks and credit institutions) that have regulations prescribing capital resources and capital requirements may be included at these values.
- Where no capital resources and capital requirements are prescribed: Adjusted IFRS net asset value for ACR and a SCR equal to a SAM equity stress on the ACR.

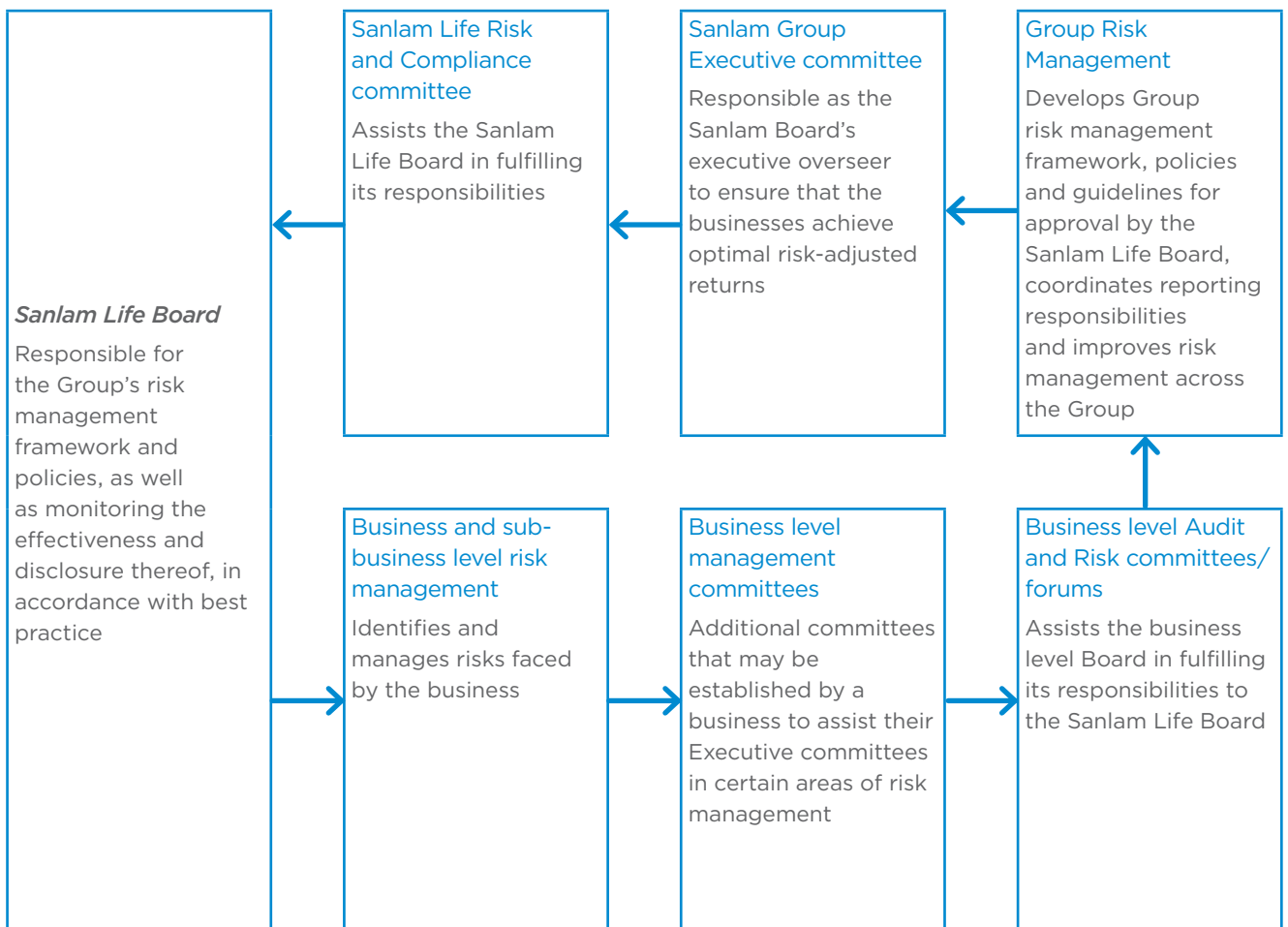
## Risk management

### Governance structure

In terms of the Group's overall governance structure, the meetings of the Sanlam Limited Board (Sanlam Board) and Sanlam Life Board are combined to improve the flow of information and to increase the efficiency of the Boards. The agenda of the Sanlam Board focuses on Group strategy, capital management, accounting policies, financial results, dividend policy, human resource development and corporate governance and JSE requirements. The Sanlam Life Board is responsible for statutory matters across all Sanlam businesses, as well as monitoring operational efficiency and risk issues throughout the Group. In respect

of separately listed subsidiaries, this is done within the limitations of sound corporate governance practices. Refer to the Corporate Governance Report online for further information on the responsibilities of the Sanlam and Sanlam Life Boards and their committees.

The Group operates within a decentralised business model environment. In terms of this philosophy, the Sanlam Life Board sets the Group enterprise risk management policies and frameworks and the individual businesses take responsibility for all operational and risk-related matters on a business level, within the limits set by these policies and frameworks. The following diagram depicts the generic flow of risk management information from the individual businesses to the Sanlam Life Board.



# Capital and risk management report

(continued)

## Role of Group Risk Management

The role of Group Risk Management is one of setting Group standards and guidelines, coordinating and monitoring risk management practices and ultimately reporting to the Sanlam and Sanlam Life Boards.

Group Risk Management plays an active role with regard to risk management in the Sanlam Group. The involvement includes the following:

- Permanent invitees of business units' Risk and Audit committees;
- Member of the Central Credit committee (see description below);
- Transactional approval incorporated into approval frameworks of business units where appropriate;

- Involvement and approval of corporate activity transactions;
- Chairs the Estate committee and Asset and Liability committee at Group level, as well as the Group risk forum (see descriptions below);
- Chairs the Group IT Steering committee;
- Guidance on risk-related matters at business level; and
- Involvement with specialist risk management issues at business level.

A number of other risk management/monitoring mechanisms operate within the Group as part of the overall risk management structure. The most important of these are illustrated in the following table:

## OTHER RISK MANAGEMENT / MONITORING MECHANISMS

<p><b>Estate committee</b></p> <p>Reviews and oversees the management of the Group's capital base</p>	<p><b>Asset and Liability committee</b></p> <p>Determines appropriate investment policies and guidelines for policyholder portfolios where guarantees are provided</p>	<p><b>Central Credit committee</b></p> <p>Oversees the identification, measurement and control of corporate credit risk exposure</p>
<p><b>Investment committees</b></p> <p>Determine and monitor appropriate investment strategies for policyholder solutions</p>	<p><b>Treasury function</b></p> <p>Manages the liquidity risks in the borrowing functions of Sanlam</p>	<p><b>Non-Listed Asset Controlling Body</b></p> <p>Reviews and approves the valuation of all unlisted assets in the Group for recommendation to the Sanlam Limited and Sanlam Life Boards</p>
<p><b>Group risk forum</b></p> <p>Aids coordination and transfer of knowledge between businesses and the Group, and assists Group Risk Management in identifying risks requiring escalation to the Sanlam Life Board</p>	<p><b>Financial Director</b></p> <p>Ensures that sound financial practices are followed, adequate and accurate reporting occurs, and financial statement risk is minimised</p>	<p><b>Actuarial</b></p> <p>Monitors and reports on key risks affecting the life insurance operations. Determines capital requirements of the life insurance operations and the potential impact of strategic decisions thereon, by using appropriate modelling techniques</p>
<p><b>Forensics</b></p> <p>Investigates and reports on fraud and illegal behaviour in businesses</p>	<p><b>Group Secretariat and Public Officers</b></p> <p>Reviews and reports on corporate governance practices and structures. Reports on applicable legal and compliance matters</p>	<p><b>Group Compliance function</b></p> <p>Facilitates management of compliance through analysing and advising on statutory and regulatory requirements, and monitoring implementation and execution thereof</p>



## OTHER RISK MANAGEMENT / MONITORING MECHANISMS

<p><b>Group Technology and Information</b> Manages and reports Group-wide Technology, Cyber and Information Security risks</p>	<p><b>Risk Officer (per business)</b> Assists business management in their implementation of the Group risk management framework and policies, and to monitor the business's entire risk profile</p>	<p><b>Internal audit</b> Assists the Sanlam Life Board and management by monitoring the adequacy and effectiveness of risk management in businesses</p>
<p><b>Actuarial forum</b> Assists the Audit, Actuarial and Finance and the Risk and Compliance committees on actuarial related matters. It also assists the Actuarial Control Function in providing oversight over first line activities in Group Actuarial, most notably balance sheet management</p>		

### Group risk policies, standards and guidelines

The main policies, standards and guidelines are:

- Sanlam Group enterprise risk management (ERM) policy and plan;
- Sanlam Group risk escalation policy;
- Sanlam Group business continuity management policy;
- Definitions of risk categories standard;
- Risk appetite guidance note;
- Sanlam Group risk appetite statement;
- Sanlam risk management maturity model;
- Sanlam Limited risk and compliance committee charter;
- Sanlam Life risk and compliance committee charter; and
- Group risk forum terms of reference.

A policy sets out the mandatory minimum requirements for the businesses.

A standard endeavours to ensure consistent use of terminology.

A guidance note is aimed at providing information.

The following also cover aspects with linkage to risk management:

- Sanlam Life combined assurance model;
- Sanlam Group internal control policy;
- Sanlam Group outsourcing policy;
- Sanlam Group information and information technology (I and IT) risk management policy;
- Representations from Group businesses to the Sanlam and Sanlam Life Audit, Actuarial and Finance committees;
- Sanlam corporate credit risk strategy and policy;
- Sanlam reinsurance and other risk mitigation policy;
- Sanlam Life underwriting risk management policy;
- Sanlam investment policy;
- Sanlam financial crime combating policy;
- Sanlam human resources policies;
- Sanlam Group governance framework;
- Sanlam Group high-level authorisation framework; and
- Sanlam Life Insurance Audit, Actuarial and Finance committee charter.

# Capital and risk management report

(continued)

## Sanlam Group Enterprise Risk Management policy and plan

The Group ERM policy and plan include the following main components:

- The broad objectives and philosophy of risk management in the Group;
- The roles and responsibilities of the various functionaries in the Group tasked with risk management; and
- The Group's minimum standards for implementation of risk management in the businesses.

## Sanlam Group risk escalation policy

The risk escalation policy defines the circumstances under which risk events and emerging risks should be escalated to the Sanlam Group level. This includes quantitative and qualitative measures.

## Summary of Sanlam Group risk appetite

- The Sanlam Group consists of a number of decentralised businesses. These businesses have different risk profiles and appetites. They are capitalised appropriately based on these risk profiles.
- The Group determines the hurdle rates required from these businesses. These hurdle rates are set out for each business in accordance with its risk profile. The higher the risk profile of a business, the higher the required return will be set. On average, the Sanlam Group aims to yield a RoGEV equal to at least 400bps above the reference rate, with the reference rate being set at the nine-year point on the relevant yield curve.

Each decentralised business needs to operate within the restrictions of its allocated capital. For businesses using value at risk (VaR) as measurement, a 99,5% confidence level is required over a one-year time horizon. For insurance businesses regulated under SAM (or similar regimes) the level of allocated capital for covered business is set to ensure that Own Funds attributable to in-force covered business maintains a SAM SCR ratio within a specified range, e.g. between 1,7 and 2,1 times for Sanlam Life, over the next 10 years. For businesses using capital adequacy (risk-based capital) techniques, a 95% confidence level over a 10-year time horizon is required.

- Each business needs to manage their risks within the Group ERM framework.

## Independent assurance reviews

In collaboration with an external assurance provider, the Group developed a risk management maturity model against which the risk management processes across the Group are assessed. Annually, internal audit (in conjunction with Group risk management) prepares risk management process audit plans for approval by the Sanlam Life risk and compliance committee. The assurance reviews comprise self-assessments and independent reviews. All businesses conduct self-assessments with the independent assessments done either by an external assurance provider or internal audit. Typically, the larger businesses are assessed by an external assurance provider once every three years. Internal audit, on the other hand, tends to focus on the assessments for the smaller businesses which are done on a rolling basis. The overall results of both the self-assessments and the independent reviews are presented to the Sanlam Life Risk and Compliance committee.

## Risk types

The Group is exposed to the following main risks:

	Risk category (primary)	Risk type (secondary) and description	Potential significant impact
<b>General risks</b>	<b>1. Operational</b>	<p>Operational risk is the risk that there is a loss as a result of inadequate or failed internal processes, people or systems and external events. Operational risk includes:</p> <p><b>Information and technology risk:</b> the risk of obsolescence of infrastructure, deficiency in integration, failures/inadequacies in systems/networks and the loss of confidentiality, availability and integrity of information, which includes cyber risks and its knock-on effects. Information risk also includes the loss of quality of information.</p> <p><b>Going concern/business continuity risk:</b> the risk that inadequate processes, people, financial controls and resources exist to continue business in the foreseeable future.</p> <p><b>Legal risk:</b> the risk that the Group's operations or its condition are disrupted or adversely affected by legal proceedings against it, adverse judgements from courts, contracts that turn out to be unenforceable or contractual obligations which have not been provided for.</p> <p><b>Compliance risk:</b> the risk of not complying with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct including acceptable market conduct practices<sup>(1)</sup>, investment management mandates, as well as the failure to uphold the Group's core values and Code of Ethical Conduct.</p> <p><b>Human resources risk:</b> the risk that the Group does not have access to appropriate skills and staff complement to operate and effectively manage other operational risk.</p> <p><b>Fraud risk:</b> the risk of financial crime and unlawful conduct impacting on the Group. It includes both internal and external fraud.</p> <p><b>Taxation risk:</b> the risk of financial loss owing to changes in tax legislation that result in the actual tax on shareholders' fund earnings being higher than expected, with a corresponding reduction in RoGEV; or the actual policyholder tax being higher than that assumed in the determination of premium rates and guaranteed policy benefits.</p> <p><b>Regulatory risk:</b> the risk that new Acts or regulations will result in the need to change business practices that may lead to financial loss.</p> <p><b>Process risk:</b> the risk of loss as a result of failed or inadequate internal processes.</p> <p><b>Project risk:</b> the risk that is inherent in major projects.</p>	All Group businesses

<sup>(1)</sup> Market conduct involves the behaviour of an organisation and of those that act on its behalf towards various stakeholders (including potential and current clients, regulators or supervisors, investors, and other market participants). Market conduct comprises market discipline (including transparency and corporate governance) and consumer protection (including treating clients fairly).

# Capital and risk management report

(continued)

	Risk category (primary)	Risk type (secondary) and description	Potential significant impact
General risks	<b>1. Operational (continued)</b>	<b>Outsourcing provider risk:</b> the risk arising from the inability or unwillingness of an outsourcing service provider to discharge its contractual obligations; and from concentration with an individual outsourcing service provider (which exacerbates the former).	All Group businesses
	<b>2. Reputational</b>	Reputational risk is the risk that adverse publicity regarding a Group's business practices, associations and market conduct, whether accurate or not, will cause a loss of confidence in the integrity of the institution. The risk of loss of confidence relates to stakeholders, which include, <i>inter alia</i> , potential and existing clients, investors, suppliers and supervisors.	All Group businesses
	<b>3. Strategic</b>	Strategic risk is the risk that the Group's strategy is inappropriate or that the Group is unable to implement its strategy.	All Group businesses
Financial and business-specific risks	<b>1. Market</b>	<p>Market risk is the risk arising from the level or volatility of market prices of financial instruments which have an impact upon the value of assets and liabilities of the organisation. Market risk includes:</p> <p><b>Equity risk:</b> the risk resulting from the sensitivity of values of assets, liabilities and financial instruments to changes in the level or volatility of market prices of equities.</p> <p><b>Interest rate risk:</b> the risk of loss or adverse change in the value of assets and liabilities due to unanticipated changes in the level or volatility of interest rates.</p> <p><b>Currency risk:</b> the risk of loss or adverse change in the value of assets and liabilities owing to unanticipated changes in the level or volatility of currency exchange rates.</p> <p><b>Property risk:</b> the risk that the value of investment properties will fluctuate as a result of changes in the environment (i.e. the risk of loss or adverse change in the value of assets and liabilities due to unanticipated changes in the level or volatility of market prices of property).</p> <p><b>Asset liability mismatching (ALM) risk:</b> the risk of a change in value as a result of a deviation between asset and liability cash-flows, prices or carrying amounts. ALM risk originates from changes in market risk factors.</p> <p><b>Concentration risk:</b> the risk of loss associated with inadequately diversified asset portfolios. This may arise either from a lack of diversification in the asset portfolio, or from large exposure to default risk by a single issuer of securities or a group of related issuers (market risk concentrations).</p> <p><b>Market liquidity risk</b> (also known as trading liquidity risk or asset liquidity risk): the risk stemming from the lack of marketability of a financial instrument that cannot be bought or sold timeously to prevent or minimise a loss (or realise the required profit).</p>	<ul style="list-style-type: none"> <li>→ Life insurance</li> <li>→ Credit and structuring</li> <li>→ General insurance</li> <li>→ Investment management</li> </ul>

	Risk category (primary)	Risk type (secondary) and description	Potential significant impact
Financial and business-specific risks	1. Market (continued)	<b>Credit spread risk:</b> the risk resulting from the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or volatility of credit spreads over the risk-free interest rate term structure.	
	2. Credit	<p>Credit risk is the risk of default and deterioration in the credit quality of issuers of securities, counterparties and intermediaries to whom the Company has exposure. Credit risk includes:</p> <p><b>Default risk:</b> the credit risk arising from the inability or unwillingness of a counterparty to a financial instrument to discharge its contractual obligations.</p> <p><b>Downgrade or migration risk:</b> the risk that changes in the possibility of a future default by an obligator will adversely affect the present value of the contract with the obligator.</p> <p><b>Settlement risk:</b> the risk arising from the lag between the transaction and settlement dates of securities transactions.</p> <p><b>Reinsurance counterparty risk:</b> the concentration risk with individual reinsurers, owing to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings.</p>	<ul style="list-style-type: none"> <li>→ Life insurance</li> <li>→ General insurance</li> <li>→ Credit and structuring</li> <li>→ Corporate</li> </ul>
	3. Funding liquidity	Funding liquidity risk is the risk relating to the difficulty/inability to access/raise funds to meet commitments associated with financial instruments or policy contracts.	<ul style="list-style-type: none"> <li>→ Life insurance</li> <li>→ General insurance</li> <li>→ Credit and structuring</li> <li>→ Corporate</li> </ul>
	4. Insurance risk (life business)	<p><b>Insurance risk (life business)</b> is the risk arising from the underwriting of life insurance contracts, in relation to the perils covered and the processes used in the conduct of business. Insurance risk, in life business includes:</p> <p><b>Underwriting risk:</b> the risk that the actual experience relating to mortality, longevity, disability and medical (morbidity) will deviate negatively from the expected experience used in the pricing of solutions and valuation of policy liabilities.</p> <p><b>Persistency risk:</b> the risk of financial loss owing to negative lapse, surrender and paid-up experience. It covers the risk of loss or adverse change in insurance liabilities due to unanticipated change in the rate of policy lapses, terminations, renewals and surrenders.</p>	<ul style="list-style-type: none"> <li>→ Life insurance</li> </ul>

# Capital and risk management report

(continued)

	Risk category (primary)	Risk type (secondary) and description	Potential significant impact
Financial and business-specific risks	<b>4. Insurance risk (life business) (continued)</b>	<p><b>Expense risk:</b> the risk of loss owing to actual expense experience being worse than that assumed in premium rates and the valuation of policy liabilities. It covers the risk of loss or adverse change in insurance liabilities due to adverse variation in the expenses incurred in servicing insurance and reinsurance contracts.</p> <p><b>Concentration risk:</b> the risk of financial loss due to having written large proportions of business with policyholders of the same/similar risk profile (including catastrophe risk).</p>	→ Life insurance
	<b>5. Insurance risk (general insurance business)</b>	<p><b>Insurance risk (general insurance business)</b> is the risk arising from the underwriting of non-life insurance contracts, in relation to the perils covered and the processes used in the conduct of business. Insurance risk, in general insurance business includes:</p> <p><b>Claims risk (premium and reserve risk):</b> the risk associated with a change in value caused by the ultimate costs for full contractual obligations varying from those assumed when these obligations were estimated. Claims risk is often split into reserve risk (relating to incurred claims) and premium risk (relating to future claims).</p> <p><b>Non-life catastrophe risk:</b> the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty relating to the pricing and provisioning assumptions for extreme or exceptional events.</p>	→ General insurance

## Risk management: general risks

### 1. Operational risk

The Group mitigates this risk through its culture and values, a comprehensive system of internal controls, internal audit, forensic and compliance functions in addition to other measures such as back-up facilities, contingency planning and insurance. The initiation of transactions and their administration is conducted on the basis of the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions.

The management of risks associated with human resources is not addressed in this report. A discussion of the aforementioned is included in the Resilience Report available online.

The following functionaries assist in mitigating operational risk:

#### Internal audit

A Board-approved internal audit charter governs internal audit activity within the Group. Regular risk-focused

reviews of internal control and risk management systems are carried out. The Chief Audit Executive of Sanlam is appointed in consultation with the chairman of the Audit, Actuarial and Finance committee and has unrestricted access to the chairman of the committee. The authority, resources, scope of work and effectiveness of the functions are reviewed regularly.

#### External audit

The Group's external auditors are Ernst & Young Inc. The report of the independent auditors for the year under review is included on page 146 of the Integrated Report and page 7 of the Annual Financial Statements. The external auditors assess certain systems of internal financial control for the purpose of expressing an independent opinion on the Annual Financial Statements. Non-audit services rendered by the external auditors are strictly governed by a Group policy in this regard. The Group applies a policy of compulsory rotation of audit partners.

#### *Technology, cyber and information security ("IT") risk*

Technology, Cyber and Information Security (collectively referred to as IT) risks are managed across the Group in an integrated manner following the ERM framework. Group Technology and Information (GTI) is the custodian of the Group's IT policy framework and ensures explicit focus on, and integration with the Group's IT governance framework, which includes the governance of cyber resilience and information security.

The Group IT Governance department and Group Cyber Security Centre in GTI report to the Group Chief Information Officer (CIO) who facilitates the process of identifying emerging IT risks as well as unpacking significant IT risks with Group-wide impact. The Group IT Steering committee (a sub-committee of the Group Exco) provides guidance to the Group CIO regarding his/her duties, such as the definition and execution of the Group's IT strategy and the establishment of policy in response to IT risks.

The quarterly IT Risk and CIO reports, summarising the Group-wide IT risk and IT strategy position, are delivered to the Group IT Steering committee and the Risk and Compliance committee.

#### *Going concern/business continuity risk*

The Board regularly considers and records the facts and assumptions on which it relies to conclude that Sanlam will continue as a going concern. Reflecting on the year under review, the Directors considered a number of facts and circumstances and are of the opinion that adequate resources exist to continue business and that Sanlam will remain a going concern in the foreseeable future. The Board's statement to this effect is also contained in the statement on the responsibility of directors in the Annual Financial Statements.

#### *Legal risk*

During the development stage of any new product and for material transactions entered into by the Group, the legal resources of the Group monitor the drafting of the contract documents to ensure that the rights and obligations of all parties are clearly set out. Sanlam seeks to minimise uncertainties through continuous consultation with internal and external legal advisers, to understand the nature of risks and to ensure that transactions are structured and documented appropriately.

#### *Compliance risk*

##### *Laws and regulations:*

Sanlam considers compliance with applicable laws, industry regulations and codes an integral part of doing business. The Group Compliance Office, together with the compliance functions of the Group businesses, facilitates the management of compliance through the analysis of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

##### *Compliance with client mandates:*

Automated pre-compliance rules for clients' investment guidelines are loaded on the investment management operations' order management system. This means that a system rule will generally prevent any transaction that may cause a breach. Apart from this continuous monitoring, post-trade compliance reports are produced from the order management systems. Reporting of compliance monitoring with investment guidelines is done on a monthly basis, although the monitoring activities happen continuously. When a possible breach is detected, the portfolio manager is requested to confirm whether a breach has taken place, to explain the reason for the breach and to indicate when it will be rectified. When a breach is confirmed, the portfolio manager must generally rectify the breach as soon as possible. The action taken may vary depending on the type of breach. The detailed results of the mandate monitoring process are discussed with the head of investment operations on a monthly basis.

Derivative exposures are monitored on a daily basis for compliance with approval framework limits, as well as client investment guidelines where the guidelines are more restrictive than the investment manager's own internal limits.

##### *Fraud risk*

The Sanlam Group recognises that financial crime and unlawful conduct are in conflict with the principles of ethical behaviour, as set out in the Group's code of ethics, and undermines the organisational integrity of the Group. The financial crime combating policy for the Sanlam Group is designed to counter the threat of financial crime and unlawful conduct. A zero-tolerance approach is applied in combating financial crime and all offenders are prosecuted. The forensic services function at Group level oversees the prevention, detection and investigation of incidents of unlawful conduct that are of such a nature that they may have an impact on the Group or the executive of a business



# Capital and risk management report

(continued)

cluster. Group forensic services are also responsible for the formulation of Group standards in respect of the combating of unlawful conduct and the implementation of measures to monitor compliance with these standards.

The Chief Executive of each business cluster is responsible for the implementation of the policy in his or her respective business and is accountable to the Group Chief Executive and the Sanlam and Sanlam Life Boards. Quarterly reports are submitted by Group forensic services to the Sanlam and Sanlam Life Risk and Compliance committees on the incidence of financial crime and unlawful conduct in the Group and on measures taken to prevent, detect, investigate and deal with such conduct.

## *Taxation risk*

The risk is addressed through clear contracting to ensure that policy contracts entitle policyholders to after-tax returns, where applicable. The Group's internal tax resources monitor the impact of changes in tax legislation, participate in discussions with the tax legislator to comment on changes in legislation and are involved in the development of new products. External tax advice is obtained as required.

## *Regulatory risk*

Regulatory risk is mitigated by ensuring that the Group has dedicated personnel that are involved in and therefore informed of relevant developments in legislation.

The Group takes a proactive approach in investigating and formulating views on all applicable issues facing the financial services industry. The risk is also managed as far as possible through clear contracting. The Group monitors and influences events to the extent possible through participation in discussions with legislators, predominantly through industry organisations.

## *Process risk*

The risk of failed or inadequate internal processes is addressed through a combination of the following:

- A risk-based approach is followed in the design of operational processes and internal controls;
- Operational processes are properly documented;
- Staff training and the employment of a performance-based remuneration philosophy; and
- Internal audit review of key operational processes.

## *Project risk*

A formalised, risk-based approach is followed for the management of major projects to ensure that projects are effectively implemented and the project hurdle rate is achieved. Key deliverables, progress and risks are monitored on a continuous basis throughout the project life cycle. Internal specialists and external consultants are used as required to provide specialist knowledge and experience.

## *Outsourcing provider risk*

A Group outsourcing policy is in place and aims to provide clear direction and policy regarding the strategic management (e.g. assessment of outsourcing options, establishment of agreements, the ongoing management of and reporting on outsourcing) of all outsourcing arrangements, whether external or internal within the Sanlam Group.

## **2. Reputational risk**

Risks with a potential reputational impact are escalated to the appropriate level of senior management. The Audit, Actuarial and Finance and the Risk and Compliance committees are involved as required. Events with an industry-wide reputational impact are addressed through industry representative groups.

## **3. Strategic risk**

The Group's governance structure and various monitoring tools ensure that any events that affect the achievement of the Group's strategy are escalated and addressed at the earliest opportunity. The Board has no tolerance for any breach of guidance.

Group strategy is addressed on a continuous basis at various forums within the Group, the most important of which are:

- The Group's strategic direction and success are discussed and evaluated at an annual special strategic session of the Sanlam Board as well as at the scheduled Board meetings during the year;
- As part of the annual budgeting process, the Group businesses present their strategic plans and budgets to the Sanlam Group Executive committee, which ensures that the businesses' strategies are aligned with the overall Group strategy; and
- The Sanlam Group Executive committee, which includes the Chief Executives of the various Group clusters, meets on a regular basis to discuss, among others, the achievement of the clusters' and Group's strategies.



Any strategic issues are identified at these meetings and corrective actions are immediately implemented.

### **Risk management: by business area**

#### ***Investment management***

The Group's investment management operations are primarily exposed to operational risks, as they have limited on-balance sheet exposure to financial instruments. Investment risk is borne principally by the client. The investment management operations are, however, exposed to market risk owing to the impact of market fluctuations on revenue levels, as investment fees are generally linked to the level of assets under management. This exposure is reduced through asset class and product diversification.

#### **Investment performance**

One of the key risks inherent to the investment management operations relates to the risk of consistently poor investment decisions i.e. incorrect asset allocation views and/or stock selection resulting in investment underperformance and impairment of the track record relative to benchmarks and/or peer groups. In order to mitigate this risk, the following areas are focused on:

- Recruitment and retention of high quality investment professionals and support staff who are organised into stable teams, with a performance culture that receive pertinent training and development and regular employee appraisals;

- Optimisation of a robust investment process to affect good investment decisions;
- Rigour of the procedures for portfolio implementation;
- Effectiveness of the dealing desk; and
- Analyses of fund performance.

The above interventions are implemented with due cognisance of Sanlam Investments' fiduciary responsibility to, at all times, act in the best interest of the clients and in accordance with the investment mandate directives.

#### ***Life insurance***

The Group's life insurance businesses are exposed to financial risk through the design of some policyholder solutions, and in respect of the value of the businesses' capital. Non-participating policyholder solutions and those that provide investment guarantees (such as market-related business, stable and reversionary bonus business, and non-participating annuity business), expose the life insurance businesses to financial risk. Other business, such as linked policies (where the value of policy benefits is linked directly to the fair value of the supporting assets) does not expose the life insurance businesses to direct financial risk as this risk is assumed by the policyholder. The life insurance businesses' capital is invested in financial instruments, which also exposes the businesses to financial risk, in the form of market, credit and liquidity risk.

# Capital and risk management report

(continued)

The table below summarises the various risks associated with the different policyholder solutions as well as with the capital portfolio. Please refer to the 'Policy liabilities and profit entitlement section' on page 70 for a description of the different policyholder solutions; as well as to note 14 on page 111, which discloses the monetary value of the Group's exposure to the various solutions.

Life insurance businesses exposed to risk via:	Market risk				Credit risk	Liquidity risk	Insurance risk	
	Equity	Interest rate	Currency	Property			Persis-tency	Other insurance risks
Policyholder solutions								
Linked and market-related Smoothed-bonus business:	✓ <sup>(1)</sup>	✓ <sup>(1)</sup>	✓ <sup>(1)</sup>	✓ <sup>(1)</sup>	✓ <sup>(1)</sup>	✓ <sup>(3)</sup>	✓	✓
Stable bonus	✓ <sup>(2)</sup>	✓ <sup>(2)</sup>	✓ <sup>(2)</sup>	✓ <sup>(2)</sup>	✓ <sup>(2)</sup>	✓ <sup>(3)</sup>	✓	✓
Reversionary bonus	✓ <sup>(2)</sup>	✓ <sup>(2)</sup>	✓ <sup>(2)</sup>	✓ <sup>(2)</sup>	✓ <sup>(2)</sup>	✓ <sup>(3)</sup>	✓	✓
Participating annuities	✓ <sup>(2)</sup>	✓ <sup>(2)</sup>	✓ <sup>(2)</sup>	✓ <sup>(2)</sup>	✓ <sup>(2)</sup>	✓ <sup>(3)</sup>	✓	✓
Non-participating annuities	✗	✓	✗ <sup>(4)</sup>	✗ <sup>(4)</sup>	✓	✓ <sup>(5)</sup>	✗	✓
Other non-participating liabilities								
Guarantee plans	✗	✓	✗ <sup>(4)</sup>	✗	✓	✓ <sup>(6)</sup>	✓	✓
Other	✓	✓	✗ <sup>(4)</sup>	✓	✓	✓ <sup>(5)</sup>	✓	✓
Capital portfolio	✓	✓	✓	✗ <sup>(4)</sup>	✓	✓	✗	✗

(1) Only market-related policies (not linked policies) expose the life insurance businesses to this risk, due to these policies providing guaranteed minimum benefits at death or maturity.

(2) The life insurance businesses are exposed to this risk, only if the assets backing these policies have underperformed to the extent that there are negative bonus stabilisation reserves that will not be recovered by declaring lower bonuses in the subsequent years.

(3) Although liquidity risk is present, it is not a significant risk for the savings businesses due to an appropriate amount of liquid assets held in respect of expected outflows.

(4) An immaterial amount of assets are exposed to this risk.

(5) Liabilities are matched, as far as possible, with interest-bearing assets to ensure that the duration of assets and liabilities are closely aligned. This may also include derivatives.

(6) Liabilities are matched with assets that have similar maturity profiles.

✓ Risk applicable to item

✗ Risk not applicable to item

The management of these risks is described on the next page.

## 1. Market risk

Life insurance businesses exposed to risk via:	Market risk			
	Equity	Interest rate	Currency	Property
Policyholder solutions				
Linked and market-related	✓	✓	✓	✓
Smoothed-bonus business:				
Stable bonus	✓	✓	✓	✓
Reversionary bonus	✓	✓	✓	✓
Participating annuities	✓	✓	✓	✓
Non-participating annuities	x	✓	x	x
Other non-participating liabilities				
Guarantee plans	x	✓	x	x
Other	✓	✓	x	✓
Capital portfolio	✓	✓	✓	x

✓ Risk applicable to item

x Risk not applicable to item

### *Linked and market-related*

Linked and market-related business relates to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. Policyholders carry the full market risk in respect of linked business. Market-related policies, however, provide for guaranteed minimum benefits at death or maturity, and therefore expose the life insurance businesses to market risk. The risk relating to guaranteed minimum benefits is managed

by appropriate investment policies, determined by the Asset Liability committee (ALCO), and by adjusting the level of guarantees for new policies to prevailing market conditions. These investment policies are then reflected in the investment guidelines for the policyholder portfolios. The Group's long-term policy liabilities include a specific provision for investment guarantees. The current provision for investment guarantees in insurance contracts has been calculated on a market-consistent basis in accordance with professional practice notes issued by the Actuarial Society of South Africa.

# Capital and risk management report

(continued)

## *Smoothed-bonus business*

These policies provide for the payment of an after-tax and after-cost investment return to the policyholder, in the form of bonuses. The use of bonuses is a mechanism to smooth returns to policyholders in order to reduce the effects of volatile investment performance, and bonus rates are determined in line with the product design, policyholder reasonable expectations, affordability and the approved bonus philosophy. Any returns not yet distributed are retained in a policyholder bonus stabilisation reserve, for future distribution to policyholders. In the event of adverse investment performance, this reserve may become negative. Negative bonus stabilisation reserves are allowed for in the valuation of these liabilities to the extent that the shortfall is expected to be recovered by declaring lower bonuses in the subsequent three years. The funding level of portfolios is bolstered through loans from the capital portfolio in instances where negative stabilisation reserves will not be eliminated by these management actions. At 31 December 2017, all stable and reversionary bonus business portfolios had a funding level in excess of the minimum reporting level of 92,5%.

Market risk is borne by policyholders to the extent that the after-tax and after-cost investment returns are declared as bonuses. The capital portfolio is, however, exposed to some market risk as an underperformance in investment markets may result in an underfunded position that would require financial support from the capital portfolio. The Group manages this risk through an appropriate investment policy. ALCO oversees the investment policy for the various smoothed-bonus portfolios. The aim is to find the optimum balance between high investment returns

(to be able to declare competitive bonus rates) and stable investment returns given the need to meet guaranteed benefits and to support the granting of stable bonus rates. The requirements for the investment management of each portfolio are set out in investment guidelines, which cover, *inter alia*, the following:

- Limitations on exposure to volatile assets;
- Benchmarks for the performance measurement of each asset class and limits on deviations from these benchmarks;
- Credit risk limits;
- Limits on asset concentration – with regard to strategic investments, the exposure of policyholders' portfolios to these investments is based on portfolio investment considerations and restricted with reference to a specific counter's weight in the benchmark portfolio;
- Limits on exposure to some particular types of assets, such as unlisted equities, derivative instruments, property and hedge funds; and
- Regulatory constraints.

Feedback on the investment policy and its implementation and the performance of the smoothed-bonus portfolios are provided quarterly to the Sanlam Life Board and the Sanlam Customers Interest committee.

#### *Non-participating annuities*

Non-participating annuity business relates to contracts where income is paid to an annuitant for life or for a fixed term, in return for a lump sum consideration paid on origination of the policy. The income may be fixed, or increased at a fixed rate or in line with inflation. The Group guarantees this income and is therefore subject to interest rate risk. Liabilities are matched as far as possible with assets, mostly interest-bearing, as well as derivatives to ensure that the change in value of assets and liabilities is closely matched for a change in interest rates. The impact of changes in interest rates is tested continuously, and for a 1% parallel movement in interest rates the impact on profit will be immaterial.

#### *Guarantee plans*

These single premium policies provide for guaranteed maturity amounts. The life insurance businesses are therefore exposed to interest rate risk, if the assets backing these liabilities do not provide a comparable yield to the guaranteed value. Interest rate risk is managed by matching the liabilities with assets that have similar investment return profiles as the liabilities.

#### *Other non-participating business*

The Group is exposed to market risk to the extent of the investment of the underlying assets in interest-bearing, equity and property investments. The risk is managed through investments in appropriate asset classes. A number of the products comprising this business are matched using interest-bearing instruments, similar to non-participating annuities.

#### *Policyholder solutions' exposure to currency risk*

The majority of currency exposure within the policyholder portfolios results from offshore assets held in respect of linked and smoothed-bonus business. Offshore exposure within these portfolios is desirable from a diversification perspective.

#### *Capital*

Comprehensive measures and limits are in place to control the exposure of the Group's capital to market and credit risks. Continuous monitoring takes place to ensure that appropriate assets are held in support of the capital and investment return targets. Limits are applied in respect of the exposure to asset classes and individual counters.

# Capital and risk management report

(continued)

The exposure of the Group's capital portfolio to currency risk is analysed in the table below:

R million	Euro	United States dollar
<b>31 December 2017</b>		
Investment properties	-	-
Equities and similar securities	210	637
Equity-accounted investments <sup>(1)</sup>	-	-
Interest-bearing instruments	-	127
Government interest-bearing investments	-	-
Corporate interest-bearing investments	-	88
Mortgages, policy and other loans	-	38
Structured transaction assets	-	1
Investment funds	-	276
Cash, deposits and similar securities	5	1 534
Net working capital and other liabilities	(9)	540
Structured transaction liabilities <sup>(3)</sup>	-	(660)
<b>Foreign currency exposure</b>	<b>206</b>	<b>2 492</b>
<b>Exchange rates (rand):</b>		
Closing rate	14,87	12,38
Average rate	15,00	13,30
<b>31 December 2016</b>		
Investment properties	-	-
Equities and similar securities	147	441
Equity-accounted investments <sup>(1)</sup>	-	-
Interest-bearing instruments	-	57
Government interest-bearing investments	-	-
Corporate interest-bearing investments	-	55
Mortgages, policy and other loans	-	-
Structured transaction assets	-	2
Investment funds	-	190
Cash, deposits and similar securities	3	3 174
Net working capital and other liabilities	(14)	337
Structured transaction liabilities <sup>(3)</sup>	-	(1)
<b>Foreign currency exposure</b>	<b>136</b>	<b>4 198</b>
<b>Exchange rates (rand):</b>		
Closing rate	14,43	13,68
Average rate	16,22	14,65

<sup>(1)</sup> Equity-accounted investments only include significant entities that have foreign currency exposure.

<sup>(2)</sup> Saham Finances. Sanlam has increased the shareholding in Saham Finances from 30% to 46,6% in the current year.

<sup>(3)</sup> Due to the increase in value of the structured transaction liabilities, further disclosure has been provided in the current year along with the relevant comparatives.

The capital portfolio has limited exposure to investment properties and accordingly the related property risk.

## Sensitivities

Refer to page 179 of the Integrated Report online for an analysis of the Group's sensitivity to market risk.

	British pound	Botswana pula	Indian rupee	Moroccan dirham <sup>(2)</sup>	Other currencies	Total
	-	43	-	-	763	806
	144	(87)	-	-	2 512	3 416
	-	1 704	8 652	9 544	593	20 493
	289	88	-	-	889	1 393
	41	-	-	-	442	483
	78	-	-	-	356	522
	170	88	-	-	91	387
	-	-	-	-	-	1
	-	322	-	-	97	695
	362	708	-	-	517	3 126
	9	(116)	-	-	(565)	(141)
	-	-	-	-	-	(660)
	804	2 662	8 652	9 544	4 806	29 128
	16,75	1,28	0,19	1,33		
	17,13	1,30	0,20	1,39		
	-	176	-	-	645	821
	363	34	-	-	408	1 393
	-	1 842	8 068	4 810	777	15 497
	91	95	-	-	779	1 022
	59	-	-	-	424	483
	32	-	-	-	276	363
	-	95	-	-	79	174
	-	-	-	-	-	2
	1	157	-	-	281	629
	379	698	-	-	597	4 851
	(290)	(470)	-	-	(494)	(931)
	-	-	-	-	-	(1)
	544	2 532	8 068	4 810	2 993	23 281
	16,92	1,30	0,20	1,36		
	19,69	1,37	0,22	1,49		

# Capital and risk management report

(continued)

## 2. Credit risk – policyholder solutions & capital

Life insurance businesses exposed to risk via:	Credit risk
Policyholder solutions	✓
Capital portfolio	✓

✓ Risk applicable to item

Sanlam recognises that a sound credit risk policy is essential to minimise the effect on the Group as a result of loss owing to a major corporate failure and the possible systemic risk such a failure could lead to. The Sanlam Corporate Credit Risk policy and strategy has been established for this purpose. Credit risk occurs owing to trading, investment, structured transactions and lending activities. These activities in the Group are conducted mostly by either Sanlam Capital Markets (SCM), including the recently established Central Credit Manager (CCM) activities, or Sanlam Investment Management (SIM) in terms of the investment guidelines granted to them by the life insurance operations. The boards of SIM and SCM have delegated responsibility for credit risk management to the Central Credit committee. On a smaller scale, Botswana Insurance Fund Management (BIFM) also performs investment activities in the Group.

The governance structures ensure that an appropriate credit culture and environment is maintained, such that no transactions are concluded outside areas of competence, or without following normal procedures. This credit culture is the product of a formal credit risk strategy and credit risk policy.

The credit risk strategy stipulates the parameters for approval of credit applications, such as: economic sector; risk concentration; maximum exposure per obligor, group and industry; geographical location; product type; currency; maturity; anticipated profitability or excess spread; economic capital limits; and cyclical aspects of the economy.

The credit risk policy highlights the processes and procedures to be followed in order to maintain sound credit granting standards, to monitor and manage credit risk, to properly evaluate new business opportunities and to identify and administer problem credits. Credit analysis is a structured process of investigation and assessment, involving identifying the obligor, determining whether a group of connected obligors should be consolidated as a Group exposure, and analysing the financial information of the obligor. A credit rating, being a ranking of creditworthiness, is allocated to the obligor. In addition to external ratings, internal rating assessments are conducted, whereby the latest financial and related information is analysed in a specified and standardised manner, and to ensure a consistent and systematic evaluation process. External ratings (e.g. Moody's Investor Services, Standard & Poor's, Fitch Ratings and Global Credit Ratings) are taken into account when available.



All facilities are reviewed on at least an annual basis by the appropriate approval authority. Where possible, Sanlam's interest is protected by obtaining acceptable security. Covenants are also stipulated in the loan agreements, specifying actions that are agreed to. A credit administration and reporting department is in place to implement risk control measures and maintain ongoing review of the credit reports and conditions, and to ensure overall compliance with the credit risk strategy and policy.

In addition to the above measures, the portfolios are also managed in terms of the investment guidelines of the life insurance operations, which place limits in terms of the lowest credit quality that may be included in a portfolio, the average credit quality of instruments in a portfolio as well as limits on concentration risk.

The Group is also exposed to credit risk in respect of its working capital assets. The following are some of the main credit risk management actions:

- Unacceptable concentrations of credit risk to groups of counterparties, business sectors and product types are avoided by dealing with a variety of major banks and spreading debtors and loans among a number of major industries, customers and geographic areas;
- Long term insurance business debtors are secured by the underlying value of the unpaid policy benefits in terms of the policy contract;
- General insurance premiums outstanding for more than 60 days are not accounted for in premiums, and an appropriate level of provision is maintained; and
- Exposure to external financial institutions concerning deposits and similar transactions are monitored against approved limits.

The Group has considered the impact of changes in credit risk on the valuation of its liabilities. Credit risk changes will only have an impact in extreme situations and are not material for the 2017 and 2016 financial years. Given the strong financial position and rating of the Group, the credit rating of its liabilities remained unchanged.

# Capital and risk management report

(continued)

The tables below provide an analysis of the ratings attached to the Group's life insurance businesses' exposure, including the exposure managed by SCM, to instruments subject to credit risk.

## Credit risk concentration by credit rating<sup>(1)</sup>

	AAA %	AA+ %	AA %	AA- %	A+ %
<b>Assets backing policy liabilities</b>					
<b>31 December 2017</b>					
Government interest-bearing investments	66	11	1	-	4
Corporate interest-bearing investments	6	29	11	5	7
Mortgages, policy and other loans	-	2	-	9	7
Structured Transactions	13	45	13	-	2
Cash, deposits and similar securities	26	37	24	-	2
Net working capital	-	-	-	-	-
<b>Total</b>	<b>26</b>	<b>24</b>	<b>9</b>	<b>3</b>	<b>5</b>
<b>31 December 2016<sup>(2)</sup> Restated</b>					
Government interest-bearing investments	67	7	-	-	4
Corporate interest-bearing investments	7	10	26	4	14
Mortgages, policy and other loans	-	5	2	5	14
Structured Transactions	11	16	38	-	1
Cash, deposits and similar securities	20	18	44	2	4
Net working capital	-	-	-	-	-
<b>Total</b>	<b>31</b>	<b>10</b>	<b>19</b>	<b>2</b>	<b>8</b>

## Credit risk concentration by credit rating<sup>(1)</sup>

	AAA %	AA+ %	AA %	AA- %	A+ %
<b>Capital portfolio</b>					
<b>31 December 2017</b>					
Government interest-bearing investments <sup>(3)</sup>	20	7	1	-	5
Corporate interest-bearing investments	6	28	12	5	7
Mortgages, policy and other loans	-	-	-	-	-
Structured Transactions	44	13	-2	-	13
Cash, deposits and similar securities	42	9	5	-	1
Net working capital	5	18	28	3	1
<b>Total</b>	<b>17</b>	<b>18</b>	<b>13</b>	<b>3</b>	<b>3</b>
<b>31 December 2016<sup>(2)</sup></b>					
Government interest-bearing investments <sup>(3)</sup>	11	20	-	-	9
Corporate interest-bearing investments	5	11	30	5	13
Mortgages, policy and other loans	-	-	-	-	-
Structured Transactions	56	5	7	1	-
Cash, deposits and similar securities	57	5	13	1	2
Net working capital	16	15	35	-	-
<b>Total</b>	<b>29</b>	<b>9</b>	<b>21</b>	<b>2</b>	<b>5</b>

<sup>(1)</sup> Rated externally or by using internationally recognised credit rating techniques.

<sup>(2)</sup> Sanlam has changed the process by which ratings are derived to align with the SAM disclosure process and as such are now derived principally from the internally assessed rating for issuers as opposed to external ratings.

<sup>(3)</sup> The not-rated Government interest-bearing investments relate mainly to not-rated Government paper held by some of the Group's life businesses outside of South Africa in their local markets.

The majority of the counterparties to structured transactions are institutions with at least an AA- rating. The Group's short-term positions are included in the above table under the counterparties' long-term rating where Sanlam has both a long-term and short-term exposure to the entities.

	A	A-	BBB	Not rated	Other	Total	Carrying value
	%	%	%	%	%	%	R million
	2	1	-	10	5	100	45 754
	10	8	5	4	15	100	68 548
	8	7	4	20	43	100	11 478
	2	6	8	1	10	100	13 052
	1	1	-	8	1	100	20 033
	-	-	-	100	-	100	869
	6	5	3	7	12	100	159 734

1	2	-	9	10	100	55 824
8	8	4	4	15	100	57 592
7	5	10	26	26	100	6 979
3	9	2	4	16	100	11 136
-	1	1	10	-	100	19 858
-	-	-	100	-	100	835
3	5	2	8	12	100	152 224

	A	A-	BBB	Not rated	Other	Total	Carrying value
	%	%	%	%	%	%	R million
	11	-	-	35	21	100	820
	17	9	2	1	13	100	4 589
	-	2	10	81	7	100	720
	2	1	21	-	8	100	337
	2	-	2	37	2	100	3 674
	2	1	-	42	-	100	3 825
	7	3	2	26	8	100	13 965

5	-	-	40	15	100	772
8	13	2	1	12	100	5 109
3	-	20	55	22	100	420
3	8	-	-	20	100	817
-	-	-	21	1	100	5 866
-	-	-	34	-	100	2 893
3	5	1	19	6	100	15 877

# Capital and risk management report

(continued)

## Maximum exposure to credit risk

The life insurance businesses' maximum exposure to credit risk is equivalent to the amounts recognised in the statement of financial position as there are no financial guarantees provided to parties outside the Group. There are also no loan commitments provided that are irrevocable over the life of the facility or revocable only in adverse circumstances.

The credit quality of each class of financial asset that is neither past due nor impaired has been assessed as acceptable within the parameters used to measure and monitor credit risk, as described above. There were no material financial assets that would have been past due or impaired had the terms not been renegotiated.

## Reinsurance credit risk

Sanlam makes use of reinsurance to:

- Access underwriting expertise;
- Access product opportunities;
- Enable it to underwrite risks greater than its own risk appetite; and
- Protect its mortality/risk book against catastrophes.

The use of reinsurance exposes the Group to credit risk. The counterparty risks of reinsurers are managed under the Group's credit risk framework. The Group's reinsurance arrangements include proportionate, excess

and catastrophe coverage. All risk exposures in excess of specified monetary limits are reinsured. Catastrophe insurance is in place for single-event disasters. Credit risk in respect of reinsurance is managed by placing the Group's reinsurance only with subsidiaries of companies that have high international or similar credit ratings.

## 3. Liquidity risk

Life insurance businesses exposed to risk via:	Liquidity risk	Note
Policyholder solutions		3.1
Linked and market-related	✓	3.2
Other non-participating liabilities	✓	3.2
Smoothed-bonus business:		
Participating annuities	✓	3.2
Stable bonus	✓	3.3
Reversionary bonus	✓	3.3
Non-participating annuities	✓	3.4
Other non-participating liabilities:		
Guarantee plans	✓	3.5
Capital portfolio	✓	3.6

✓ Risk applicable to item

3.1 The following table summarises the overall maturity profile of the policyholder business:

## 31 December 2017

R million

	< 1 year	1-5 years	> 5 years	Open ended	Total
Insurance contracts	8 246	27 809	65 306	77 507	178 868
Investment contracts	11 794	47 375	72 524	213 880	345 573
<b>Total policy liabilities</b>	<b>20 040</b>	<b>75 184</b>	<b>137 830</b>	<b>291 387</b>	<b>524 441</b>
Properties	321	-	-	9 703	10 024
Equities and similar securities	-	-	507	83 857	84 364
Government interest-bearing investments	2 366	2 375	41 561	-	46 302
Corporate interest-bearing investments	9 476	42 790	15 697	586	68 549
Mortgages, policy and other loans	1 504	6 353	3 650	995	12 502
Structured transaction assets	4 242	6 122	1 007	1 681	13 052
Investment funds <sup>(1)</sup>	-	-	-	272 198	272 198
Cash, deposits and similar securities	10 952	8 874	242	-	20 068
Deferred acquisition costs	-	-	-	633	633
Long-term reinsurance assets	46	137	749	130	1 062
Term finance	-	-	(158)	-	(158)
Structured transactions liabilities	(2 303)	(539)	(183)	(7)	(3 032)
Net working capital	(1 123)	-	-	-	(1 123)
<b>Total policyholder assets</b>	<b>25 481</b>	<b>66 112</b>	<b>63 072</b>	<b>369 776</b>	<b>524 441</b>

<b>31 December 2016 Restated R million</b>	<b>&lt; 1 year</b>	<b>1-5 years</b>	<b>&gt; 5 years</b>	<b>Open ended</b>	<b>Total</b>
Insurance contracts	8 788	27 427	59 693	81 767	177 675
Investment contracts	8 682	42 472	88 701	166 218	306 073
<b>Total policy liabilities</b>	<b>17 470</b>	<b>69 899</b>	<b>148 394</b>	<b>247 985</b>	<b>483 748</b>
Properties	655	-	-	8 752	9 407
Equities and similar securities	-	-	474	81 099	81 573
Government interest-bearing investments	913	2 754	51 347	809	55 823
Corporate interest-bearing investments	9 176	33 931	13 445	1 041	57 593
Mortgages, policy and other loans	367	2 645	2 933	1 033	6 978
Structured transaction assets	2 245	4 655	1 942	2 294	11 136
Investment funds <sup>(1)</sup>	-	-	-	241 356	241 356
Cash, deposits and similar securities	10 972	8 644	238	-	19 854
Deferred acquisition costs	-	-	-	631	631
Long-term reinsurance assets	70	135	708	45	958
Term finance	-	-	(248)	-	(248)
Structured transactions liabilities	(472)	(564)	(244)	-	(1 280)
Net working capital	(33)	-	-	-	(33)
<b>Total policyholder assets</b>	<b>23 893</b>	<b>52 200</b>	<b>70 595</b>	<b>337 060</b>	<b>483 748</b>

<sup>(1)</sup> The effects of consolidating investment funds are not taken into account in the above analysis and controlled funds are reflected as 'investment funds'.

- 3.2 Policyholder portfolios supporting linked and market-related business, participating annuities and other non-participating life business are invested in appropriate assets, taking expected cash outflows into account. Please refer to the liquidity section on page 50 describing the liquidity risk management framework.
- 3.3 These policyholder solutions do not expose the Group to significant liquidity risks. Expected cash flows are taken into account in determining the investment guidelines and asset spread of the portfolios. Limits are also placed on the exposure to illiquid investments.
- 3.4 Liabilities are matched, as far as possible, with interest-bearing assets, to ensure that the duration of assets and liabilities are closely aligned. This may also include derivatives.
- 3.5 Liquidity risk is managed by matching the liabilities with assets that have similar maturity profiles as the liabilities.
- 3.6 The life insurance businesses' capital is not subject to excessive levels of liquidity risk but assets could be realised in a short timeframe if need be. The publicly issued unsecured bonds issued by Sanlam Life are managed on a corporate level (refer to page 62 for more information).

# Capital and risk management report

(continued)

## 4. Insurance risk

Life insurance businesses exposed to risk via:	Insurance risk	
	Persis- tency	Other insurance risks
Policyholder solutions		
Linked and market-related	✓	✓
Smoothed-bonus business:		
Stable bonus	✓	✓
Reversionary bonus	✓	✓
Participating annuities	✓	✓
Non-participating annuities	x	✓
Other non-participating liabilities		
Guarantee plans	✓	✓
Other	✓	✓
Capital portfolio	x	x

✓ Risk applicable to item

x Risk not applicable to item

Insurance risk arises primarily from the writing of non-participating annuity and other non-participating life business, as these products expose the Group to risk if actual experience relating to expenses, mortality, longevity, disability and medical (morbidity) differs from that which is assumed. The Group is, however, also exposed to persistency risk in respect of other policyholder solutions and insurance risk in respect of universal life solutions.

### Persistency risk

Distribution models are used by the Group to identify high-risk clients. Client relationship management programs are aimed at managing client expectations and relationships to reduce lapse, surrender and paid-up rates. The design of insurance products excludes material lapse, surrender and paid-up value guarantees, subject to regulatory constraints, to limit financial loss at surrender. Persistency experience is monitored to ensure that negative experience is timeously identified and corrective action taken. The Group's reserving policy is based on actual experience, adjusted for expected future changes in experience, to ensure that adequate provision is made for lapses, surrenders and paid-up policies.

### Other insurance risk

#### Underwriting risk

The Group manages underwriting risk through:

- its product development process and underwriting policy to prevent anti-selection and ensure appropriate premium rates (loadings) for sub-standard risks;
- adequate reinsurance arrangements to limit exposure per individual and manage concentration of risks;
- claims handling policy; and
- adequate pricing and reserving.

Quarterly actuarial valuations and the Group's regular profit reporting process assist in the timely identification of experience variances. The following policies and practices are used by the Group as part of its underwriting strategy to mitigate underwriting risk:

- All long-term insurance product additions and alterations are required to pass through the approval framework that forms part of the life insurance business's governance process. The statutory actuaries approve the policy conditions and premium rates of new and revised products;
- A risk based approach is followed towards testing for HIV/Aids, smoking and other underwriting factors, to balance the cost of testing with managing underwriting risk. Product pricing and reserving policies also include specific allowance for the risk of HIV/Aids;
- Applications for risk cover are reviewed by experienced underwriters and evaluated against established standards. Retention limits are applied to limit the exposure per individual life;
- Appropriate income replacement levels apply to disability insurance;
- The experience of reinsurers is used where necessary for the rating of sub-standard risks;
- The risk premiums for Group risk business and some of the in-force individual risk business can be adjusted within 12 months should claims experience deteriorate to the extent that such an adjustment is considered necessary. Most of the individual new business is sold with a guarantee that risk premiums would not be increased for the first five to 15 years;
- Risk profits are determined on a regular basis; and
- Regular investigations into mortality and morbidity experience are conducted to ensure that corrective action, for example re-rating of premiums, is taken where necessary.

#### Expense risk

Expenses are managed through the Group's budgeting process and continuous monitoring of actual versus budgeted unit expenses is conducted and reported on.

#### Concentration risk

The Group writes a diverse mix of business, and continually monitors this risk and the opportunities for mitigating actions through reinsurance. The Group's life insurance

businesses are focused on different market segments, resulting in a mix of individual and institutional clients, as well as entry-level, middle income market and high net worth clients.

The tables below provide an analysis of the exposure to the value of benefits insured in respect of non-participating life business by the major life insurance companies as well as the annuity payable per policy in respect of non-participating annuities for the Group's operations.

#### Non-participating annuity payable per annum per life insured

R'000	Number of lives		Before reinsurance		After reinsurance	
	2017	2016	2017 %	2016 %	2017 %	2016 %
0 - 20	213 965	217 232	31	33	32	33
20 - 40	25 911	23 435	16	16	16	16
40 - 60	9 258	8 583	9	9	9	9
60 - 80	5 520	5 069	7	7	7	7
80 - 100	3 119	3 042	5	5	5	5
> 100	9 159	9 253	32	30	31	30
	<b>266 932</b>	<b>266 614</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

#### Value of benefits insured: non-participating life business

Benefits insured per individual life R'000	Number of lives <sup>(1)</sup>		Before reinsurance		After reinsurance	
	2017	2016	2017 %	2016 %	2017 %	2016 %
0 - 500	7 871 580	7 623 938	17	20	23	25
500 - 1 000	271 327	233 756	11	12	13	13
1 000 - 5 000	371 718	305 313	44	44	44	43
5 000 - 8 000	27 751	20 750	10	9	9	8
> 8 000	20 466	14 590	18	15	11	11
	<b>8 562 842</b>	<b>8 198 347</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

<sup>(1)</sup> Excludes funeral policies.

The tables above indicate that the Group's exposure is spread over a large number of lives insured, thereby mitigating concentration risk.

The geographical exposure of the Group's consolidated life insurance operations is illustrated in the table below, based on the value of policy liabilities in each region. The majority of life insurance exposure is to the South African market.

	2017		2016	
	R million	%	R million	%
South Africa	433 925	83	398 382	82
Rest of Africa	32 467	6	30 356	6
Other International	58 049	11	55 010	12
<b>Total policy liabilities</b>	<b>524 441</b>	<b>100</b>	<b>483 748</b>	<b>100</b>

# Capital and risk management report

(continued)

## Retail credit

Retail credit business relates mainly to loan business provided by Sanlam Personal Loans (SPL) and to the retail credit businesses in the Sanlam Emerging Markets (SEM) cluster.

### Sanlam Personal Loans

The balance of loans advanced by SPL to clients at 31 December 2017 is shown below:

R million	2017	2016
Gross balance	4 690	4 398
Provisions	(289)	(287)
<b>Net balance</b>	<b>4 401</b>	4 111

The main risk emanating from the retail credit operations is credit risk. The Group's maximum exposure to credit risk comprises the following:

- As SPL is a joint venture that has been equity accounted based on Sanlam's percentage interest in its net asset value, the Group is exposed to credit risk to the value of the investment, which is disclosed in note 2 on page 41.
- The Group Treasury function has also provided financing to SPL of R3 520 million at 31 December 2017 (2016: R3 103 million). This exposure is managed by the Capital Management operations. The maximum approved limit of financing that can be advanced to SPL is R4,9 billion.

Credit risk consists of credit standing and default risk. It is the company's policy to subject its potential customers to credit rating procedures. In addition, balances of advances are monitored on an ongoing basis. Collection strategies are in place to mitigate credit risk and all accounts that are in arrears are given due priority.

### Sanlam Emerging Markets

Retail credit and structuring profits are a significant part of SEM's operating earnings. The majority of the Group's exposure to retail credit is made up of an investment in Shriram Capital (which has indirect holdings in Shriram Transport Finance Company and Shriram City Union Finance) and a direct holding in Shriram Transport Finance Company. The carrying value of these investments on the Group Statement of Financial Position is R7 301 million (2016: R6 894 million), of which approximately 77% (2016: 78%) is attributed to credit business and the majority of the remainder to general insurance business. Other significant retail credit and structuring investments include Letshego which is owned by Botswana Insurance Holdings and has a carrying value of R1 704 million (2016: R1 842 million), and

Capricorn Investment Holdings in Namibia (which has a stake in Bank Windhoek Holdings) and a carrying value of R1 159 million (2016: R1 020 million).

The main risk emanating from the retail credit and structuring operations is credit risk. These investments have been equity-accounted to reflect SEM's percentage interest in the net asset value of the respective investments. SEM's exposure to credit risk in these investments is limited to the value of SEM's investment in these businesses.

SEM's credit risk management process entails the monitoring of key drivers in each of the significant retail credit and structuring businesses, including an analysis of trends. Risk parameters have been set for each of these key drivers and performance against these targets is monitored and reported to the SEM Retail Credit committee on a quarterly basis.

The primary role of the SEM Retail Credit committee is to:

- Review SEM's exposure to its portfolio of associate investments into retail credit and banking businesses, as well as identify, measure and review key risk drivers;
- Propose appropriate risk appetite measures and monitor SEM's exposure against these measures as well as advise on appropriate actions to take with regards to breaches of the risk appetite;
- Assess the performance of the retail credit portfolio; and
- Liaise with the CCM as and when necessary to form a Group wide view on relevant counterparties.

SEM benefits from the diversification provided by the geographic spread of its operations (throughout Africa, India and South-East Asia), types of credit provided (secured and unsecured lending) and range of market segments targeted. This inherently reduces the overall level of credit risk exposure.

## Capital markets

SCM is a financial engineering business within the Sanlam Group which primarily focuses on managing credit risk for the Sanlam Group. In addition to this, SCM also focuses on originating and structuring transactions to provide customised financing solutions to its clients. SCM, which is housed within the Sanlam Investments cluster, consists of Sanlam Capital Markets (Pty) Limited and its core subsidiaries and the CCM operating on the Sanlam Life Insurance balance sheet. The CCM was established in 2016 and is the business that houses the credit assets of Sanlam Life, thereby enabling centralised management of credit using banking principles.



Within SCM, the Asset Liability and Risk Management committee (ALaRMCO) is responsible for the implementation and monitoring of risk management processes to ensure that the risks arising from proprietary positions are within the approved risk parameters. Where possible, risk measurements are calculated through the application of various statistical techniques, including VaR, and are measured against pre-approved exposure limits. These risk measurements are supplemented with stress testing and scenario analysis. While VaR models are relatively sophisticated, the quantitative market risk information generated is limited by the assumptions and parameters established when creating the related models. Sanlam believes that statistical models alone do not provide a reliable method of monitoring and controlling market risk. Therefore, such models are tools and inputs in the decision-making process, but do not substitute for the experience or judgement of senior management.

If no market data is available for a specific business or investment, the risk management is qualitative by nature. The exposure and riskiness of such types of investments are typically managed by monitoring covenants and by taking the appropriate actions as agreed with the counterparty initially.

Business-wide risk levels are reported to senior management, while desk risk levels are reported to the relevant managers and operators. Limit breaches are escalated for approval in terms of an approval framework. The risk information is summarised, reported to, and discussed by the ALaRMCO at two-weekly meetings.

The mandates for existing businesses are reviewed and submitted for ALaRMCO approval and Risk committee notification on at least an annual basis or more frequently if it was changed through the course of a financial year.

An initial mandate development process is undertaken for each new business ventured into by SCM. Based on the business mandates, quantifiable risks are measured and reported on a daily basis. Any new type of business or product is subjected to a comprehensive review process before initiation to ensure that all of the risks associated with new businesses or products have been identified and can be appropriately managed.

SCM is also exposed to credit risk in respect of its working capital assets and loans extended as part of its debt finance, property finance and equity structuring activities. Collateral is placed or received for transactions entered into by SCM, including (but not limited to) securities lending and derivative exposures.

## 1. Market risk

SCM uses VaR to calculate market risk capital for listed instruments. VaR measures the maximum loss over a given horizon with a specified level of confidence. VaR is computed as follows:

- At a 99,5% confidence level (to be consistent with Sanlam's risk appetite relating to SCM's business);
- Over a 10-day holding period (which takes account of market liquidity risk in the VaR calculation through setting the liquidity period at 10 days);
- Multiplied by a factor of three (to allow for uncertainty in estimating VaR at high confidence levels); and
- VaR is calculated on a diversified basis for SCM as a whole and takes the diversification of portfolios into account.

### Equity risk

For listed equity, price stress tests are performed on the SCM portfolios. The scenarios used in the stress tests incorporate a combination of equity price movements of between -30% and +20%. In the equity price stress test results, the maximum loss is R46 million (2016: insignificant).

R million	Maximum net loss	
	2017	2016
<b>Incremental change in price:</b>		
-5% to 5%	7	-
-10% to 10%	14	-
-15% to 15%	21	-
-30% to 20%	46	-

### Interest rate risk

Various interest rate stress tests are performed on the SCM portfolios. The relative parallel interest rate stress test calculates the market exposure based on interest rate movements of between +50% and -20%, all else being equal.

The market exposure that was calculated at 31 December for these tests was as follows:

R million	Maximum net loss	
	2017	2016
<b>Incremental change in yield:</b>		
-10% to 10%	22	5
-20% to 20%	41	9
-20% to 50%	92	18

# Capital and risk management report

(continued)

## 2. Credit risk

For credit risk capital, SCM utilises the concept of unexpected losses. Based on historical default data, expected losses are computed on a portfolio of credits. Economic principles dictate that a provision should be created for expected losses, although this is not the approach taken from an accounting perspective. An unexpected loss, on the other hand, is the maximum amount over and above the expected loss that SCM could incur over the particular time horizon with a certain level of confidence. In SCM's economic capital model, an unexpected loss over a one-year time horizon at a 99,5% confidence level is used to compute the credit risk capital. This is consistent with the one-year 99,5% VaR used for market risk capital.

At the end of the financial year, SCM's maximum unexpected loss (credit risk capital) was R1 034 million (2016: R659 million). The increase in the maximum unexpected loss from 2016 is due to the implementation of the CCM.

Credit spread stress tests are calculated for all instruments sensitive to credit spread changes. The profit or loss from changes in credit spreads on both the assets and funding are calculated in these stress tests. The stress test results are determined as follows:

- Credit ratings for credit assets and funding are deteriorated by 1, 2 and 3 rating notches;
- Impact of these deteriorations on credit spreads is determined with reference to a predefined credit spread matrix;
- Changed credit spreads are used to revalue credit assets and funding; and
- Resultant net changes in the valuations of credit assets and funding are seen as the test results.

The table below shows the possible effect of a 1, 2 and 3 notch deterioration in credit rating. The total impact on the valuation of the assets is slightly offset by the impact on the valuation of the funding that is used to acquire the positions in the market.

R million	2017	2016
Stress Results 1 (1 Notch)	(133)	(152)
Stress Results 2 (2 Notch)	(279)	(325)
Stress Results 3 (3 Notch)	(452)	(502)

## Maximum exposure to credit risk

SCM's maximum exposure to credit risk is equivalent to the amounts recognised in the statement of financial position, as there are no financial guarantees provided to parties outside the Group that is expected to result in an outflow of resources, nor are there any loan commitments provided that are irrevocable over the life of the facility or revocable only in adverse circumstances.

Credit risk exposures are reported on a netted basis, therefore after taking collateral and netting agreements into account. Appropriate haircuts to collateral and add-ons to exposures are implemented in line with the formulated Credit Exposure Quantification policy. Credit risk exposures are mitigated through several measures, including physical collateral (e.g. mortgage bonds) considered on a case-by-case basis, the use of netting agreements, or guarantees issued by third parties.

The credit quality of each class of financial asset that is neither past due nor impaired, has been assessed as acceptable within the parameters used to measure and monitor credit risk, as described above. There are no assets that would have been past due or impaired, had the terms not been renegotiated.

## Concentration risk

Management determines concentrations by counterparty, with reference to the proportion of total credit risk capital held in respect of that counterparty compared to the overall credit risk capital of the entire portfolio. The 10 largest contributors to credit risk capital make up 29% (2016: 31%) of total credit risk capital, but only 11% (2016: 20%) of the total exposure. SCM is therefore not exposed to significant concentration risk.

## 3. Liquidity risk

Within SCM, the maximum available facilities of R7 billion (2016: R9 billion) exceed the amount utilised of R4,6 billion (2016: R7,2 billion), indicating available unutilised funding sources. In order to keep commitment fees within the Sanlam Group, facilities are negotiated with Sanlam at market-related terms, before external facilities are sought.

Undrawn committed facilities granted by SCM to various counterparties were R190 million (2016: R223 million). A significant portion of trading account assets and liabilities is due within one year.

Hedging of long term liabilities within the CCM is achieved by investing in shorter dated credit instruments in combination with bond forwards and bond futures to match the interest rate sensitivity of the liabilities as

closely as possible. This introduces roll-over risk at futures close out and/or forward maturity dates, additional cash requirements emanating from collateral and margin calls during periods of market stress events, as well as decreasing cash amounts raised from bond carries roll-overs as bond values fall. To manage these additional liquidity risks in the Group, a Liquidity Risk Management policy has been developed and has been approved by the Board. The policy is based on the principles of Basel III (including the need for High Quality Liquid Assets to be held to cover liquidity requirements during periods of market and liquidity stress events), with specific attention given to the management of hedge roll-over risk. However, different to banks, a life company's balance sheet has an inherent ability to absorb illiquidity due to the nature, term and structure of its liabilities. This ability to absorb illiquidity is used to mitigate the liquidity risks within the CCM. It is anticipated that the Liquidity Risk Management policy will be enhanced over time as further work is completed in relation to the illiquidity absorption capability of the Sanlam Life balance sheet.

### General Insurance

#### Santam

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

- Insurance risk;
- Reinsurance risk;
- Credit risk;
- Market risk; and
- Operational risk.

The model is also used to aggregate the individual risk modules into a single economic capital requirement amount.

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

Once the relevant risks are better understood, the risk appetite framework governs how the risks should be managed. Santam has formulated a risk appetite policy which aims to quantify the amount of capital the business is willing to put at risk in the pursuit of value creation. It is within this risk appetite framework that Santam has

selected its asset allocation and reinsurance programmes which are among the most important determinants of risk and hence capital requirements within the organisation. The internal model allows for the measurement of Santam's expected performance relative to the risk appetite assessment criteria agreed to by Santam's Board. The risk appetite process also includes the assessment of non-financial measures in determining the overall capital requirements.

#### Insurance risk

Santam issues contracts that transfer insurance risk or financial risk or both. Santam manages insurance risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. This section summarises these risks and the way Santam manages them.

In general, Santam issues personal, commercial and cell insurance policies that include the following terms and conditions:

*Engineering* – Provides cover for risks relating to:

- the possession, use or ownership of machinery or equipment, other than a motor vehicle, in the carrying on of a business;
- the erection of buildings or other structures or the undertaking of other works; and
- the installation of machinery or equipment.

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

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

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

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

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

# Capital and risk management report

(continued)

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

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

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

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

In order to quantify the insurance risk faced by Santam, a stochastic simulation of Santam's claims is performed at a line of business level within Santam's internal economic capital model. Assumptions for each line of

business are determined based on more than 15 years' worth of historic data. The expected claims liabilities are modelled for specific lines of business, which are then split into the appropriate sub-classes. For each sub-class of business, three types of losses are modelled, namely attritional losses, individual large losses and catastrophe losses. Each of the sub-classes is modelled based on its own assumptions whose methodology and calibration are thoroughly documented in the internal model documentation.

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

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

The net claims ratio for Santam, which is important in monitoring insurance risk, has developed as follows over the past seven years:

Loss history	2017	2016	2015	2014	2013	2012	2011
Claims paid and provided %*	65,9	65,1	62,1	63,1	69,3	68,3	64,2

\*Expressed as a percentage of net earned premiums.

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

Underwriting limits are set for business units, underwriting managers and intermediaries to ensure that this policy is consistently applied. Underwriting performance is monitored continuously and the pricing policy is revised accordingly. Risk factors considered as part of the review would typically include factors such as the age of the insured person, past loss experiences, past insurance history, type and value of asset covered, security measures taken to protect the asset and major use of the covered item. Santam has the right to reprice and change the conditions for accepting risks on renewal and/or 30 days.

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

The underwriting strategy aims to ensure that the risks underwritten are well diversified in terms of type and amount of risk, size and geography. The Santam group has a sufficiently diversified portfolio based on insurance classes. Santam is currently focusing on obtaining international geographical diversification through the business written by Santam Re and the Santam Specialist business.

Insurance risk is further mitigated by ensuring that reserve and reinsurance risk is adequately managed.

### Claims development tables

The presentation of the claims development tables for Santam is based on the actual date of the event that caused the claim (incident year basis). The claims development tables, represent the development of actual claims paid.

### Payment development

#### General insurance claims – gross

R million	Total actual claims cost	Claims paid in respect of (i.e. incident year)							
		2017	2016	2015	2014	2013	2012	2011	2010 and prior
<b>Reporting year</b>									
- 2017	18 823	13 623	4 032	534	438	104	68	16	8
- 2016	16 112	-	11 087	3 909	506	380	111	93	26
- 2015	14 019	-	-	9 786	3 388	354	247	112	132
- 2014	13 556	-	-	-	9 031	3 578	493	173	281
- 2013	13 148	-	-	-	-	9 152	3 411	250	335
- 2012	11 340	-	-	-	-	-	8 176	2 366	798
- 2011	10 327	-	-	-	-	-	-	7 767	2 560
- 2010	9 999	-	-	-	-	-	-	-	9 999
Cumulative payments to date	107 324	13 623	15 119	14 229	13 363	13 568	12 506	10 777	14 139

#### General insurance claims – net

R million	Total actual claims cost	Claims paid in respect of (i.e. incident year)							
		2017	2016	2015	2014	2013	2012	2011	2010 and prior
<b>Reporting year</b>									
- 2017	13 819	10 852	2 359	242	196	91	68	10	1
- 2016	12 809	-	9 866	2 386	212	153	98	85	9
- 2015	11 476	-	-	8 734	2 239	171	172	75	85
- 2014	11 040	-	-	-	7 927	2 489	323	131	170
- 2013	11 335	-	-	-	-	8 423	2 493	168	251
- 2012	9 904	-	-	-	-	-	7 616	1 743	545
- 2011	8 989	-	-	-	-	-	-	7 082	1 907
- 2010	8 710	-	-	-	-	-	-	-	8 710
Cumulative payments to date	88 082	10 852	12 225	11 362	10 574	11 327	10 770	9 294	11 678

# Capital and risk management report

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Reporting development

## General insurance claims provision – gross

R million	Total provision raised	Financial year during which claim occurred (i.e. incident year)							2010 and prior
		2017	2016	2015	2014	2013	2012	2011	
Reporting year									
- 2017	8 348	5 240	1 541	493	506	201	125	132	110
- 2016	6 814	-	3 870	1 143	895	297	171	135	303
- 2015	6 279	-	-	3 100	1 577	758	208	193	443
- 2014	6 240	-	-	-	4 069	844	410	206	711
- 2013	5 523	-	-	-	-	3 267	788	376	1 092
- 2012	4 948	-	-	-	-	-	3 133	599	1 216
- 2011	4 192	-	-	-	-	-	-	2 448	1 744
- 2010	3 777	-	-	-	-	-	-	-	3 777
	<b>46 121</b>	<b>5 240</b>	5 411	4 736	7 047	5 367	4 835	4 089	9 396

## General insurance claims provision – net

R million	Total provision raised	Financial year during which claim occurred (i.e. incident year)							2010 and prior
		2017	2016	2015	2014	2013	2012	2011	
Reporting year									
- 2017	4 442	3 031	451	252	170	171	104	169	94
- 2016	3 973	-	2 334	512	312	234	157	173	251
- 2015	4 056	-	-	2 291	581	348	197	257	382
- 2014	3 968	-	-	-	2 337	448	325	239	619
- 2013	4 207	-	-	-	-	2 459	568	331	849
- 2012	3 971	-	-	-	-	-	2 550	466	955
- 2011	3 273	-	-	-	-	-	-	1 919	1 354
- 2010	2 896	-	-	-	-	-	-	-	2 896
	<b>30 786</b>	<b>3 031</b>	2 785	3 055	3 400	3 660	3 901	3 554	7 400

### *Reserving*

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

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

#### *Percentile approach*

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

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

The next step is to determine a risk margin. The risk margin is calculated such that there is now at least a 75% probability that the reserves will be sufficient to cover future claims.

#### *Cost of capital approach*

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

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

Two key differences between the percentile and cost of capital approaches are that under the cost of capital approach, reserves must be discounted using a term-dependent interest-rate structure and that an allowance must be made for unallocated loss adjustment expenses.

The cost of capital approach will result in different levels of sufficiency per class underwritten so as to capture the differing levels of risk inherent within the different classes. This is in line with the principles of risk-based solvency measurement.

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

### *Reinsurance risk*

Reinsurance risk is the risk that the reinsurance cover placed is inadequate and/or inefficient relative to Santam's risk management strategy and objectives. Santam obtains third-party reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or capital. Santam has an extensive reinsurance programme that has developed over a number of years to suit the risk management needs of the business.

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

The core components of the reinsurance programme comprise:

- Individual excess-of-loss cover for property, liability, engineering, aviation and marine risks, which provides protection to limit losses to the range of R25 million to R50 million per risk, excluding reinstatement premiums due as a result of the claim against the cover. In 2016 the range was increased to a maximum of R85 million per risk through participations by Santam Re on selected Group reinsurance programmes;
- Catastrophe cover to the extent of 1,1% of the total exposure of the significant geographical areas, amounting to protection of up to R8,8 billion (2016: R8,8 billion) per event with an attachment point of R100 million. These balances include catastrophe cover of R1,2 billion for each year included in the alternative risk transfer quota share arrangement as described below. At the same time catastrophe protection for an aggregate of losses from events above R10 million where such aggregated losses exceed R300 million was put in place in 2017. This cover expires on 30 April 2018 and Santam will purchase this cover subject to acceptable commercial terms. The cover is for an amount of R200 million in excess of a R300 million aggregate deductible;



# Capital and risk management report

(continued)

- Santam's agriculture portfolio is protected through a 60% proportional and a non-proportional reinsurance arrangement with non-proportional cover set at levels offering protection from extreme loss events; and
- Santam Re purchases retrocession protection on its international portfolio. This protection is in the form of a 50% quota share on specified territories and catastrophe excess of loss with a gross attachment point of US\$10 million. There is, in addition, per risk protection for individual exposures in excess of R25 million.

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

The agreement with Munich Re of Africa replaced the credit rating agreement which expired on 31 December 2016. Santam has decided to retain the ART reinsurance quota share programme, which was linked to the expired credit rating agreement. A number of key international reinsurers participated on the program from 1 January 2017 with an annual reinsurance quota share premium of R1 billion. The agreement also reduces Santam's net catastrophe exposure.

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

## *Insurance-related credit risk*

Key insurance-related areas where Santam is exposed to credit default risk are:

- Failure of an asset counterparty to meet their financial obligations;
- Reinsurer default on presentation of a large claim;
- Reinsurers default on their share of Santam's insurance liabilities; and
- Default on amounts due from insurance contract intermediaries.

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

Santam determines the credit quality for each of its counterparties by reference to the probability of default on the basis of assessments made by the rating agency over a one-year time horizon and the resulting loss given default. The underlying default probabilities are based on the credit migration models developed by S&P and Moody's which incorporate up to 90 years' worth of credit default information.

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

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

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



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

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

Santam is protected by guarantees provided by the Intermediary Guarantee Facility for the non-payment of premiums collected by intermediaries. Santam Group's protected portion of receivables due from contract holders and intermediaries amounts to 50,3% (2016: 48,3%). For Santam (the Company), this amounts to 49,3% (2016: 48,3%). Debtors falling into the 'Not rated' category are managed by the internal credit control department on a daily basis to ensure recoverability of amounts. Historically, no material defaults occurred on the insurance debtor book.

Santam seeks to avoid concentration of credit risk to groups of counterparties, to business sectors, product types and geographical segments. The financial instruments, except for Santam's exposure to the four large

South African banks, do not represent a concentration of credit risk. In terms of Santam's internal risk appetite framework, no more than 15% of total portfolio assets are generally invested in any one of the four major South African banks. Accounts receivable is spread over a number of major companies and intermediary parties, clients and geographic areas. Santam assesses concentration risk for debt securities, money market instruments and cash collectively. Santam does not have concentrations in these instruments to any one company exceeding 15% of total debt securities, money market instruments or cash, except for Absa where the total exposure amounted to 16,5% (2016: 16,1%) on 31 December 2017 and was managed down to 14,2% on 2 January 2018 in accordance with the risk appetite framework.

Santam uses a large panel of secure reinsurance companies. The credit risk of reinsurers included in the reinsurance programme is considered annually by reviewing their financial strength as part of the renewal process. Santam's largest reinsurance counterparty is SCOR (2016: Allianz). The credit risk exposure is further monitored throughout the year to ensure that changes in credit risk positions are adequately addressed.

# Capital and risk management report

(continued)

The following table provides information regarding the aggregated credit risk exposure for financial and insurance assets. The credit ratings provided in these tables were determined as follows: Sanlam Investment Management (SIM) provided management with reports generated from their credit system on a quarterly basis, detailing all counterparty duration and credit risk. These reports include international, national and internal ratings. SIM also provides management with a conversion table that is then applied to standardise the ratings to standardised international long-term rates. For assets held by subsidiaries and not managed by SIM, a process is agreed with the subsidiaries to align the credit rating analysis with Group requirements.

## 31 December 2017

R million	AA	AA-	A+	A	A-	BBB+
Debt securities - quoted	-	-	-	-	-	-
Debt securities - unquoted	-	15	-	-	-	-
Total debt securities	-	15	-	-	-	-
Total unitised investments	-	-	-	-	-	-
Short-term money market instruments	-	-	2	-	-	-
Receivables due from contract holders/intermediaries	-	-	-	-	-	98
Reinsurance receivable	37	24	118	111	116	-
Other loans and receivables	1	9	2	3	7	10
Cell owners' interest	-	-	-	-	-	-
Deposit with cell owners	-	-	-	-	-	-
Cash and cash equivalents	302	320	29	-	2	101
<b>Total</b>	<b>340</b>	<b>368</b>	<b>151</b>	<b>114</b>	<b>125</b>	<b>209</b>

## 31 December 2016

R million	AA	AA-	A+	A	A-	BBB+
Debt securities - quoted	-	-	-	244	-	61
Debt securities - unquoted	-	15	-	-	-	-
Total debt securities	-	15	-	244	-	61
Total unitised investments <sup>(1)</sup>	-	-	-	-	-	-
Short-term money market instruments	-	-	-	-	-	10
Receivables due from contract holders/intermediaries	41	13	-	33	-	-
Reinsurance receivables	38	28	3	-	12	-
Other loans and receivables	2	1	-	-	-	-
Cell owners' interest	-	-	-	-	-	-
Deposit with cell owners	-	-	-	-	-	-
Cash and cash equivalents	241	47	18	-	-	-
<b>Total</b>	<b>322</b>	<b>104</b>	<b>21</b>	<b>277</b>	<b>12</b>	<b>71</b>

<sup>(1)</sup> Total unitised investments have been included in prior year disclosure to improve comparability.

The carrying amount of assets included in the statement of financial position represents the maximum credit exposure.

There are no material financial assets that would have been past due or impaired had the terms not been renegotiated.

							Carrying value R million
	BBB	BBB-	BB+	BB	BB-	Not rated	
	1 784	3 913	377	1 484	229	624	8 411
	741	2 601	160	41	159	16	3 733
	2 525	6 514	537	1 525	388	640	12 144
	-	151	-	-	-	218	369
	426	1 515	61	79	48	43	2 174
	-	-	-	37	-	3 458	3 593
	-	-	-	-	-	280	686
	48	105	7	34	4	747	977
	-	-	-	-	-	10	10
	-	-	-	-	-	174	174
	1 229	893	1	1 430	-	14	4 321
	4 228	9 178	606	3 105	440	5 584	24 448

							Carrying value R million
	BBB	BBB-	BB+	BB	BB-	Not rated	
	3 399	1 644	256	188	24	164	5 980
	4 193	266	215	20	75	249	5 033
	7 592	1 910	471	208	99	413	11 013
	-	178	-	-	-	90	268
	1 067	259	-	2	18	5	1 361
	-	33	-	-	-	2 776	2 896
	-	-	-	-	-	224	305
	157	25	5	4	-	359	553
	-	-	-	-	-	7	7
	-	-	-	-	-	219	219
	1 340	1 229	-	-	-	12	2 887
	10 156	3 634	476	214	117	4 105	19 509

# Capital and risk management report

(continued)

## *Market risk*

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

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

Santam uses a number of sensitivity or stress-test based risk management tools to understand the impact of the above risks on earnings and capital in both normal and stressed conditions. These stress tests combine deterministic shocks, analysis of historical scenarios and stochastic modelling using the internal economic capital model to inform Santam's decision making and planning process and also for identification and management of risks within the business units. Each of the major components of market risk faced by Santam is described in more detail below.

## *Price risk*

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

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

Equity price risk arises from the negative effect that a fall in the market value of equities can have on Santam's net asset value. Santam's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio characteristics

are analysed regularly and equity price risk is actively managed through a variety of modelling methods. Santam sets appropriate risk limits to ensure that no significant concentrations in individual companies arise. Santam's largest investment in any one company comprises 19,0% (2016: 14,7%) of the total quoted equities and 1,0% (2016: 0,7%) of the total assets. The company's largest investment in any one company comprises 22,6% (2016: 14,7%) of the total quoted equities and 1,2% (2016: 0,8%) of the total assets.

Santam makes use of derivative products as appropriate to manage equity exposure and to protect the portfolio from losses outside of its risk appetite.

## *Interest rate risk*

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

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

Exposure to interest rate risk is monitored through several methods that include scenario testing and stress testing using measures such as duration. The bond returns are modelled based on the historic performance of the individual bonds held in the portfolio, and adjusted to reflect the current interest rates and inflation environment. The risk-free rate used for modelling is 9% as at 31 December 2017 (2016: 9%).

Interest rate risk is also managed using derivative instruments, such as swaps, to provide a degree of hedging against unfavourable market movements in interest rates.

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

### *Currency risk*

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

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

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

Santam incurs exposure to currency risk in two ways:

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

These risks affect both the value of Santam's assets as well as the cost of claims, particularly for imported motor parts, directly and indirectly. The fair value of the investments in the SEM target shares and SAN JV is impacted by changes in the foreign exchange rates of the underlying operations. Santam is also pursuing international diversification in underwriting operations through the business written by Santam Re and the specialist underwriting managers.

Santam does not take cover on foreign currency balances, but evaluates the need for cover on transactions on a case-by-case basis.

### *Derivatives risk*

Santam uses derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates, foreign exchange rates and equity prices. Santam does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes. There is a policy on the use of derivatives that is approved by the Santam Investment committee and the Board.

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

### *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 very liquid interest-bearing instruments while Santam's subordinated debt obligation is covered by matching cash and interest-bearing instruments (including interest rate swaps).

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.

# Capital and risk management report

(continued)

## *Operational risk*

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

Santam manages operational risk by a comprehensive system of internal controls. From a risk governance perspective, the three lines of defence approach are used to identify the various levels of controls, oversight and assurance, including consideration of role-player independence. Risk management processes for oversight include using a range of techniques and tools to identify, monitor and mitigate its operational risk in accordance with Santam's risk appetite. These tools include Risk and Control Self Assessments and questionnaires, Key Risk Indicators (e.g. fraud and service indicators), Scenario Analyses and Loss Reporting. In addition, Santam has developed a number of contingency plans including Incident Management and Business Continuity Plans. Quantitative analysis of operational risk exposures material to Santam are used to inform decisions on controls and the overall amount of capital held for potential risk exposures. A compulsory annual internal control declaration is completed by senior and executive management and results reported to the Risk and Audit committee. The outcome of the declaration is reviewed to ensure material control breakdowns have been noted and appropriately addressed. The declaration process supports the Board in their assessment of the system of internal controls.

## **Sanlam Emerging Markets**

SEM's exposure to general insurance business includes an investment in Shriram General Insurance (through the holding in Shriram Capital and direct) in India, a holding in Pacific & Orient in Malaysia and a 46,6% holding in Saham Finances in Morocco. In addition to these investments, SEM holds smaller stakes in various other general insurance businesses across Africa.

The main risk emanating from the general insurance operations is insurance risk. This risk is managed through reinsurance, close monitoring of claims and sound underwriting practices.

The general insurance investments have been equity accounted to reflect SEM's percentage interest in the net asset value of the respective investments. SEM's exposure is limited to the value of the investment in these businesses.

## **Group Office**

The Group Office is responsible for areas of financial risk management that are not allocated to individual businesses.

### **1. Liquidity risk**

Term finance liabilities in respect of margin business are matched by assets with an appropriate maturity profile. These assets are managed to ensure that sufficient liquid investments are available to match the cash flow profile of the term finance liabilities. The Group has significant liquid resources and substantial unutilised banking facilities to cover any mismatch position.

The maturity profile of term finance liabilities in respect of the margin business and the assets held to match this term finance is provided in the following table:

R million	<1 year	1-5 years	>5 years	Open ended	Total
<b>31 December 2017</b>					
Term finance liabilities	(584)	(1 255)	-	-	(1 839)
Interest-bearing liabilities held in respect of margin business	(584)	(1 255)	-	-	(1 839)
Assets held in respect of term finance	212	974	504	149	1 839
Equities and similar securities	-	-	-	109	109
Corporate interest-bearing investments	182	972	504	40	1 698
Mortgages and loans	-	2	-	-	2
Cash, deposits and similar securities	4	-	-	-	4
Working capital assets and liabilities	26	-	-	-	26
<b>Net term finance liquidity position</b>	<b>(372)</b>	<b>(281)</b>	<b>504</b>	<b>149</b>	<b>-</b>

R million	<1 year	1-5 years	>5 years	Open ended	Total
<b>31 December 2016</b>					
Term finance liabilities	(222)	(1 350)	-	-	(1 572)
Interest-bearing liabilities held in respect of margin business	(222)	(1 350)	-	-	(1 572)
Assets held in respect of term finance	636	732	-	204	1 572
Equities and similar securities	-	-	-	121	121
Corporate interest-bearing investments	313	732	-	83	1 128
Working capital assets and liabilities	323	-	-	-	323
<b>Net term finance liquidity position</b>	<b>414</b>	<b>(618)</b>	<b>-</b>	<b>204</b>	<b>-</b>

The unsecured subordinated bonds issued by Sanlam Life, which are matched by assets with appropriate maturity profiles, are also managed by the Group Office. These assets are managed to ensure that sufficient liquid investments are available to match the cash flow profile of the term finance liabilities.

# Capital and risk management report

(continued)

The maturity profile of the term finance liabilities in respect of the unsecured subordinated bonds and the assets held to match this term finance is provided in the following table:

R million	<1 year	1-5 years	>5 years	Open ended	Total
<b>31 December 2017</b>					
Term finance liabilities					
Interest-bearing liabilities	-	-	(2 166)	-	(2 166)
Assets held in respect of term finance	262	1 353	206	345	2 166
Government interest-bearing investments	6	41	11	-	58
Corporate interest-bearing investments	170	1 149	195	-	1 514
Mortgages, policy and other loans	3	31	-	-	34
Structured transaction liabilities	77	110	-	-	187
Investment funds	-	-	-	345	345
Cash, deposits and similar securities	64	22	-	-	86
Working capital assets and liabilities	(58)	-	-	-	(58)
<b>Net term finance liquidity position</b>	<b>262</b>	<b>1 353</b>	<b>(1 960)</b>	<b>345</b>	<b>-</b>
<b>31 December 2016</b>					
Term finance liabilities					
Interest-bearing liabilities	-	-	(2 147)	-	(2 147)
Assets held in respect of term finance	80	1 430	127	510	2 147
Government interest-bearing investments	-	39	12	-	51
Corporate interest-bearing investments	102	1 136	115	-	1 353
Mortgages, policy and other loans	-	29	-	-	29
Structured transaction liabilities	11	198	-	-	209
Investment funds	-	-	-	510	510
Cash, deposits and similar securities	23	28	-	-	51
Working capital assets and liabilities	(56)	-	-	-	(56)
<b>Net term finance liquidity position</b>	<b>80</b>	<b>1 430</b>	<b>(2 020)</b>	<b>510</b>	<b>-</b>



## 2. Sensitivity analysis – market risk

Refer to page 179 of the Integrated Report online for an analysis of the Group's exposure to market risk as measured by GEV.

## 3. Cash flow hedging risk

### *Saham Finances transaction*

Subsequent to the 2017 year-end, agreements were concluded to acquire the remaining 53,4% stake in Saham Finances. This transaction significantly enhances the strategic positioning of Sanlam as the leading insurance provider in Africa, and will accelerate the extraction of synergies from the combined footprint. The transaction price of US\$1 050 million will be funded from a combination of a Sanlam Limited share issuance, available discretionary capital and debt funding.

The effective date of this transaction is dependent on the fulfilment of the conditions precedent.

In terms of Sanlam's risk management strategy, foreign currency risks can be assessed on a case-by-case basis to determine whether specific hedging requirements exist. The proposed transaction with Saham Finances was therefore assessed and it was concluded by the Executive committee that the foreign currency risk relating to this

transaction should be appropriately hedged, and as such it was decided to partially hedge the transaction through a combination of foreign currency acquisitions and forward exchange contracts. A total of US\$602 million was hedged through this strategy at an average exchange rate of R14,12.

The designated foreign currency and forward exchange contracts were identified as the hedging instruments and the proposed acquisition as described above was identified as the hedge item. The hedge was implemented in December 2017 when the transaction became highly probable.

To determine the expected effectiveness of the hedge the "Dollar offset method" (i.e. the ratio of the cumulative foreign currency movements on the designated foreign currency resources divided by the cumulative foreign currency movements on the purchase price) was considered. The hedge was deemed effective on inception date on a prospective basis, and again deemed effective on 31 December 2017 on a retrospective and a prospective basis. Hedge effectiveness will continue to be assessed over the life of the hedge.

# Basis of presentation and accounting policies

## Basis of presentation

### Introduction

The consolidated financial statements are prepared on the historical-cost basis, unless otherwise indicated, in accordance with International Financial Reporting Standards (IFRS), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act, No. 71 of 2008 (as amended), in South Africa. The financial statements are presented in South African rand rounded to the nearest million, unless otherwise stated. The amendments to standards, effective 1 January 2017, did not have a significant impact on the basis of preparation.

The following new or revised IFRS and interpretations have effective dates applicable to future financial years and have not been early adopted:

- IFRS 9 - *Financial Instruments* (effective 1 January 2018)
- IFRS 15 - *Revenue from Contracts with Customers* (effective 1 January 2018)
- IFRS 16 - *Leases* (effective 1 January 2019)
- IFRS 17- *Insurance Contracts* (effective 1 January 2021)

IFRS 9: *Financial Instruments* will replace IAS 39: *Financial Instruments: Recognition and Measurement*. The Group will be adopting this standard from 1 January 2018 using the modified retrospective approach and will not make use of any of the deferral options provided in IFRS 4: *Insurance Contracts*. The standard introduces new requirements for the classification and measurement of financial instruments. During the year the Group conducted an assessment of the potential classification and measurement changes that may result from the adoption of the new standard, based on the composition of the Group Statement of Financial Position as at 31 December 2016, for the purposes of a preliminary impact assessment, as well as 31 December 2017, to assess the impact on adoption. The outcome of this process indicates that there will be limited changes in classification and measurement across the Group.

IFRS 9 introduces a new expected credit loss (“ECL”) impairment model for all financial assets and certain loan commitments and guarantees.

As the majority of the group’s financial assets subject to more than an insignificant amount of credit risk are measured at fair value through profit or loss, the potential significant impacts from changes in the measurement basis of impairment provisions are limited to the Group’s

investment in associated companies and joint ventures, as a number of these conduct credit business. Based on ongoing assessments, while the carrying value of these associates will decrease on adoption of IFRS 9, the impact based on current assessments indicate that this decrease should not be in excess of 2% of the balance of equity accounted investments, and therefore will not be material to the Group.

IFRS 15: *Revenue from Contracts with Clients* replaces all existing revenue recognition requirements in IFRS and applies to all revenue arising from contracts with clients, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments. The standard is effective for the Group for the financial year commencing 1 January 2018. The potential areas of significant impact for the Group relate to performance fees earned by the asset management operations, upfront fees received, deferred acquisition costs on investment business and isolated instances of more complex fee structures. Based on the level of performance fees earned, no significant impact is expected from this. The impact of other areas is still being assessed.

IFRS 16: *Leases* was issued by the IASB in January 2016 and replaces IAS 17: *Leases* for reporting periods beginning on or after 1 January 2019. The Group is in the process of assessing the impact of IFRS 16. Initial work performed, indicates that there will be limited impact on the financial statements as a result of this standard.

IFRS 17: *Insurance Contracts* was issued in May 2017. The standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. Initial work performed on the impact of IFRS 17 indicates that there will be a significant impact on the underlying valuation models, systems and processes. The Group is in the process of assessing the requirements of the standard against current data, processes and valuation models and is expected to finalise this assessment during the second half of 2018.

### Glossary of terms and definitions

A glossary containing explanations of technical terms used in these financial statements is presented on page 208 of the Integrated Report online.

The following sections provide additional information in respect of the presentation of selected items in the Group financial statements on pages 74 to 157.

### Use of estimates, assumptions and judgements

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates and assumptions affect items reported in

the Group Statement of Financial Position and Statement of Comprehensive Income, as well as contingent liabilities. The major items subject to the application of estimates, assumptions and judgements include:

- The fair value of unlisted investments;
- The valuation of policy liabilities;
- Potential claims and contingencies; and
- The consolidation of investment funds where the Group has less than a majority interest.

Although estimates are based on management's best knowledge and judgement of current facts as at the Statement of Financial Position date, the actual outcome may differ from these estimates, possibly significantly. Refer to note 27.3 for further information on critical estimates and judgements and note 27 for information on contingencies.

#### **Policyholders' and shareholders' activities**

The Group financial statements set out on pages 74 to 78 include the consolidated activities of the policyholders and shareholders. Separate financial information on the activities of the shareholders of the Sanlam Group is disclosed on pages 145 to 204 of the Integrated Report online.

The assets, liabilities and activities of the policyholders and shareholders in respect of the life insurance businesses are managed separately and are governed by the valuation bases for policy liabilities and profit entitlement rules, which are determined in accordance with prevailing legislation, IFRS, generally accepted actuarial practice and the stipulations contained in the Sanlam Life demutualisation proposal. The valuation bases in respect of policy liabilities and the profit entitlement of shareholders are set out on pages 70 to 73.

#### **Insurance contracts**

The disclosure of claims experience in claims development tables is based on the period when the earliest material claims arose for which there is still uncertainty about the amount and timing of the claims payments.

#### **Cash, deposits and similar securities**

Cash, deposits and similar securities include bank account balances, call, term and negotiable deposits, promissory notes and money market collective investment schemes. A distinction is made between:

- Cash, deposits and similar securities included in the asset mix of policyholders' and shareholders' fund investment portfolios, which are disclosed as investments in the statement of financial position; and
- Working capital balances that are disclosed as working capital assets, apart from bank overdrafts, which are disclosed as working capital liabilities.

#### **Financial instruments**

Owing to the nature of the Group's business, financial instruments have a significant impact on the Group's financial position and performance. Audited information in respect of the major categories of financial instruments and the risks associated therewith are provided in the following sections:

- Audited Capital and Risk Management Report on pages 16 to 65;
- Note 7: Investments;
- Note 14: Long-term policy liabilities;
- Note 15: Term finance; and
- Note 24: Critical accounting estimates and judgements.

#### **Segmental information**

The Group reports in six distinct segments, grouped according to the similarity of the solution offerings and market segmentations of the various businesses. The six segments are:

- Sanlam Personal Finance;
- Sanlam Emerging Markets;
- Sanlam Investments, which includes Investment Management, Capital Management and Sanlam UK;
- Sanlam Corporate, which includes Sanlam Employee Benefits and Sanlam Health Management;
- Santam; and
- Group Office and Other.

The decentralised nature of the Group businesses facilitates the allocation of costs between them as the costs are directly attributable to the different businesses. Inter-segment transfers are estimated to reflect arm's length prices.

The audited segmental information is disclosed in the Shareholders' information on pages 145 to 204 of the Integrated Report online. Refer to the financial review on pages 70 to 94 of the Integrated Report online for additional information on these business segments and to the Group structure on page 18 of the Integrated Report online for a description of the main businesses and the cluster to which they are allocated.

#### **Accounting policies**

The Sanlam Group has identified the accounting policies that are most significant to its business operations and the understanding of its results. These include policies relating to insurance liabilities, deferred acquisition costs, the ascertainment of fair values of financial assets, financial liabilities and derivative financial instruments, and the determination of impairment losses. In each case, the determination of these is fundamental to the financial results and position, and requires management to make

# Basis of presentation and accounting policies (continued)

complex judgements based on information and financial data that may change in future periods. Since these involve the use of assumptions and subjective judgements as to future events and are subject to change, the use of different assumptions or data could produce materially different results. These policies (as set out in the relevant notes to the financial statements) are in accordance with and comply with IFRS and have been applied consistently for all periods presented unless otherwise noted.

## Basis of consolidation

Subsidiaries and consolidated funds are entities that are controlled by Sanlam Limited or any of its subsidiaries. The Group has control over an entity where it has the right to or is exposed to variable returns and has the power, directly or indirectly, to affect those returns. Specifically, the Group controls an entity if and only if the Group has:

- Power or existing rights over the entity or investee that give it the ability to direct relevant activities;
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights, the Group consider all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses on a continuous basis whether or not it controls an investee.

The purchase method of accounting is applied to account for acquisitions of subsidiaries. The cost of an acquisition is measured as the fair value of consideration transferred, equity instruments issued and liabilities assumed at the date of exchange. Costs directly attributable to an acquisition are expensed in the Statement of Comprehensive Income. Identifiable assets and liabilities acquired and contingent liabilities assumed are recognised at fair value at acquisition date. The excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets and contingent liabilities represents goodwill and is accounted for in terms of the accounting policy note for goodwill. If the cost of an acquisition is less than the fair value of the net identifiable assets and contingent liabilities, the difference is recognised in the Statement of Comprehensive Income.

The results of subsidiaries and consolidated funds are included from the effective dates when the Group obtains control to the effective dates when the Group ceases to have control, using accounting policies uniform to the Group. Intergroup transactions, balances and unrealised profits on intergroup transactions are eliminated. Unrealised losses are also eliminated unless the transaction indicates the impairment of the asset transferred.

The interest of non-controlling shareholders in subsidiaries is stated at the non-controlling shareholders' share of the recognised values of the subsidiaries' assets and liabilities. Net losses attributable to non-controlling shareholders in excess of the non-controlling interest are recognised as negative reserves against non-controlling shareholders' interest.

A financial liability is recognised, and classified as at fair value through profit or loss, for the fair value of external investors' interest in consolidated funds where the issued units of the fund are classified as financial liabilities in terms of IFRS. Changes in the fair value of the external investors' liability are recognised in the Statement of Comprehensive Income. In all other instances, the interests of external investors in consolidated funds are not financial liabilities and are recognised as non-controlling shareholders' interest.

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

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

→ Third party – where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. The company is the principle to the insurance contract, although the business is underwritten on behalf of the cell shareholder. However, the shareholder’s agreement determines that the cell shareholders remain responsible for the solvency of the cell captive arrangements. In substance, the insurance company therefore reinsures this business to the cell shareholder as the cell shareholder remains responsible for the solvency of the cell captive arrangement.

The cell shareholder’s interest represents the cell shareholder’s funds held by the insurer and is included under liabilities due to cell shareholders. The carrying value of amounts due to cells is the consideration received for preference shares plus the accumulated funds in respect of business conducted in the cells less repayment to cells.

## Foreign currencies

### Transactions and balances

Foreign currency transactions are translated to functional currency, i.e. the currency of the primary economic environment in which each of the Group’s entities operate, at the exchange rates on transaction date. Monetary assets and liabilities are translated to functional currency at the exchange rates ruling at the financial period-end. Non-monetary assets and liabilities carried at fair value are translated to functional currency at the exchange rates ruling at valuation date. Non-monetary assets and liabilities carried at historic cost are translated to functional currency at the exchange rates ruling at the date of initial recognition.

Exchange differences arising on the settlement of transactions or the translation of monetary assets and liabilities (excluding investment assets and liabilities) are recognised in the Statement of Comprehensive Income as financial services income. Exchange differences on non-monetary assets and liabilities and monetary assets and liabilities classified as investment assets and liabilities, such as equities and foreign interest-bearing investments, are included in investment surpluses.

### Foreign operations

Statement of Comprehensive Income items of foreign operations (including foreign subsidiaries, associates and joint ventures) with a functional currency different from the presentation currency, are converted to South African rand at the weighted average exchange rates for the financial year, except where the average exchange rate is not representative of the timing of specific items, in which instances the exchange rate on transaction date is used.

The closing rate is used for the translation of assets and liabilities, including goodwill, intangible assets and fair value adjustments arising on the acquisition of foreign entities. Exchange differences arising on the translation of foreign operations are transferred to a foreign currency translation reserve until the disposal of the net investment when it is released to the Statement of Comprehensive Income.

## Restatement

Sanlam Life Insurance Limited through its Bermuda branch, issued life insurance policies that were backed by an investment policy issued by a 3<sup>rd</sup> party with the underlying assets being held in investment funds. These assets were correctly classified as investment funds until 31 December 2015. This investment policy was terminated effective 1 January 2016 and was replaced by investments in various asset classes.

The administration process for the classification of these assets in the relevant investment asset classes was not amended appropriately by the end of 31 December 2016, resulting in an incorrect classification on the statement of financial position with no impact on the statement of comprehensive income. The 31 December 2016 information is accordingly restated for this error.

	2016		
	Previously reported	Adjustments	Restated
Equities	176 944	6 300	183 244
Structured transactions	13 756	239	13 995
Investment funds	161 050	(6 539)	154 511

# Policy liabilities and profit entitlement

## Introduction

The valuation bases and methodology used to calculate the policy liabilities of all material lines of long-term insurance business and the corresponding shareholder profit entitlement for Sanlam Life are set out below. The same valuation methodology, where applicable, is applied in all material respects to value the policy liabilities of Sanlam Developing Markets, Channel Life, Safrican insurance company and Sanlam Emerging Markets, as well as investment contracts issued by Sanlam Investments and Pensions, unless otherwise stated. The valuation methodology in respect of insurance contracts issued by Sanlam Investments and Pensions is not presented in view of their relatively immaterial contribution to earnings and the relative small size of their insurance contract liabilities.

The valuation bases and methodology, which comply with South African actuarial guidelines and requires minimum liabilities to be held based on a prospective calculation of policy liabilities, serves as a liability adequacy test. No adjustment is required to the value of the liabilities at 31 December 2017 as a result of the aforementioned adequacy test.

The valuation bases and methodology comply with the requirements of IFRS.

Where the valuation of long-term policy liabilities is based on the valuation of supporting assets, the assets are valued on the bases as set out in the accounting policy for investments, with the exception of investments in treasury shares, subsidiaries, associated companies, joint ventures and consolidated funds, which are also valued at fair value.

## Classification of contracts

A distinction is made between investment contracts without discretionary participation features (DPF) (which fall within the scope of IAS 39 – Financial Instruments: Recognition and Measurement), investment contracts with DPF and insurance contracts (where the Financial Soundness Valuation (FSV) method continues to apply, subject to certain requirements specified in IFRS 4 – Insurance Contracts).

A contract is classified as insurance where Sanlam accepts significant insurance risk by agreeing with the policyholder to pay benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary. Significant insurance risk exists where it is expected that for the duration of the policy or part thereof,

policy benefits payable on the occurrence of the insured event will significantly exceed the amount payable on early termination, before allowance for expense deductions at early termination. Once a contract has been classified as an insurance contract, the classification remains unchanged for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Policy contracts not classified as insurance contracts are classified as investment contracts and comprise the following categories:

- Investment contracts with DPF;
- Investment contracts with investment management services; and
- Other investment contracts.

An investment contract with DPF entitles the policyholder to receive benefits or bonuses in addition to guaranteed benefits. These additional benefits have the following features:

- The benefits constitute a significant portion of each policy's total benefits;
- The timing and amount of the benefits are at the discretion of the Sanlam Group, which has to be exercised in a reasonable way; and
- The benefits are based on the investment performance of a specified pool of underlying assets.

All investment contracts that fall within the scope of IAS 39 (i.e. all investment contracts without DPF) are designated as at fair value through profit or loss.

## Insurance contracts and investment contracts with DPF

The actuarial value of the policy liabilities is determined using the FSV method as described in professional guidance note, SAP 104 issued by the Actuarial Society of South Africa (Actuarial Society), which is consistent with the valuation method prescribed in the LTIA and consistent with the valuation of assets at fair value as described in the accounting policy for investments. The underlying philosophy is to recognise profits prudently over the term of each contract consistent with the work done and risk borne. In the valuation of liabilities, provision is made for:

- The best estimate of future experience;
- The compulsory margins prescribed in the LTIA; and
- Discretionary margins determined to release profits to shareholders consistent with policy design and company policy.



The value of policy liabilities at 31 December 2017 exceeds the minimum requirements in terms of the LTIA, SAP 104 and APN 110.

The application of actuarial guidance, as set out in SAP 104 and APN 110 issued by the Actuarial Society, is described below in the context of the Group's major product classifications.

### Best estimate of future experience

The best estimate of future experience is determined as follows:

- Future investment return assumptions are derived from market yields of fixed interest securities on the valuation date, with adjustments for the other asset classes.
- The appropriate asset composition of the various asset portfolios, investment management expenses, taxation at current tax rates and charges for investment guarantees are taken into account.
- For some of the Group's African operations, where long-term fixed interest markets are underdeveloped, investment return assumptions are based on an assessment of longer-term economic conditions. The future investment returns for Namibian businesses are based on the market yields of South African fixed interest securities on the valuation date. Refer to note 4 on page 176 of the Integrated Report online for investment return assumptions per asset class.
- Future expense assumptions are based on the 2017 actual expenses and escalated at estimated expense inflation rates per annum, with a higher rate assumed for legacy business. The allocation of initial and maintenance expenses is based on functional cost analyses and reflects actual expenses incurred during 2017. Allowance is made for project expenses consistently with the best estimate used for embedded value purposes.
- Assumptions with regard to future mortality, disability and disability payment termination rates are consistent with Sanlam's recent experience or expected future experience if this would result in a higher liability. In particular, mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of Aids and for expected improvements in mortality rates in the case of annuity business.
- Persistency assumptions with regard to lapse, surrender and paid-up rates are consistent with Sanlam's recent experience or expected future experience if this would result in a higher liability.

### Asset portfolios

Separate asset portfolios are maintained in support of policy liabilities for each of the major lines of business; each portfolio having an asset mix appropriate for the specific product. Bonus rates are declared for each class of participating business in relation to the funding level of each portfolio and the expected future net investment return on the assets of the particular investment portfolio.

### Bonus stabilisation reserves

Sanlam Life's individual and group stabilised bonus portfolios are valued on a retrospective basis. If the fair value of the assets in such a portfolio is greater than the policyholders' investment accounts (net premiums invested plus declared bonuses), a positive bonus stabilisation reserve is created, which will be used to enhance future bonuses. Conversely, if assets are less than the investment accounts, a negative bonus stabilisation reserve is created. A negative bonus stabilisation reserve will be limited to the amount that the Statutory Actuary expects will be recovered through the declaration of lower bonuses during the ensuing three years, if investment returns are in line with long-term assumptions. Negative bonus stabilisation reserves in excess of 7,5% of the investment accounts are specifically disclosed. Bonus stabilisation reserves are included in long-term policy liabilities.

### Provision for future bonuses

Provision was made for future bonuses so that each asset portfolio, less charges for expenses (including investment guarantee charges) and profit loadings, for each line of business would be fully utilised for the benefit of the policyholders of that portfolio.

### Reversionary bonus business

The liability is set equal to the fair value of the underlying assets. This is equivalent to a best estimate prospective liability calculation using the bonus rates as set out above, and allowing for the shareholders' share of one-ninth of the cost of these bonuses.

The present value of the shareholders' entitlement is sufficient to cover the compulsory margins required in the LTIA and the Actuarial Society guidelines for the valuation of policy liabilities. These margins are thus not provided for in addition to the shareholders' entitlement.

# Policy liabilities and profit entitlement

(continued)

## **Individual stable bonus, linked and market-related business**

For investment policies where the bonuses are stabilised or directly related to the return on the underlying investment portfolios, the liabilities are equated to the retrospectively accumulated fair value of the underlying assets. These retrospective liabilities are higher than the prospective liabilities calculated as the present value of expected future benefits and expenses less future premiums at the relevant discount rates.

To the extent that the retrospective liabilities exceed the prospective liabilities, the valuation contains discretionary margins. The valuation methodology results in the release of these margins to shareholders on a fees minus expenses basis consistent with the work done and risks borne over the lifetime of the policies.

An exception to the above relates to policy liabilities in respect of Sanlam Developing Markets' and Channel Life's individual Universal Life business (including stable bonus and market-linked business), which are valued prospectively. Negative values are not allowed in respect of any of these policies.

## **Group stable bonus business**

In the case of Group policies where bonuses are stabilised, the liabilities are equated to the fair value of the retrospectively accumulated underlying assets.

Future fees are expected to exceed expenses, including allowance for the prescribed margins. These excesses are released to shareholders consistent with the work done and risks borne over the lifetime of the policies.

## **Participating annuity business**

The liabilities are equated to the fair value of the retrospectively accumulated underlying assets. This is equivalent to a best estimate prospective liability calculation allowing for future bonus rates as described above and expected future investment returns. Shareholder entitlements emerge in line with fees charged less expenses incurred consistent with work done and risks borne over the lifetime of the annuities. The present value of the shareholders' entitlement is sufficient to cover the compulsory margins for the valuation of policy liabilities. The compulsory margins are thus not provided for in addition to the shareholders' entitlement.

## **Non-participating annuity business**

Non-participating life annuity instalments and future expenses in respect of these instalments are discounted at the zero-coupon yield curve adjusted to allow for credit risk and investment administration charges. All profits or losses accrue to the shareholders when incurred.

## **Other non-participating business**

Other non-participating business forms less than 7% of the total liabilities. Most of the other non-participating business liabilities are valued on a retrospective basis. The remainder is valued prospectively and contains discretionary margins via either an explicit interest rate deduction of approximately less than 1% on average or by not allowing policies with negative reserves.

For Sanlam Life's non-participating business other than life annuity business, an asset mismatch provision is maintained. The interest and asset profits arising from the non-participating portfolio are added to this provision. The asset mismatch provision accrues to shareholders at the rate of 1,33% monthly, based on the balance of the provision at the end of the previous quarter. The effect of holding this provision is, amongst other purposes, to dampen the impact on earnings of short-term fluctuations in fair values of assets underlying these liabilities. The asset mismatch provision represents a discretionary margin. A negative asset mismatch provision will not be created, but such shortfall will accrue to shareholders in the year in which it occurs.

## **Provision for HIV/Aids and other pandemics**

A specific provision for HIV/Aids-related claims is maintained and included within the related prospective reserves.

A prospective calculation according to the relevant guidelines is performed for Sanlam Life's policies.

Premium rates for Group business are reviewed annually. The HIV/Aids provision is based on the expected HIV/Aids claims in a year and the time that may elapse before premium rates and underwriting conditions can be suitably adjusted should actual experience be worse than expected.

In addition, provision for claims relating to other pandemics is also made based on the estimated additional death claims should a moderate pandemic occur.



### **Provision for minimum investment return guarantees**

In addition to the liabilities described above, a stochastic modelling approach was used to provide for the possible cost of minimum investment return guarantees provided by some participating and market-related policies, consistent with actuarial guidance note APN 110.

### **Working capital**

To the extent that the management of working capital gives rise to profits, no credit is taken for this in determining the policy liabilities.

### **Reinsurance**

Liabilities are valued gross before taking into account reinsurance. Where material, the difference between the gross and net (after reinsurance) value of liabilities is held as a reinsurance asset.

### **Investment contracts (other than with DPF)**

#### **Contracts with investment management services**

The liabilities for individual and group contracts are set equal to the retrospectively accumulated fair value of the underlying assets. The profits or losses that accrue to shareholders are equal to fees received during the period concerned plus the movement in the DAC asset less expenses incurred.

Where these contracts provide for minimum investment return guarantees, provision is made for the fair value of the embedded derivative.

#### **Non-participating annuity business**

Term annuity instalments and expected future expenses in respect of these instalments are discounted at the zero-coupon yield curve adjusted to allow for credit risk and investment administration charges. All profits or losses accrue to the shareholders when incurred.

#### **Guaranteed plans**

Guaranteed maturity values and expected future expenses are discounted at market-related interest rates. All profits or losses accrue to the shareholders when incurred.

# Group statement of financial position

at 31 December 2017

R million	Notes	2017	Restated 2016
<b>ASSETS</b>			
Equipment	1	876	881
Owner-occupied properties	2	963	1 171
Goodwill	3.1	4 158	3 596
Value of business acquired	3.2	1 930	1 606
Other intangible assets	4	517	575
Deferred acquisition costs	5	3 659	3 597
Long-term reinsurance assets	6	1 063	958
Investments	7	656 020	592 945
Properties	7.1	11 505	10 664
Equity-accounted investments	7.2	26 476	21 560
Equities and similar securities	7.3.1	201 095	183 244
Interest-bearing investments	7.3.2	185 363	170 584
Structured transactions	7.3.2	15 381	13 995
Investment funds	7.3.2	177 235	154 511
Cash, deposits and similar securities	7.3.2	38 965	38 387
Deferred tax	8.1	2 083	1 880
Assets of disposal groups classified as held for sale	31	321	663
General insurance technical assets	9	6 400	5 022
Working capital assets		55 593	59 665
Trade and other receivables	10.1	33 633	40 904
Cash, deposits and similar securities		21 960	18 761
<b>Total assets</b>		<b>733 583</b>	672 559
<b>EQUITY AND LIABILITIES</b>			
Capital and reserves			
Share capital and premium	11	22	22
Treasury shares		(3 811)	(3 790)
Other reserves	12	9 084	9 903
Retained earnings		52 125	47 255
<b>Shareholders' fund</b>		<b>57 420</b>	53 390
Non-controlling interest	13	6 017	5 696
<b>Total equity</b>		<b>63 437</b>	59 086
Long-term policy liabilities	14	524 441	483 748
Term finance	15	6 426	6 466
Margin business		1 918	1 652
Other interest-bearing liabilities		4 508	4 814
Structured transactions liabilities	7.3.2	4 187	1 298
External investors in consolidated funds		62 329	55 486
Cell owners' interest		3 217	1 153
Deferred tax	8.1	2 435	2 069
General insurance technical provisions	9	18 668	14 557
Working capital liabilities		48 443	48 696
Trade and other payables	10.2	46 507	46 636
Provisions	16	333	332
Taxation		1 603	1 728
<b>Total equity and liabilities</b>		<b>733 583</b>	672 559

# Group statement of comprehensive income

for the year ended 31 December 2017

R million	Note	2017	2016
<b>Net income</b>		<b>113 976</b>	86 695
Financial services income	17	63 930	58 189
Reinsurance premiums paid	18	(9 546)	(7 626)
Reinsurance commission received	19	1 685	1 396
Investment income	7.4	30 288	28 413
Investment surpluses	7.4	33 423	9 150
Finance cost – margin business	21	(134)	(106)
Change in fair value of external investors' liability		(5 670)	(2 721)
<b>Net insurance and investment contract benefits and claims</b>		<b>(72 576)</b>	(49 329)
Long-term insurance contract benefits	14.5	(26 863)	(24 143)
Long-term investment contract benefits	14.5	(32 588)	(13 204)
General insurance claims		(21 036)	(17 423)
Reinsurance claims received	19	7 911	5 441
<b>Expenses</b>		<b>(26 279)</b>	(24 731)
Sales remuneration	20	(8 832)	(8 140)
Administration costs	20	(17 447)	(16 591)
<b>Impairments</b>		<b>(395)</b>	(340)
<b>Amortisation of intangibles</b>		<b>(350)</b>	(326)
<b>Net operating result</b>		<b>14 376</b>	11 969
Equity-accounted earnings	7.2.1	2 646	2 095
Finance cost – other	21	(690)	(460)
<b>Profit before tax</b>		<b>16 332</b>	13 604
Taxation	8.2	(4 342)	(3 026)
Shareholders' fund		(3 087)	(1 832)
Policyholders' fund		(1 255)	(1 194)
<b>Profit for the Year</b>		<b>11 990</b>	10 578
Other comprehensive income: to be recycled through profit or loss in subsequent periods			
Movement in foreign currency translation reserve		(1 217)	(4 367)
Other comprehensive income of equity accounted investments		21	(248)
Movement in cash flow hedge		(602)	(469)
Other comprehensive income: not to be recycled through profit or loss in subsequent periods			
Employee benefits re-measurement loss	25	(12)	(54)
<b>Comprehensive income for the year</b>		<b>10 180</b>	5 440
<b>Allocation of comprehensive income:</b>			
Profit for the year		11 990	10 578
Shareholders' fund		10 923	9 623
Non-controlling interest		1 067	955
Comprehensive income for the year		10 180	5 440
Shareholders' fund		9 272	5 139
Non-controlling interest		908	301
<b>Earnings attributable to shareholders of the Company (cents):</b>			
Profit for the year:			
Basic earnings per share	22	544,4	481,1
Diluted earnings per share	22	538,8	476,4

# Group statement of changes in equity

for the year ended 31 December 2017

R million	Share capital	Share premium	Treasury shares
<b>Balance at 1 January 2016</b>	21	1	(3 683)
Comprehensive income	-	-	-
Profit for the year	-	-	-
Other comprehensive income <sup>(3)</sup>	-	-	-
Net (acquisition)/disposal of treasury shares <sup>(2)</sup>	-	-	(107)
Share-based payments	-	-	-
Transfer to non-distributable reserve	-	-	-
Transfer (from)/to consolidation reserve	-	-	-
Dividends paid	-	-	-
Acquisitions, disposals and other movements in interests	-	-	-
<b>Balance at 31 December 2016</b>	<b>21</b>	<b>1</b>	<b>(3 790)</b>
Comprehensive income	-	-	-
Profit for the year	-	-	-
Other comprehensive income <sup>(3)</sup>	-	-	-
Net (acquisition)/disposal of treasury shares <sup>(2)</sup>	-	-	(21)
Share-based payments	-	-	-
Transfer from non-distributable reserve	-	-	-
Transfer (from)/to consolidation reserve	-	-	-
Dividends paid <sup>(1)</sup>	-	-	-
Acquisitions, disposals and other movements in interests	-	-	-
<b>Balance at 31 December 2017</b>	<b>21</b>	<b>1</b>	<b>(3 811)</b>

<sup>(1)</sup> A dividend of 290 cents per share (2016: 268 cents per share) was declared in 2018 in respect of the 2017 earnings. Based on the number of shares in issue on declaration date, the total dividend is expected to amount to R5,9 billion, but may vary depending on the number of shares in issue on the last day to trade. Dividends proposed or declared after the statement of financial position date are not recognised at the statement of financial position date.

<sup>(2)</sup> Comprises movement in cost of shares held by subsidiaries, the share incentive trust and other consolidated funds.

<sup>(3)</sup> Other comprehensive income includes a realisation of cash flow hedging adjustment of R56 million (R40 million net of tax) in respect of the acquisition of interests in Saham Finances, as well as an additional cash flow hedging adjustment of R781 million (R562 million net of tax) in respect of the cumulative fair value movements on the hedging instruments designated for funding of an additional stake in Saham Finances for the current year.

Non-distributable reserve	Foreign currency translation reserve	Retained earnings	Subtotal: equity holders	Consolidation reserve	Total: equity holders	Non-controlling interest	Total equity
9 894	4 454	44 777	55 464	(1 843)	53 621	6 571	60 192
-	(3 902)	9 041	5 139	-	5 139	301	5 440
-	-	9 623	9 623	-	9 623	955	10 578
-	(3 902)	(582)	(4 484)	-	(4 484)	(654)	(5 138)
-	-	(345)	(452)	(238)	(690)	(41)	(731)
-	-	325	325	-	325	37	362
(18)	-	18	-	-	-	-	-
-	-	(1 550)	(1 550)	1 550	-	-	-
-	-	(4 916)	(4 916)	-	(4 916)	(1 224)	(6 140)
-	-	(95)	(95)	6	(89)	52	(37)
9 876	552	47 255	53 915	(525)	53 390	5 696	59 086
-	<b>(1 044)</b>	<b>10 316</b>	<b>9 272</b>	-	<b>9 272</b>	<b>908</b>	<b>10 180</b>
-	-	<b>10 923</b>	<b>10 923</b>	-	<b>10 923</b>	<b>1 067</b>	<b>11 990</b>
-	<b>(1 044)</b>	<b>(607)</b>	<b>(1 651)</b>	-	<b>(1 651)</b>	<b>(159)</b>	<b>(1 810)</b>
-	-	<b>(270)</b>	<b>(291)</b>	<b>172</b>	<b>(119)</b>	<b>(19)</b>	<b>(138)</b>
-	-	<b>340</b>	<b>340</b>	-	<b>340</b>	<b>36</b>	<b>376</b>
<b>100</b>	-	<b>(100)</b>	-	-	-	-	-
-	-	<b>47</b>	<b>47</b>	<b>(47)</b>	-	-	-
-	-	<b>(5 400)</b>	<b>(5 400)</b>	-	<b>(5 400)</b>	<b>(796)</b>	<b>(6 196)</b>
-	-	<b>(63)</b>	<b>(63)</b>	-	<b>(63)</b>	<b>192</b>	<b>129</b>
<b>9 976</b>	<b>(492)</b>	<b>52 125</b>	<b>57 820</b>	<b>(400)</b>	<b>57 420</b>	<b>6 017</b>	<b>63 437</b>

# Group cash flow statement

for the year ended 31 December 2017

R million	Note	2017	2016
<b>Cash flow from operating activities</b>		<b>23 402</b>	14 428
Cash generated in operations	29.1	4 945	(1 314)
Interest and preference share dividends received		18 343	17 130
Interest paid		(868)	(566)
Dividends received		11 343	10 186
Dividends paid		(6 118)	(6 072)
Taxation paid		(4 243)	(4 936)
<b>Cash flow from investment activities</b>		<b>(20 267)</b>	(15 949)
Net acquisition of investments		(17 046)	(8 268)
Acquisition of subsidiaries and associated companies	29.2	(4 917)	(7 699)
Disposal of subsidiaries and associated companies	29.3	1 696	18
<b>Cash flow from financing activities</b>		<b>(215)</b>	165
Movement in treasury shares		(138)	(731)
Acquisition of non-controlling interest		(113)	-
Term finance raised		1 388	2 302
Term finance repaid		(1 352)	(1 406)
<b>Net increase in cash and cash equivalents</b>		<b>2 920</b>	(1 356)
Net foreign exchange difference		(122)	(69)
Cash and cash equivalents at beginning of the year		52 621	54 046
<b>Cash and cash equivalents at end of the year</b>	29.4	<b>55 419</b>	52 621

# Notes to the Group financial statements

for the year ended 31 December 2017

## 1. Equipment

Equipment is reflected at depreciated cost prices less provisions for impairment in value, where appropriate. Depreciation is provided for on a straight-line basis, taking into account the residual value and estimated useful lives of the assets, which vary between 2 and 20 years. If the expected residual value is equal to or greater than the carrying value, no depreciation is provided for. The residual values, estimated useful lives and depreciation methods are reviewed at each statement of financial position date and adjusted as appropriate. Cost prices include costs directly attributable to the acquisition of equipment, as well as any subsequent expenditure when it is probable that future economic benefits associated with the item will flow to the Group and the expenditure can be measured reliably. All other expenditure is recognised in the statement of comprehensive income when incurred. Equipment is derecognised at disposal date or at the date when it is permanently withdrawn from use without the ability to be disposed of. The difference between the carrying amount at the date of derecognition and any disposal proceeds, as applicable, is recognised in the statement of comprehensive income.

R million	2017	2016
Computer equipment	483	524
Cost	1 806	1 676
Accumulated depreciation and impairment	(1 323)	(1 152)
Furniture, equipment, vehicles and other	393	357
Cost	1 044	1 034
Accumulated depreciation and impairment	(651)	(677)
<b>Equipment</b>	<b>876</b>	<b>881</b>
<b>Reconciliation of carrying amount</b>		
Balance at beginning of the year	881	892
Additions and expenditure capitalised	304	301
Depreciation	(287)	(266)
Net other movements	(22)	(46)
Balance at end of the year	876	881

## 2. Owner-occupied properties

Owner-occupied property is property held for use in the supply of services or for administration purposes. These properties are valued at carrying amount less depreciation and provisions for impairment in value, where appropriate. The carrying amount is based on the cost of properties classified as owner-occupied on date of acquisition and the fair value at date of reclassification in instances where properties are reclassified from investment properties to owner-occupied properties. Depreciation is provided for on a straight-line basis, taking into account the residual value and estimated useful life of the property. The residual values, estimated useful lives and depreciation methods are reviewed at each statement of financial position date and adjusted as appropriate. If the expected residual value is equal to or greater than the carrying value, no depreciation is provided for. Owner-occupied property is assessed bi-annually for indicators of impairment. When owner-occupied properties become investment properties, they are reclassified to investment properties at the fair value of the properties at the date of reclassification. The difference between the carrying value and fair value of the properties at the date of reclassification is recognised directly in other comprehensive income as a revaluation surplus. Owner-occupied property is derecognised at disposal date or at the date when it is permanently withdrawn from use without the ability to be disposed of. The difference between the carrying amount at the date of derecognition and any disposal proceeds, as applicable, is recognised in the statement of comprehensive income.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 2. Owner-occupied properties (continued)

R million	2017	2016
Balance at beginning of the year	1 171	1 329
Additions and expenditure capitalised	14	1
Transfer to non-current assets held for sale	(217)	-
Transfer from/(to) investment properties	13	(81)
Foreign currency translation differences	(9)	(64)
Depreciation	(9)	(14)
Balance at end of the year	963	1 171

## 3. Intangible assets arising on acquisition

### 3.1 Goodwill

Goodwill arises on the acquisition of a subsidiary or the acquisition of a business. It represents the excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets of the subsidiary or business at the date of acquisition. Goodwill is not amortised. The gain or loss on the disposal of a subsidiary or business includes the carrying amount of goodwill attributable to the entity or business sold.

Goodwill is not recognised when an interest in an existing subsidiary is increased. The difference between the cost of the acquisition and the minority interest acquired is accounted for directly in equity. When an interest in an existing subsidiary is decreased without a loss of control, the difference between the proceeds received and the share of the net assets disposed of, including an appropriate portion of the related goodwill, is accounted for directly in equity.

For impairment purposes, the carrying amount of goodwill is allocated to cash generating units at the lowest level of operational activity (business) to which it relates. The carrying amount of goodwill is reviewed bi-annually for indicators of impairment and written down where this is considered necessary. Impairment losses in respect of goodwill are recognised in the statement of comprehensive income and are not reversed. Where a number of related businesses acquired in the same business combination are allocated to different Group business divisions, the related goodwill is allocated to those cash generating units that expect to benefit from the synergies of the business combination. The recoverable amount of goodwill has been determined based on the various businesses' valuations, as included in Group Equity Value plus a multiple of life insurance value of new business (representing the total value in use for entities at embedded value), less the consolidated net asset value of the respective businesses. Refer to page 156 to 157 for an analysis of Group Equity Value as well as pages 176 to 178 for valuation assumptions used.

Goodwill in respect of associated companies and joint ventures is included in the carrying value of investments in associated companies and joint ventures. For impairment purposes each investment is tested for impairment individually and goodwill is not tested separately from the investment in associated companies and joint ventures, nor is any impairment allocated to any underlying assets.



### 3. Intangible assets arising on acquisition (continued)

#### 3.1 Goodwill (continued)

R million	2017	2016
Balance at beginning of the year	3 596	3 895
Gross carrying amount	4 043	4 250
Accumulated impairment	(447)	(355)
Acquired through business combinations	607	6
Impairments	(36)	(107)
Soras Group	-	(71)
Other	(36)	(36)
Disposals	-	(34)
Foreign currency translation differences	(9)	(164)
<b>Balance at end of the year</b>	<b>4 158</b>	<b>3 596</b>
Gross carrying amount	4 641	4 043
Accumulated impairment	(483)	(447)
<b>Allocation of goodwill</b>		
Life insurance	1 104	664
Sanlam Life and Pensions UK	356	356
MCIS Insurance	163	163
BrightRock Holdings	441	-
Other	144	145
Other Sanlam businesses	3 054	2 932
Goodwill held on Group level	1 198	1 198
Santam	763	771
Sanlam Investment Management	463	473
International: Investment Management	278	280
Sanlam Investments East Africa	111	-
Sanlam UK (excluding Sanlam Life and Pensions UK)	103	104
Other	138	106
<b>Balance at end of the year</b>	<b>4 158</b>	<b>3 596</b>

Goodwill acquired through business combinations relates mainly to the acquisitions of BrightRock Holdings and Sanlam Investments East Africa contributing R441 million and R111 million respectively.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 3. Intangible assets arising on acquisition (continued)

### 3.2 Value of business acquired

The value of insurance and investment management services contracts acquired (VOBA) in a business combination is recognised as an intangible asset. VOBA, at initial recognition, is equal to the discounted value, using a risk-adjusted discount rate, of the projected stream of future after-tax profit that is expected to flow from the book of business acquired, after allowing for the cost of capital supporting the business, as applicable. The valuation is based on the Group's actuarial and valuation principles as well as assumptions in respect of future premium income, fee income, investment return, policy benefits, costs, taxation, mortality, morbidity and surrenders, as appropriate.

VOBA is amortised on a straight-line basis over the expected life of the client relationships underlying the book of business acquired, currently 25 years for Sanlam Developing Markets, 15 years for Channel Life, Brackenhams Holdings and Sanlam Private Investments UK, 11 years for BrightRock Holdings and 10 years for MCIS Insurance, the major businesses to which value of business acquired relates. VOBA is tested for indicators of impairment on a bi-annual basis and written down for impairment where this is considered necessary. Where impairment events subsequently reverse, impairments are reversed up to a maximum of what the amortised cost would have been. VOBA is derecognised when the related contracts are terminated, settled or disposed of. For impairment testing purposes, the value of business acquired is allocated to cash-generating units at the lowest level of operational activity (business) to which it relates. The recoverable amount has been determined based on the various businesses' contribution to Group Equity Value, less the related net asset value. Refer to page 156 for an analysis of Group Equity Value. The gain or loss on the disposal of a subsidiary or business includes the carrying amount of VOBA attributable to the entity or business sold.

R million	2017	2016
Balance at beginning of the year	1 606	1 943
Foreign currency translation differences	(11)	(223)
Acquired through business combinations	657	150
Amortisation	(271)	(261)
Additions	-	9
Impairment	(5)	-
Disposals	(46)	(12)
<b>Balance at end of the year</b>	<b>1 930</b>	1 606
Gross carrying amount	3 795	3 195
Accumulated amortisation and impairment	(1 865)	(1 589)
<b>Allocation of value of business acquired</b>		
Sanlam UK	232	351
Sanlam Developing Markets	449	445
Sanlam Emerging Markets	606	494
Sanlam Investments : Brackenhams Holdings	139	150
BrightRock Holdings	374	-
Other	130	166
<b>Balance at end of the year</b>	<b>1 930</b>	1 606

VOBA acquired through business combinations relates mainly to the acquisition of BrightRock Holdings and Sanlam Investments East Africa, contributing R386 million and R198 million on a gross basis respectively.

#### 4. Other intangibles

Acquired intangible assets are recognised at cost on acquisition date. Subsequent to initial recognition, these assets are reflected at their depreciated cost prices less provisions for impairment in value, where appropriate. Amortisation is provided for on a straight-line basis, taking into account the residual value and estimated useful lives. The residual values, estimated useful lives of the assets and depreciation methods are reviewed at each statement of financial position date and adjusted, as appropriate. Other intangible assets are assessed for indicators of impairment on a bi-annual basis and written down for impairment where this is considered necessary. The recoverable amount has been determined based on the various businesses' contribution to Group Equity Value, less the related net asset value. Refer to page 156 for an analysis of Group Equity Value.

Costs associated with software development for internal use are capitalised if the completion of the software development is technically feasible, the Group has the intent and ability to complete the development and use the asset, the costs can be reliably measured and will generate future economic benefits.

No value is attributed to internally developed brands or similar rights. Costs incurred on these items are charged to the statement of comprehensive income in the period in which they are incurred.

R million	2017	2016
Balance at beginning of the year	575	487
Gross carrying amount	921	774
Accumulated impairment	(346)	(287)
Additions during the year	45	118
Acquired through business combinations	48	59
Impairments	-	(5)
Disposals	(65)	(1)
Amortisation	(82)	(65)
Foreign currency translation differences	(4)	(18)
<b>Balance at end of the year</b>	<b>517</b>	<b>575</b>
Gross carrying amount	949	921
Accumulated impairment	(432)	(346)

#### 5. Deferred acquisition costs

Incremental costs directly attributable to the acquisition of investment contracts with investment management services are capitalised to a deferred acquisition cost (DAC) asset if they are separately identifiable, can be measured reliably and it is probable that they will be recovered. DAC are amortised to the statement of comprehensive income over the term of the contracts as the related services are rendered and revenue recognised, which varies from year to year dependent on the outstanding term of the contracts in force. The DAC asset is tested for impairment bi-annually and written down when it is not expected to be fully recovered from future fee income.

R million	2017	2016
Balance at beginning of the year	3 597	3 463
Acquisition costs capitalised	678	636
Expensed for the year	(616)	(502)
<b>Balance at end of the year</b>	<b>3 659</b>	<b>3 597</b>

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 6. Long-term reinsurance assets

Contracts entered into with reinsurers under which the Group is compensated for losses on one or more long-term policy contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as long-term reinsurance contracts. The expected claims and benefits to which the Group is entitled under these contracts are recognised as assets. The Group assesses its long-term reinsurance assets for indicators of impairment bi-annually. If there is objective evidence that the reinsurance asset is impaired, the carrying amount is reduced to a recoverable amount, and the impairment loss is recognised in the statement of comprehensive income.

R million	2017	2016
<b>Balance at beginning of the year</b>	<b>958</b>	945
Movement in reinsurer's share of insurance liabilities	<b>105</b>	13
<b>Balance at end of year</b>	<b>1 063</b>	958
<b>Maturity analysis of long-term reinsurance assets</b>		
Due within one year	<b>44</b>	44
Due within two to five years	<b>146</b>	135
Due after more than five years	<b>769</b>	716
Open ended	<b>104</b>	63
<b>Total long-term reinsurance assets</b>	<b>1 063</b>	958

Amounts due from reinsurers in respect of claims incurred by the Group that are reinsured, are included in trade and other receivables (refer to note 10).

## 7. Investments

### 7.1 Properties

Investment properties comprise properties held to earn rental income and/or for capital appreciation. Investment properties are carried at fair value, less the cumulative straight-line rental adjustment (refer to the accounting policy for investment income). Valuations are carried out monthly by valuers who possess appropriate qualifications and extensive experience in property valuations. Changes in the fair value of investment properties are recognised in the statement of comprehensive income as investment surpluses.

When investment properties become owner-occupied, they are reclassified to owner-occupied properties at a deemed cost equal to the fair value of the investment properties at the date of reclassification. When owner-occupied properties become investment properties, they are reclassified to investment properties at a deemed cost equal to the fair value of the properties at the date of reclassification. The difference between the carrying value and fair value of the properties at the date of reclassification to investment properties is recognised in other comprehensive income as a revaluation surplus.

Investment properties are derecognised when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from their disposal.

## 7. Investments (continued)

### 7.1 Properties (continued)

R million	2017	2016
<b>Properties comprise:</b>		
Office buildings	3 664	3 161
Retail buildings	2 787	2 506
Industrial buildings	818	767
Undeveloped land	493	469
International properties (situated outside South Africa)	3 259	3 271
Other	484	490
<b>Total properties</b>	<b>11 505</b>	10 664
Less: straight-line rental adjustment	<b>(128)</b>	(179)
<b>Total investment properties</b>	<b>11 377</b>	10 485
<b>Reconciliation of carrying amount of properties</b>		
<b>Properties – balance at beginning of the year</b>	<b>10 664</b>	11 606
Additions	544	1 050
Disposals	<b>(501)</b>	(1 014)
Reclassified from/(to) disposal groups classified as held for sale (refer note 31)	551	(655)
Foreign currency translation differences	<b>(239)</b>	(961)
Investment surpluses	499	557
Transfers (to)/from owner-occupied properties	<b>(13)</b>	81
<b>Properties – balance at end of the year</b>	<b>11 505</b>	10 664
<b>Reconciliation of straight-line rental adjustment</b>		
<b>Straight-line rental adjustment – balance at beginning of the year</b>	<b>179</b>	215
Disposals	<b>(98)</b>	(16)
Reclassified from/(to) disposal groups classified as held for sale	24	(24)
Movement for the year included in the statement of comprehensive income	<b>23</b>	4
<b>Straight-line rental adjustment – balance at end of the year</b>	<b>128</b>	179
<b>Contractual future minimum lease payments receivable under non-cancellable operating leases:</b>		
Due within one year	744	693
Due within two to five years	1 772	1 941
Due after five years	404	432
<b>Future minimum lease payments</b>	<b>2 920</b>	3 066

# Notes to the **Group financial statements** (continued)

for the year ended 31 December 2017

## **7. Investments** (continued)

### **7.2 Equity-accounted investments**

#### **Associated companies**

An associated company is an entity, not being a subsidiary, in which the Sanlam Group has a long-term investment and over which it has the ability to exercise significant influence, being the ability to participate in the financial and operating policies of the entity without being able to jointly control or control those policies by virtue of a majority vote.

Investments in associated companies are recognised on the date significant influence is obtained and derecognised on the date significant influence is lost. Investments in associated companies, other than those investments, or portions thereof, held by investment-linked life insurance funds, are initially recognised at cost. The results of these associated companies after initial recognition are accounted for using the equity method of accounting, whereby the Group's share of associated companies' post-acquisition profit or loss is recognised in the Group statement of comprehensive income as equity-accounted earnings, and the Group's share of associated companies' other post-acquisition movement in equity reserves (other than those related to dividends) is recognised in reserves, with a corresponding adjustment to the carrying value of investments in associated companies. Net losses are only recognised to the extent of the net investment in an associated company, unless the Group has incurred obligations or made payments on behalf of the associated company. Equity-accounted earnings are based on accounting policies uniform to those of the Group. The carrying amount is reviewed bi-annually for indicators of impairment and written down where this is considered necessary. The carrying value of the investment in an associated company includes goodwill. Investments in associated companies, or portions thereof, held by investment-linked life insurance funds are treated as investments at fair value through profit or loss and are not equity-accounted.

#### **Joint ventures**

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The results of joint ventures, other than those held by investment-linked life insurance funds, are accounted for using the equity method of accounting, whereby the Group's share of the joint ventures' profit or loss is recognised in the Group statement of comprehensive income as equity-accounted earnings, and the Group's share of joint ventures' post-acquisition movement in reserves is recognised in reserves, with a corresponding adjustment to the carrying value of investments in joint ventures. Net losses are only recognised to the extent of the net investment in a joint venture, unless the Group has incurred obligations or made payments on behalf of the joint venture. Equity-accounted earnings are based on accounting policies uniform to those of the Group. The carrying value of the investment in a joint venture is reviewed bi-annually for indicators of impairment and written down where this is considered necessary. The carrying value of the investment in a joint venture includes goodwill.

Investments in joint ventures, or portions thereof, held by investment-linked life insurance funds are treated as investments at fair value through profit or loss and are not equity-accounted.

## 7. Investments (continued)

### 7.2 Equity-accounted investments (continued)

R million	Note	2017	2016
<b>Investments in associated companies</b>	7.2.3	<b>24 660</b>	19 705
Shriram Capital		6 056	5 680
Shriram Transport Finance Company		1 245	1 214
Shriram General Insurance		901	721
Shriram Life Insurance		450	453
Saham Finances <sup>(1)</sup>		9 544	4 810
Letshego		1 704	1 842
Capricorn Investment Holdings		1 159	1 020
Pacific & Orient		593	777
Afrocentric		868	753
Other associated companies		2 140	2 435
<b>Investments in joint ventures</b>	7.2.4	<b>1 816</b>	1 855
Sanlam Personal Loans		802	748
Speqtel Investment Holdings (Pty) Ltd		359	423
Other joint ventures		655	684
<b>Total equity-accounted investments</b>		<b>26 476</b>	21 560

<sup>(1)</sup> The Group acquired an additional 16,6% interest in Saham Finances during 2017 through a capital injection.

R million	2017	2016
<b>7.2.1 Equity-accounted earnings</b>		
Investments in associated companies		
Shriram Capital	580	562
Shriram Transport Finance Company	135	97
Shriram Life Insurance	29	9
Shriram General Insurance	154	29
Saham Finances	546	180
Letshego	226	220
Pacific & Orient	45	95
Capricorn Investment Holdings	254	106
Afrocentric	93	72
Other associated companies	389	443
Investments in joint ventures		
Sanlam Personal Loans	178	150
Other joint ventures	17	132
<b>Equity-accounted earnings</b>	<b>2 646</b>	2 095

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 7. Investments (continued)

### 7.2.2 Impairments of equity accounted investments

R million	2017	2016
	354	224
Letshego <sup>(1)</sup>	170	-
Soras Group	-	78
Pacific & Orient <sup>(2)</sup>	184	146

<sup>(1)</sup> Lower forecasted cash flows resulted in a lower GEV valuation and the recognition of an IFRS impairment charge as a result.

<sup>(2)</sup> Lack of progress in diversifying Pacific & Orient's product mix resulted in a lower GEV valuation and the recognition of an IFRS impairment charge as a result.

### 7.2.3 Details of material associated companies

R million	Shriram Capital <sup>(1)</sup>		Shriram Transport Finance Company <sup>(1)</sup>	
	2017	2016	2017	2016
Carrying value of interest – equity method	6 056	5 680	1 245	1 214
Fair value of interest – based on internal valuation	7 777	6 689	1 899	1 431
Fair value of interest – based on quoted prices for listed businesses	9 714	6 668	1 941	1 162
Effective interest in issued share capital – shareholders' fund <sup>(2)</sup>	26%	26%	3%	3%
Summarised financial information:				
Revenue	9 054	8 509	23 161	23 972
Post-tax profit from continuing operations	1 831	1 767	2 916	2 820
Other comprehensive income	71	-	-	-
<b>Total comprehensive income</b>	<b>1 902</b>	<b>1 767</b>	<b>2 916</b>	<b>2 820</b>
Assets and liabilities				
Non-current assets	37 799	35 578	104 591	95 829
Current assets	5 689	5 158	49 333	48 266
Non-current liabilities	(5 352)	(4 634)	(79 073)	(73 108)
Current liabilities	(13 465)	(13 306)	(49 898)	(48 986)
Net asset value	24 671	22 796	24 953	22 001
Non-controlling interest	9 366	8 554	-	-
Shareholders' fund	15 305	14 242	24 953	22 001
Calculated carrying value	5 640	5 248	744	656
Goodwill recognised in the carrying value of associate	416	432	501	558
<b>Carrying value</b>	<b>6 056</b>	<b>5 680</b>	<b>1 245</b>	<b>1 214</b>
Dividends received	45	33	16	14

<sup>(1)</sup> Shriram Capital has business operations (credit, life and general insurance) mainly in India. Earnings for 2017 have been accounted for the period 1 October 2016 to 30 September 2017. The Group also holds a 2,98% direct interest in Shriram Transport Finance Company (associated company of Shriram Capital).

<sup>(2)</sup> The effective interest of 26% relates to the holding in Shriram Capital through the Group's 36,85% interest in Shriram Financial Ventures (Chennai) Limited.



## 7. Investments (continued)

### 7.2.3 Details of material associated companies (continued)

R million	Shriram General Insurance <sup>(3)</sup>		Shriram Life Insurance <sup>(3)</sup>	
	2017	2016	2017	2016
Carrying value of interest – equity method	901	721	450	453
Fair value of interest – based on internal valuation	1 034	936	472	493
Interest in issued share capital – shareholders' fund	23%	23%	23%	23%
Summarised financial information:				
Revenue	3 638	909	1 368	364
Post-tax profit from continuing operations	672	126	54	39
Other comprehensive income	82	-	-	-
<b>Total comprehensive income</b>	<b>754</b>	126	<b>54</b>	39
Assets and liabilities				
Non-current assets	15 122	13 160	6 488	5 722
Current assets	690	614	525	517
Non-current liabilities	(10 325)	(9 538)	(5 314)	(4 589)
Current liabilities	(2 370)	(2 044)	(517)	(517)
Net asset value	3 117	2 192	1 182	1 133
Non-controlling interest	49	54	-	-
Shareholders' fund	3 068	2 138	1 182	1 133
Calculated carrying value	706	492	272	261
Recognition of hedge on acquisition	(34)	(34)	(10)	(10)
Goodwill recognised in the carrying value of associate	229	263	188	202
<b>Carrying value</b>	<b>901</b>	721	<b>450</b>	453

<sup>(3)</sup> The Group acquired a 23% interest in Shriram Life Insurance (direct) and Shriram General Insurance (direct) during the 2016 financial year.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 7. Investments (continued)

### 7.2.3 Details of material associated companies (continued)

R million	Saham Finances <sup>(4)</sup>		Letshego <sup>(5)</sup>	
	2017	2016	2017	2016
Carrying value of interest – equity method	9 544	4 810	1 704	1 842
Fair value of interest – based on internal valuation	10 167	5 385	1 704	2 039
Fair value of interest – based on quoted prices for listed businesses	9 123	4 881	1 348	1 668
Interest in issued share capital – shareholders' fund	47%	30%	26%	26%
Summarised financial information:				
Revenue	15 620	13 187	2 770	2 564
Post-tax profit from continuing operations	1 808	932	978	865
Other comprehensive income	(116)	401	-	(490)
<b>Total comprehensive income</b>	<b>1 692</b>	<b>1 333</b>	<b>978</b>	<b>375</b>
Assets and liabilities				
Non-current assets	37 091	36 174	599	466
Current assets	15 924	15 509	10 919	9 763
Non-current liabilities	(29 212)	(31 288)	(5 487)	(4 601)
Current liabilities	(9 851)	(10 398)	(407)	(440)
Net asset value	13 952	9 997	5 624	5 188
Non-controlling interest	3 458	3 567	401	251
Shareholders' fund	10 494	6 430	5 223	4 937
Calculated carrying value	4 893	1 929	1 373	1 297
Recognition of hedge on acquisition	(574)	(542)	-	-
Goodwill recognised in the carrying value of associate	5 225	3 423	331	545
<b>Carrying value</b>	<b>9 544</b>	<b>4 810</b>	<b>1 704</b>	<b>1 842</b>
Dividends received	18	-	101	118

<sup>(4)</sup> The Group acquired an additional 16,6% in the Saham Finances Group during 2017, increasing its effective stake to 46,6%. The Saham Group provides financial services (predominately general insurance) across various countries in Africa.

<sup>(5)</sup> The Group holds a 26,28% interest in Letshego, a listed retail credit business in Botswana.

## 7. Investments (continued)

### 7.2.3 Details of material associated companies (continued)

R million	Capricorn Investment Holdings <sup>(6)</sup>		Pacific & Orient <sup>(7)</sup>	
	2017	2016	2017	2016
Carrying value of interest – equity method	1 159	1 020	593	777
Fair value of interest – based on internal valuation	1 166	1 179	593	777
Fair value of interest – based on quoted prices for listed businesses	1 160	1 241	-	-
Interest in issued share capital – shareholders' fund	23%	23%	49%	49%
Summarised financial information:				
Revenue	1 586	3 758	844	1 092
Post-tax profit from continuing operations	1 110	887	45	189
Other comprehensive income	24	(39)	10	-
<b>Total comprehensive income</b>	<b>1 134</b>	<b>848</b>	<b>55</b>	<b>189</b>
Assets and liabilities				
Non-current assets	4 870	27 504	2 482	2 704
Current assets	623	12 058	385	323
Non-current liabilities	(501)	(6 434)	-	-
Current liabilities	(1)	(27 849)	(2 058)	(2 223)
Net asset value	4 991	5 279	809	804
Non-controlling interest	-	2 124	-	-
Shareholders' fund	4 991	3 155	809	804
Calculated carrying value	1 159	722	397	394
Goodwill recognised in the carrying value of associate	-	298	196	383
<b>Carrying value</b>	<b>1 159</b>	<b>1 020</b>	<b>593</b>	<b>777</b>
Dividends received	133	-	50	42

<sup>(6)</sup> The Group holds a 22,85% interest in Capricorn Investment Holdings, an investment company in Namibia. Capricorn Investment Holdings sold their controlling interest in Bank Windhoek during 2017. Other comprehensive income includes the profit realised on this disposal.

<sup>(7)</sup> The Group holds a 49% interest in Pacific & Orient Insurance Co. Berhad, a niche general insurance business in Malaysia.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 7. Investments (continued)

### 7.2.3 Details of material associated companies (continued)

R million	Afrocentric Health <sup>(8)</sup>	
	2017	2016
Carrying value of interest – equity method	868	753
Fair value of interest – based on internal valuation	1 094	859
Interest in issued share capital – shareholders' fund	29%	29%
Summarised financial information:		
Revenue	3 989	3 145
Post-tax profit from continuing operations	323	251
<b>Total comprehensive income</b>	<b>323</b>	<b>251</b>
Assets and liabilities		
Non-current assets	1 989	1 742
Current assets	825	918
Non-current liabilities	(125)	(11)
Current liabilities	(386)	(622)
Net asset value	2 303	2 027
Non-controlling interest	22	16
Shareholders' fund	2 281	2 011
Calculated carrying value	654	577
Goodwill recognised in the carrying value of associate	214	176
<b>Carrying value</b>	<b>868</b>	<b>753</b>
Dividends received	14	-

<sup>(8)</sup> The Group holds a 28,7% interest in ACT HealthCare Assets (Pty) Limited, a health administration and health risk management company.

#### Details of individually immaterial associated companies:

R million	2017	2016
Post-tax profit from continuing operations	389	399
<b>Total comprehensive income</b>	<b>389</b>	<b>399</b>

## 7. Investments (continued)

### 7.2.4 Details of material joint ventures

R million	Sanlam Personal Loans <sup>(1)</sup>	
	2017	2016
Carrying value of interest – equity method	802	748
Fair value of interest – based on internal valuation	1 228	1 161
Effective interest in issued share capital	70%	70%
Class A	70%	70%
<b>Summarised financial information:</b>		
Non-current assets	3 318	3 044
Current assets	1 260	1 234
Cash and cash equivalents	79	73
Other current assets	1 181	1 161
Non-current liabilities	(1 527)	(1 459)
Current liabilities	(1 885)	(1 732)
Trade and other payables	(29)	(46)
Short-term borrowings	(1 856)	(1 677)
Taxation payable	-	(9)
Net asset value attributable to class B shares	(20)	(19)
<b>Total Equity</b>	<b>1 146</b>	<b>1 068</b>
Calculated carrying value	802	748
Revenue	88	83
Interest income	1 047	992
Interest expense	(301)	(309)
Taxation	(115)	(83)
Admin expenses excluding depreciation	(463)	(470)
Post-tax profit from continuing operations	256	213
<b>Total comprehensive income</b>	<b>256</b>	<b>213</b>
<sup>(1)</sup> The Group holds a 70% interest in Sanlam Personal Loans, a jointly controlled entity in the personal loans business in South Africa.		
<b>Details of individually immaterial joint ventures:</b>		
Post-tax profit from continuing operations	17	132
<b>Total comprehensive income</b>	<b>17</b>	<b>132</b>

# Notes to the **Group financial statements** (continued)

for the year ended 31 December 2017

## 7. **Investments** (continued)

### 7.3 **Other investments**

#### **Other investments comprise:**

- Equities and similar securities (including non-trading derivatives);
- Interest-bearing investments;
- Structured transactions;
- Investment funds; and
- Cash, deposits and similar securities.

These investments are either classified as at fair value through profit or loss (measured at fair value), or as loans and receivables (measured at amortised cost), as described in the financial instruments accounting policy note. Loans of investment scrip are not treated as sales and purchases.

#### **Structured transactions**

Structured transactions include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, credit default swaps, currency, structured notes, collateralised securities, interest rate and equity options and other derivative financial instruments that are measured at fair value.

Fair values are obtained from quoted market prices. In the absence of quoted market prices the Group uses valuation techniques that incorporate factors that market participants would consider in setting the price and are consistent with accepted economic methodologies for pricing derivatives such as discounted cash flow models and option pricing models, as appropriate. The Group calibrates its valuation techniques against market transactions or any available observable market data. Day one gains or losses on structured transactions measured using these valuation techniques are recognised in the statement of comprehensive income to the extent that they arise from a technique that incorporates only variables based on observable market data and there has been a change in one of these variables (including time). If there has been no change in one of these variables, the gains or losses are deferred, and recognised in the statement of comprehensive income over the life of the instrument.

The Group does not separate embedded derivatives that meet the definition of an insurance contract or relate to investment contracts recognised at fair value.

Derivatives are used for trading purposes by Sanlam Capital Markets and for non-trading purposes by other Group businesses. The fair values related to trading derivatives are included in trade and other receivables and the fair values of non-trading derivatives are included in the structured transactions. Non-trading transactions are those which are held for accounting and economic hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions or cash flows as well as structures incorporated in the product design of policyholder products. Although the nature of these derivatives is non-trading from a management perspective, IAS 39 requires all derivatives to be classified as held for trading for accounting purposes.

#### **Cash, deposits and similar securities**

Cash, deposits and similar securities consist of cash at hand, call deposits at banks, negotiable certificates of deposit and other short-term highly liquid investments.

## 7. Investments (continued)

### 7.3 Other investments (continued)

#### 7.3.1 Equities

R million	2017	Restated 2016
<b>Equities and similar securities comprise:</b>		
Listed on the JSE – at market value	59 879	57 363
Unlisted – at directors' valuation	2 012	1 785
Offshore equity investments	17 474	12 369
Listed – at market value	16 782	11 741
Unlisted – at directors' valuation	692	628
Equities held by consolidated investment funds	121 730	111 727
<b>Total equities and similar securities</b>	<b>201 095</b>	183 244
Comparatives have been restated.		
Classification of equities and similar securities		
Designated as at fair value through profit or loss	201 055	183 198
Held for trading at fair value	40	46
<b>Total equities and similar securities</b>	<b>201 095</b>	183 244
%	2017	2016
<b>Spread of equities listed on the JSE by sector</b>		
Consumer services	29,8	23,9
Consumer goods	9,9	14,0
Financials	25,7	26,8
Basic materials	15,8	16,8
General industrials	5,9	6,9
Telecommunications	5,4	5,9
Healthcare	4,0	4,0
Information technology	0,5	0,2
Property	0,3	0,0
Other	2,7	1,5
	<b>100</b>	100

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 7. Investments (continued)

### 7.3.2 Investments other than equities and similar securities, equity-accounted investments and properties

R million	Designated as at fair value through profit or loss	Held for trading at fair value	Loans and receivables at amortised cost <sup>(1)</sup>	Total
<b>31 December 2017</b>				
Cash, deposits and similar securities	38 925	-	40	38 965
Structured transaction assets	13 262	2 119	-	15 381
Interest-bearing investments	184 009	-	1 354	185 363
Government interest-bearing investments	60 078	-	-	60 078
Corporate interest-bearing investments	111 934	-	-	111 934
Other interest-bearing investments	11 997	-	1 354	13 351
Investment funds	177 235	-	-	177 235
	413 431	2 119	1 394	416 944
<b>Structured transaction liabilities<sup>(2)</sup> – present value</b>	-	4 187	-	4187
<b>R million</b>				
<b>31 December 2016</b>				
Cash, deposits and similar securities	38 387	-	-	38 387
Structured transactions	13 615	380	-	13 995
Interest-bearing investments	169 583	-	1 001	170 584
Government interest-bearing investments	70 324	-	-	70 324
Corporate interest-bearing investments	92 731	-	-	92 731
Other interest-bearing investments	6 528	-	1 001	7 529
Investment funds	154 511	-	-	154 511
	376 096	380	1 001	377 477
<b>Structured transaction liabilities<sup>(2)</sup> – present value</b>	-	1 298	-	1 298

<sup>(1)</sup> The estimated fair value of investments valued at amortised cost amounts to R1 354 million (2016: R1 001 million). These are classified as level 3 instruments and the valuation is based on discounted cash flows.

<sup>(2)</sup> Due to the increase in value of the structured transaction liabilities, further disclosure has been provided in the current year along with the required comparatives.



## 7. Investments (continued)

### 7.3.2 Investments other than equities and similar securities, equity-accounted investments and properties (continued)

#### Maturity analysis:

R million	<1 year	1-5 years	>5 years	On demand	Total
<b>31 December 2017</b>					
<b>Interest-bearing investments</b>	<b>19 845</b>	<b>76 352</b>	<b>76 854</b>	<b>12 312</b>	<b>185 363</b>
Government interest-bearing investments	3 594	4 146	48 628	3 710	60 078
Corporate interest-bearing investments	14 483	65 480	24 377	7 594	111 934
Other interest-bearing investments	1 768	6 726	3 849	1 008	13 351
<b>Structured transaction assets</b>	<b>4 842</b>	<b>7 528</b>	<b>964</b>	<b>2 047</b>	<b>15 381</b>
<b>Investment funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>177 235</b>	<b>177 235</b>
<b>Cash, deposits and similar securities</b>	<b>22 854</b>	<b>12 130</b>	<b>2 753</b>	<b>1 228</b>	<b>38 965</b>
<b>Total</b>	<b>47 541</b>	<b>96 010</b>	<b>80 571</b>	<b>192 822</b>	<b>416 944</b>
<b>Structured transaction liabilities<sup>(2)</sup> – present value</b>	<b>3 458</b>	<b>539</b>	<b>190</b>	<b>-</b>	<b>4 187</b>
<b>Structured transaction liabilities<sup>(2)</sup> – undiscounted</b>	<b>3 468</b>	<b>797</b>	<b>1 316</b>	<b>-</b>	<b>5 581</b>

#### R million

#### 31 December 2016 Restated

<b>Interest-bearing investments</b>	18 306	60 640	80 632	11 006	170 584
Government interest-bearing investments	1 384	4 480	60 488	3 972	70 324
Corporate interest-bearing investments	16 298	53 253	17 179	6 001	92 731
Other interest-bearing investments	624	2 907	2 965	1 033	7 529
<b>Structured transactions</b>	<b>3 560</b>	<b>6 087</b>	<b>2 031</b>	<b>2 317</b>	<b>13 995</b>
<b>Investment funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>154 511</b>	<b>154 511</b>
<b>Cash, deposits and similar securities</b>	<b>23 792</b>	<b>12 241</b>	<b>243</b>	<b>2 111</b>	<b>38 387</b>
<b>Total</b>	<b>45 658</b>	<b>78 968</b>	<b>82 906</b>	<b>169 945</b>	<b>377 477</b>
<b>Structured transaction liabilities<sup>(2)</sup> – present value</b>	<b>509</b>	<b>481</b>	<b>208</b>	<b>-</b>	<b>1 198</b>
<b>Structured transaction liabilities<sup>(2)</sup> – undiscounted</b>	<b>620</b>	<b>764</b>	<b>609</b>	<b>-</b>	<b>1 993</b>

<sup>(1)</sup> The amount of change, during the period and cumulatively, in the fair value of the loans and receivables that is attributable to changes in the credit risk of the financial asset is determined as the change triggered by factors other than changes in benchmark interest rates. The impact of changes in credit risk for 2017 and 2016 was not material.

<sup>(2)</sup> Due to the increase in value of the structured transaction liabilities, further disclosure has been provided in the current year along with the required comparatives.

## 7.4 Investment return Investment income

Investment income includes interest, net rental income and dividend income received. Interest income is accounted for on a time proportionate basis that takes into account the effective yield on the asset and includes the income earned from interest margin business.

Rental income is recognised on an accrual basis, apart from operating leases that contain fixed escalation clauses, where it is recognised on a straight-line basis over the lease term. The difference between rental income on a straight-line and accrual basis is recognised as part of the carrying amount of properties in the statement of financial position.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 7. Investments (continued)

### 7.4 Investment return (continued)

#### Investment income (continued)

Dividend income is recognised once the last day for registration has passed. Capitalisation shares received in terms of a capitalisation issue from reserves, other than share premium or a reduction in share capital, are treated as dividend income.

#### Investment surpluses

Investment surpluses consist of net realised gains and losses on the sale of investments and net unrealised fair value gains and losses on the valuation of investments at fair value, excluding investments relating to capital market activities (refer financial services income policy note for presentation of gains and losses on capital market investments) Investment surpluses are recognised in the statement of comprehensive income on the date of sale or upon valuation to fair value.

R million	Note	2017	2016
<b>Investment income</b>			
Equities and similar securities		11 343	10 186
Interest-bearing, preference shares and similar securities		17 911	17 006
Properties		910	1 091
Rental income – excluding contingent rental		916	948
Contingent rental income		119	273
Rental related expenses		(125)	(130)
Income from margin business <sup>(1)</sup>		124	130
<b>Total investment income</b>		<b>30 288</b>	28 413
Interest income on financial assets not classified as at fair value through profit or loss		-	-
<b>Investment surpluses</b>			
Financial instruments designated as at fair value through profit or loss		31 843	6 964
Financial instruments classified as held-for-trading		(320)	1 595
Investment properties	7.1	499	557
Profit on disposal of subsidiaries, associated companies and operations <sup>(2)</sup>		1 401	34
<b>Total investment surpluses</b>		<b>33 423</b>	9 150
<b>Investment return includes:</b>			
Foreign exchange losses		(2 957)	(3 596)

<sup>(1)</sup> Refer to note 21 for finance cost incurred in respect of margin business.

<sup>(2)</sup> The majority of the profit on disposal of subsidiaries, associated companies and operations related to the sale of Enterprise Insurance Company.

### 7.5 Use of valuation techniques to determine fair value

Refer to note 32 for additional disclosures.

## 8. Taxation

### Deferred tax

Deferred tax is provided for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes using the liability method, except for:

- Temporary differences relating to investments in subsidiaries, associated companies and joint ventures where the Group controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Temporary differences arising from the initial recognition of assets or liabilities in transactions other than business combinations that at transaction date do not affect either accounting or taxable profit or loss.

The amount of deferred tax provided is based on the expected realisation or settlement of the deferred tax assets and liabilities using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets relating to unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Deferred tax balances are reflected at current values and have not been discounted.

### Normal tax

Current income tax is provided in respect of taxable income at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 8. Taxation (continued)

### 8.1 Deferred tax

R million	Income Tax	Capital Gains Tax
Reconciliation of the deferred tax balances:		
<b>Balance at 1 January 2016</b>	213	(2 025)
Temporary differences credited/(charged) to the statement of comprehensive income	1 507	(122)
Accruals and provisions	(19)	-
Tax losses and credits	1 554	-
Net unrealised investment surpluses on shareholders' fund	9	46
Net unrealised investment surpluses on policyholders' fund	(7)	(68)
Other temporary differences	(30)	(100)
Acquisition of subsidiaries	(17)	-
Foreign currency translation differences	35	54
Cash flow hedge	164	-
Disposal of subsidiaries	2	-
<b>Balance at 31 December 2016</b>	1 904	(2 093)
Temporary differences credited/(charged) to the statement of comprehensive income	<b>240</b>	<b>(246)</b>
Accruals and provisions	<b>48</b>	<b>-</b>
Tax losses and credits	<b>208</b>	<b>-</b>
Net unrealised investment surpluses on shareholders' fund	<b>92</b>	<b>(92)</b>
Net unrealised investment surpluses on policyholders' fund	<b>(10)</b>	<b>(128)</b>
Other temporary differences	<b>(98)</b>	<b>(26)</b>
Acquisition of subsidiaries	<b>(191)</b>	<b>-</b>
Foreign currency translation differences	<b>20</b>	<b>5</b>
Cash flow Hedge	<b>9</b>	<b>-</b>
<b>Balance at 31 December 2017</b>	<b>1 982</b>	<b>(2 334)</b>
<b>Analysis of deferred tax balances at 31 December 2017</b>	<b>1 982</b>	<b>(2 334)</b>
Accruals and provisions	<b>343</b>	<b>-</b>
Tax losses and credits	<b>1 897</b>	<b>-</b>
Unrealised gains/losses on shareholders' fund	<b>120</b>	<b>(1 097)</b>
Unrealised gains/losses on policyholders' fund	<b>(10)</b>	<b>(1 085)</b>
Acquisition of subsidiaries	<b>(202)</b>	<b>-</b>
Other temporary differences	<b>(166)</b>	<b>(152)</b>
<b>Analysis of deferred tax balances at 31 December 2016</b>	1 904	(2 093)
Accruals and provisions	293	-
Tax losses and credits	1 676	-
Unrealised gains/losses on shareholders' fund	33	(1 008)
Unrealised gains/losses on policyholders' fund	(1)	(957)
Other temporary differences	(97)	(128)
<b>R million</b>	<b>2017</b>	<b>2016</b>
Total deferred tax asset recognised	<b>2 083</b>	1 880
Total deferred tax liability recognised	<b>(2 435)</b>	(2 069)
<b>Total net deferred tax</b>	<b>(352)</b>	(189)

## 8. Taxation (continued)

### 8.2 Income tax

Analysis of income tax per category R million	Normal Income tax		Deferred tax		Total	
	2017	2016	2017	2016	2017	2016
RSA – current year	2 627	2 913	(257)	(1 525)	2 370	1 388
RSA – prior year	139	6	-	-	139	6
Dividends Tax – Policyholders	129	101	-	-	129	101
Foreign	623	572	17	18	640	590
Capital gains tax	818	819	246	122	1 064	941
<b>Tax expense</b>	<b>4 336</b>	<b>4 411</b>	<b>6</b>	<b>(1 385)</b>	<b>4 342</b>	<b>3 026</b>
Shareholders' fund					3 087	1 832
Policyholders' fund					1 255	1 194
<b>Tax expense</b>					<b>4 342</b>	<b>3 026</b>

In addition to income tax the following indirect taxes and levies were paid, which are included in the appropriate items:

Included in administration costs	357	320
Included elsewhere in profit for the year	118	103
<b>Total indirect taxes and levies</b>	<b>475</b>	<b>423</b>

Indirect taxes and levies include value-added tax and statutory levies payable to the Financial Services Board.

%	2017	2016
Standard rate of taxation	28,0	28,0
Adjusted for:		
Non-taxable income	(5,7)	(5,1)
Disallowable expenses	1,5	1,2
Previously unrecognisable assessed losses	-	(9,3)
Change in CGT inclusion rate	-	1,5
Investment surpluses	(1,0)	0,1
Foreign tax rate differential	(1,4)	(0,3)
Policyholders	5,5	6,4
Other fund transfers	(0,1)	(0,5)
Other	(0,2)	0,2
<b>Effective tax rate</b>	<b>26,6</b>	<b>22,2</b>

Non-taxable income relates primarily to equity-accounted earnings and dividend income. Disallowable expenses vary depending on the jurisdiction and include non-deductible impairments.

# Notes to the **Group financial statements** (continued)

for the year ended 31 December 2017

## 9. **General insurance technical provisions**

### **Outstanding claims**

Liabilities for outstanding claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions). The Group does not discount its liabilities for unpaid claims.

### **Unearned premiums**

General insurance premiums are recognised as financial services income proportionally over the period of coverage. The portion of premiums received on in-force contracts that relates to unexpired risks at the statement of financial position date is reported as an unearned premium liability.

### **General insurance technical assets**

The benefits to which the Group is entitled under its general reinsurance contracts are recognised as general insurance technical assets. These assets represent longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. In certain cases a reinsurance contract is entered into retrospectively to reinsure a notified claim under the Group's property insurance contracts. Where the premium due to the reinsurer differs from the liability established by the Group for the related claim, the difference is amortised over the estimated remaining settlement period. Commissions and other incremental acquisition costs related to securing new contracts and renewing existing contracts are capitalised to deferred acquisition cost assets and amortised to the statement of comprehensive income over the period in which the related premiums are earned. All other costs are recognised as expenses when incurred. The Group assesses its general insurance technical assets for impairment on a bi-annual basis. If there is objective evidence that an asset is impaired, the Group reduces the carrying amount of the asset to its recoverable amount and recognises the impairment loss in the statement of comprehensive income.

### **Salvage and subrogation reimbursements**

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (salvage). The Group may also have the right to pursue third parties for payment of some or all costs (subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property. Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

## 9. General insurance technical provisions (continued)

R million	2017	2016
General insurance technical provisions	18 668	14 557
Outstanding claims	11 005	9 288
Provision for unearned premiums	7 335	4 993
Deferred reinsurance acquisition revenue	328	276
<i>Less: General insurance technical assets</i>	6 400	5 022
Reinsurers' share of technical provisions		
Outstanding claims	4 416	3 259
Unearned premiums	1 430	1 282
Deferred acquisition cost	554	481
<b>Net general insurance technical provisions</b>	<b>12 268</b>	<b>9 535</b>

### Analysis of movement in general insurance technical provisions

R million	2017			2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Outstanding claims</b>						
Balance at beginning of the year	9 288	(3 259)	6 029	8 356	(2 562)	5 794
Cash paid for claims settled in the year	(18 986)	5 046	(13 940)	(16 277)	3 332	(12 945)
Increase in liabilities	20 260	(6 223)	14 037	17 209	(4 029)	13 180
Acquired through business combinations	603	(377)	226	-	-	-
Foreign currency translation differences	(160)	(6)	(166)	-	-	-
Other movements: transfer to cell owners	-	403	403	-	-	-
<b>Balance at end of the year</b>	<b>11 005</b>	<b>(4 416)</b>	<b>6 589</b>	9 288	(3 259)	6 029
<b>Unearned premiums</b>						
Balance at beginning of the year	4 993	(1 282)	3 711	4 885	(1 154)	3 731
Net increase/(release) in the period	684	(330)	354	108	(128)	(20)
Acquired through business combinations	1 698	(29)	1 669	-	-	-
Foreign currency translation differences	(40)	32	(8)	-	-	-
Other movements: transfer to cell owners	-	179	179	-	-	-
<b>Balance at end of the year</b>	<b>7 335</b>	<b>(1 430)</b>	<b>5 905</b>	4 993	(1 282)	3 711

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 10. Trade receivables and payables

### 10.1 Trade and other receivables

Trade and other receivables are measured at amortised cost, apart from trading account assets.

Trading account assets include equities and similar securities, interest-bearing instruments and derivative financial instruments relating to the trading transactions undertaken by the Group for market making, to service customer needs, for proprietary purposes, as well as any related economic hedging transactions. These transactions are marked-to-market (fair values) after initial recognition and any profits or losses arising are recognised in the statement of comprehensive income as financial services income. The fair values related to such contracts and commitments are determined on the same basis as described for non-trading instruments in the policy note for financial instruments and are reported on a gross basis in the statement of financial position as positive and negative replacement values to the extent that set-off is not required by IAS 32 – Financial Instruments: Disclosure and Presentation.

R million	2017	2016
Trading account	16 323	22 949
Accounts receivable	6 689	8 307
Premiums receivable	6 542	5 838
Accrued investment income	2 866	3 174
Amounts due from reinsurers	1 213	636
<b>Total trade and other receivables</b>	<b>33 633</b>	<b>40 904</b>
<b>Classification of trade and other receivables:</b>		
Held for trading at fair value	16 323	22 949
Loans and receivables at amortised cost	17 310	17 955
	<b>33 633</b>	<b>40 904</b>
<i>Trade and other receivables, excluding trading account, are receivable within one year. The estimated fair value of receivables at amortised cost approximate the carrying value. This valuation is based on a discounted cash flows and is classified as level 3.</i>		
<b>Maturity analysis of trading account – fair value</b>		
Due within one year	8 161	6 349
Due within two to five years	4 762	5 257
Due after five years	3 031	5 226
On demand	369	6 117
<b>Total trading account</b>	<b>16 323</b>	<b>22 949</b>
<b>Maturity analysis of trading account – undiscounted</b>		
Due within one year	9 760	8 779
Due within two to five years	5 086	6 883
Due after five years	5 535	8 958
On demand	369	6 117
<b>Total trading account</b>	<b>20 750</b>	<b>30 737</b>



## 10. Trade receivables and payables (continued)

### 10.2 Trade and other payables

Trade and other payables are measured at amortised cost, apart from trading account liabilities that are measured at fair value (refer to the description on the measurement of trading account assets in the accounting policy note for trade and other receivables, which also applies to trading account liabilities, adjusted for non-performance risk).

Life insurance policy claims recorded up to the last day of each financial period and claims incurred but not yet reported (IBNR) are included as part of trade and other payables (refer note 14.5).

R million	2017	2016
Trading account	22 994	22 998
Accounts payable	15 129	16 098
Policy benefits payable	4 560	4 082
Amounts due to reinsurers	2 075	1 863
Bank overdrafts	161	172
Claims incurred but not reported	1 547	1 380
Operating lease creditor	41	43
<b>Total trade and other payables</b>	<b>46 507</b>	46 636
<b>Classification of trade and other payables:</b>		
Held for trading at fair value	22 994	22 998
Other payables at amortised cost	21 925	22 215
Non-financial instruments	1 588	1 423
<b>Total trade and other payables</b>	<b>46 507</b>	46 636
<i>Trade and other payables, excluding trading account, are payable within one year. The estimated fair value of payables at amortised cost approximates fair value. The valuation is based on discounted cash flows and is classified as level 3.</i>		
<b>Maturity analysis of trading account - fair value</b>		
Due within one year	20 411	15 484
Due within two to five years	320	527
Due after five years	2 262	1 674
Open ended	1	5 313
<b>Total trading account</b>	<b>22 994</b>	22 998
<b>Maturity analysis of trading account - undiscounted</b>		
Due within one year	20 875	15 913
Due within two to five years	1 228	1 243
Due after five years	5 950	3 796
Open ended	1	5 313
<b>Total</b>	<b>28 054</b>	26 265

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 11. Share capital and premium

Share capital is classified as equity where the Group has no obligation to deliver cash or other assets to shareholders.

Incremental costs attributable to the issue or cancellation of equity instruments are recognised directly in equity, net of tax if applicable.

Shares held in Sanlam Limited by policyholder portfolios and subsidiary companies (treasury shares) are recognised as a deduction from equity on consolidation. The cost of treasury shares acquired is deducted from equity on date of acquisition. The consideration received on the disposal of treasury shares, net of incremental costs attributable to the disposal and tax, is also recognised directly in equity.

		2017	2016
<b>Authorised share capital</b>			
4 000 million ordinary shares of 1 cent each	R million	40,0	40,0
<b>Issued share capital: ordinary shares</b>			
Total shares in issue at end of the year <sup>(1)</sup>	million	2 166,5	2 166,5
Shares held by subsidiaries	million	(155,5)	(165,2)
<b>Balance at end of the year</b>	million	<b>2 011,0</b>	2 001,3
% of ordinary shares held by subsidiaries		7,2%	7,6%
<b>Nominal value and share premium</b>			
Nominal value of 1 cent per share	R million	21,7	21,7
Share premium	R million	0,7	0,7
<b>Total nominal value and share premium</b>	R million	<b>22,4</b>	22,4

Special resolutions by subsidiary companies since the date of the previous Directors' Report relate to approval of directors' remuneration, general authority to purchase shares, general authority to provide financial assistance in terms of section 44 of the Companies Act, and general authority to provide assistance to inter-related companies in terms of section 45 of the Companies Act.

<sup>(1)</sup> Refer to the Analysis of shareholders on page 97 of the Integrated Report for information on the distribution of shareholders (which has been audited)

## 11. Share capital and premium (continued)

	Shares 2017 000s	Shares 2016 000s
<b>Executive share incentive scheme<sup>(1)</sup></b>		
Total number of shares at beginning of the year	24 179	24 239
Unrestricted shares at beginning of the year	(454)	(809)
Restricted shares at beginning of the year	23 725	23 430
New restricted shares granted in terms of restricted share and deferred share plan schemes	6 788	8 610
Unconditional shares released, available for release, or taken up	(5 927)	(7 314)
Options and shares forfeited/transferred to new scheme	(2 035)	(1 001)
<b>Restricted shares at end of the year</b>	<b>22 551</b>	23 725
Unrestricted shares at end of the year <sup>(3)</sup>	603	454
<b>Total equity participation by employees</b>	<b>23 154</b>	24 179
	<b>2017</b>	<b>2016</b>
<b>Total equity participation by employees as a percentage of total issued ordinary shares</b>	<b>1,1%</b>	1,0%
<b>Approved maximum level of equity participation by employees (number of shares)</b>	<b>160 000</b>	160 000

<sup>(1)</sup> Refer Remuneration Report online for further details of the schemes.

<sup>(2)</sup> Refer to the Directors' report on page 5 where the directors' interests in contracts and interests of directors and officers in share capital and changes in directors are disclosed (which have been audited).

<sup>(3)</sup> 987 598 shares became unrestricted during 2017 (2016: 877 804) in respect of the Restricted Share Plan.

Details regarding the restricted shares outstanding on 31 December 2017 and the financial years during which they become unconditional, are as follows:

	Number of Shares 000s
<b>Unrestricted during year ending</b>	
31 December 2018	4 568
31 December 2019	4 886
31 December 2020	5 576
31 December 2021	5 668
31 December 2022	1 853
<b>Total unrestricted shares</b>	<b>22 551</b>

A total of 6,5 million (2016: 8,6 million) restricted shares were granted to staff and executive directors during 2017. The fair value of the grants on grant date, calculated in terms of IFRS 2, amounted to R374 million (2016: R463 million) and is expensed in the statement of comprehensive income over the vesting period of up to five years. The fair value is based on the Sanlam share price on grant date, adjusted for dividends not accruing to participants during the vesting period.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 12. Other reserves

### Non-distributable reserve

The reserve comprises the pre-acquisition reserve arising upon the demutualisation of Sanlam Life Insurance Limited and the regulatory non-distributable reserves of the Group's operations.

### Foreign currency translation reserve

The exchange differences arising on the translation of foreign operations to the presentation currency are transferred to the foreign currency translation reserve. On disposal of the net investment, the cumulative exchange differences relating to the operations disposed of are released to the statement of comprehensive income.

### Cash flow hedge reserve

Certain financial instruments are designated as hedging instruments of the exposures arising on certain highly probable forecast transactions (cash flow hedge). On designation of a hedged transaction, the Group documents the relationship between the hedging instruments and the hedged item, as well as its risk management objective and strategy for undertaking the hedge transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in the hedging transaction have been and will continue to be highly effective in offsetting changes in cash flows of the hedged item. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and accumulated in reserves in equity, while any ineffective portion is recognised immediately in profit or loss within investment surpluses (if applicable).

When the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the asset or liability. The deferred amounts are ultimately recognised in profit or loss when the related asset is impaired or sold.

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

### Consolidation reserve

A consolidation reserve is created for differences in the valuation bases of long-term policy liabilities and assets supporting those liabilities. Certain assets held in policyholder portfolios may be required to be measured on a basis inconsistent with that of the corresponding liabilities by IFRS. Similarly, deferred tax assets recognised in respect of assessed tax losses in policyholder funds increases the Group's net assets without a corresponding increase in policy liabilities. These create mismatches with a corresponding impact on the shareholders' fund. A separate reserve is created for these valuation differences owing to the fact that they represent accounting differences and not economic gains or losses for the shareholders' fund.

Valuation differences arise from the following investments which are accounted for as noted below for IFRS purposes, while for purposes of valuing the related policy liabilities these investments are valued at fair value:

- Investments in subsidiaries which are valued at net asset value plus goodwill;
- Investments in associated companies and joint ventures, which are recognised on an equity-accounted basis; and
- Investments in Sanlam Limited shares, which are regarded as treasury shares and deducted from equity on consolidation and consequently valued at zero.

In respect of the deferred tax, the reserve represents net assessed losses to the extent that assets are considered recognisable, and will be realised as the assessed tax losses are utilised.

## 12. Other reserves (continued)

R million	2017	2016
Non-distributable reserves	9 976	9 876
Pre-acquisition reserves upon demutualisation of Sanlam Life Insurance Limited	9 415	9 415
Regulatory reserves	561	461
Foreign currency translation reserve	(492)	552
Consolidation reserve	(400)	(525)
Policyholder fund investments in consolidated subsidiaries	(12)	(124)
Tax benefit in respect of the individual policyholders' tax fund (IPF) tax losses	1 200	1 259
Policyholder fund investment in Sanlam Limited shares	(1 588)	(1 660)
<b>Total reserves other than retained earnings</b>	<b>9 084</b>	<b>9 903</b>

The non-distributable reserve consists of the pre-acquisition reserve arising from the demutualisation of Sanlam Life Insurance Limited in 1998. The regulatory non-distributable reserve comprises mainly of the Group's Botswana as well as the Kenya operations.

## 13. Non-controlling interest

	2017 R million	2016 R million
Santam	2 943	2 748
Sanlam Developing Markets	-	50
Sanlam Emerging Markets	2 698	2 739
Botswana Insurance Holdings	1 506	1 528
MCIS Insurance	621	640
Sanlam Namibia Holdings	230	224
Other	341	347
Sanlam Personal Finance: BrightRock Holdings	233	-
Other	56	68
<b>Non-controlling shareholders' interest</b>	<b>5 930</b>	<b>5 605</b>
Non-controlling policyholders' interest	87	91
<b>Total non-controlling interest</b>	<b>6 017</b>	<b>5 696</b>

For additional financial information for subsidiaries with significant non-controlling interest refer to page 158.

# Notes to the **Group financial statements** (continued)

for the year ended 31 December 2017

## 14. Long-term policy liabilities

A contract is classified as insurance where Sanlam accepts significant insurance risk by agreeing with the policyholder to pay benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary. Significant insurance risk exists where it is expected that for the duration of the policy or part thereof, policy benefits payable on the occurrence of the insured event will significantly exceed the amount payable on early termination, before allowance for expense deductions at early termination. Once a contract has been classified as an insurance contract, the classification remains unchanged for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Policy contracts not classified as insurance contracts are classified as investment contracts and comprise the following categories:

- Investment contracts with DPF;
- Investment contracts with investment management services; and
- Other investment contracts.

An investment contract with DPF entitles the policyholder to receive benefits or bonuses in addition to guaranteed benefits. These additional benefits have the following features:

- The benefits constitute a significant portion of each policy's total benefits;
- The timing and amount of the benefits are at the discretion of the Sanlam Group, which has to be exercised in a reasonable way; and
- The benefits are based on the investment performance of a specified pool of underlying assets.

All investment contracts that fall within the scope of IAS 39 (i.e. all investment contracts without DPF) are designated as at fair value through profit or loss.

Premium income from long-term insurance and investment policy contracts is recognised as an increase in long-term policy liabilities. The full annual premiums on individual insurance and investment policy contracts that are receivable in terms of the policy contracts are accounted for on policy anniversary dates, notwithstanding that premiums are payable in instalments. The monthly premiums in respect of certain new products are in terms of their policy contracts accounted for when due. Cover only commences when premiums are received. Group life insurance and investment contract premiums are accounted for when receivable. Where premiums are not determined in advance, they are accounted for upon receipt. The unearned portion of accrued premiums is included within long-term policy liabilities.

## 14. Long-term policy liabilities (continued)

### 14.1 Analysis of movement in policy liabilities

R million	2017			2016		
	Total	Insurance contracts	Investment contracts	Total	Insurance contracts	Investment contracts
<b>Income</b>	<b>130 485</b>	<b>46 017</b>	<b>84 468</b>	104 268	41 552	62 716
Premium income (note 14.3)	80 395	28 516	51 879	75 263	25 751	49 512
Investment return after tax (note 14.5)	50 090	17 501	32 589	29 005	15 801	13 204
<b>Outflow</b>	<b>(90 383)</b>	<b>(44 485)</b>	<b>(45 898)</b>	(83 364)	(42 906)	(40 458)
Policy benefits (note 14.4)	(55 927)	(20 284)	(35 643)	(52 306)	(21 058)	(31 248)
Retirement fund terminations	(5 748)	-	(5 748)	(4 802)	-	(4 802)
Fees, risk premiums and other payments to shareholders' fund	(28 708)	(24 201)	(4 507)	(26 256)	(21 848)	(4 408)
<b>Movement in policy loans</b>	<b>6</b>	<b>108</b>	<b>(102)</b>	(89)	13	(102)
<b>Net movement for the year</b>	<b>40 108</b>	<b>1 640</b>	<b>38 468</b>	20 815	(1 341)	22 156
Liabilities acquired through business combinations	1 736	111	1 625	-	-	-
Foreign currency translation differences	(1 151)	(558)	(593)	(17 977)	(4 956)	(13 021)
Balance at beginning of the year	483 748	177 675	306 073	480 910	183 972	296 938
<b>Balance at end of the year</b>	<b>524 441</b>	<b>178 868</b>	<b>345 573</b>	483 748	177 675	306 073

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 14. Long-term policy liabilities (continued)

### 14.2 Composition of policy liabilities

R million	2017	2016
<b>Individual business</b>	<b>428 548</b>	396 945
Linked and market-related liabilities	313 536	282 459
Smoothed bonus business	53 561	55 785
Guaranteed business	8 509	7 782
Annuities – guaranteed	33 442	32 407
Annuities – participating	2 045	2 010
Non-participating risk business	12 925	12 713
Other non-participating liabilities	4 530	3 789
<b>Employee benefits business</b>	<b>95 893</b>	86 803
Linked and market-related liabilities	47 320	40 806
Smoothed bonus business	17 252	15 791
Guaranteed business	173	202
Annuities – guaranteed	17 796	16 572
Annuities – participating	6 807	7 030
Non-participating risk business	6 545	6 186
Other non-participating liabilities	-	216
<b>Total policy liabilities</b>	<b>524 441</b>	483 748

### 14.3 Analysis of premium income

<b>Individual business</b>	<b>60 134</b>	57 427
Recurring	27 035	25 021
Single	30 349	29 715
Continuations	2 750	2 691
<b>Employee benefits business</b>	<b>20 261</b>	17 836
Recurring	11 066	9 845
Single	9 195	7 991
<b>Total premium income</b>	<b>80 395</b>	75 263



## 14. Long-term policy liabilities (continued)

### 14.4 Analysis of long-term policy benefits

R million	2017	2016
<b>Individual business</b>	<b>47 040</b>	44 211
Maturity benefits	22 936	21 906
Surrenders	10 325	10 009
Life and term annuities	10 347	9 318
Death and disability benefits <sup>(1)</sup>	3 160	2 786
Cash bonuses <sup>(1)</sup>	272	192
<b>Employee benefits business</b>	<b>8 887</b>	8 095
Withdrawal benefits	4 146	3 614
Pensions	2 115	2 019
Lump-sum retirement benefits	1 672	1 719
Death and disability benefits <sup>(1)</sup>	943	736
Taxation paid on behalf of certain retirement funds	11	7
<b>Total long-term policy benefits</b>	<b>55 927</b>	52 306

<sup>(1)</sup> Excludes death and disability benefits and cash bonuses underwritten by the shareholders (refer to note 14.5).

### 14.5 Long-term insurance and investment contract benefits

#### Underwriting benefits

Life insurance policy claims received up to the last day of each financial period and claims incurred but not reported (IBNR) are provided for and included in underwriting policy benefits. Past claims experience is used as the basis for determining the extent of the IBNR claims.

Provision is made for underwriting losses that may arise from unexpired general insurance risks when it is anticipated that unearned premiums will be insufficient to cover future claims.

Income from reinsurance policies is recognised concurrently with the recognition of the related policy benefit.

#### Other policy benefits

Other policy benefits are not recognised in the Group statement of comprehensive income but reflected as a reduction in long-term policy liabilities (refer note 14.4).

Maturity and annuity payments are recognised when due. Surrenders are recognised at the earlier of payment date or the date on which the policy ceases to be included in long-term policy liabilities.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 14. Long-term policy liabilities (continued)

### 14.5 Long-term insurance and investment contract benefits (continued)

R million	2017	2016
<b>Insurance contracts</b>		
Underwriting policy benefits	9 362	8 342
After tax investment return attributable to insurance contract liabilities (note 14.1)	17 501	15 801
<b>Total long-term insurance contract benefits</b>	<b>26 863</b>	<b>24 143</b>
<b>Investment contracts</b>		
After tax investment return attributable to investment contract liabilities (note 14.1)	32 589	13 204
<b>Total long-term investment contract benefits</b>	<b>32 589</b>	<b>13 204</b>
<b>Analysis of underwriting policy benefits</b>		
Individual insurance	5 691	5 155
Employee benefits	3 671	3 187
<b>Total underwriting policy benefits</b>	<b>9 362</b>	<b>8 342</b>

### 14.6 Maturity analysis of investment policy contracts

R million	< 1 year	1 - 5 years	> 5 years	Open ended	Total
<b>2017</b>					
Linked and market-related liabilities	11 044	39 285	72 178	195 781	318 288
Smoothed bonus business	124	117	328	17 542	18 111
Guaranteed business	571	7 872	4	174	8 621
Annuities - guaranteed	54	101	14	144	313
Non-participating risk business	1	-	-	32	33
Other non-participating liabilities	-	-	-	207	207
<b>Total investment policies</b>	<b>11 794</b>	<b>47 375</b>	<b>72 524</b>	<b>213 880</b>	<b>345 573</b>
<b>2016</b>					
Linked and market-related liabilities	7 627	35 448	88 349	149 627	281 051
Smoothed bonus business	110	100	332	16 090	16 632
Guaranteed business	894	6 828	7	206	7 935
Annuities - guaranteed	51	96	13	67	227
Non-participating risk business	-	-	-	32	32
Other non-participating liabilities	-	-	-	196	196
<b>Total investment policies</b>	<b>8 682</b>	<b>42 472</b>	<b>88 701</b>	<b>166 218</b>	<b>306 073</b>

Investment policy contracts are classified as at fair value through profit or loss. Refer to note 34 for additional fair value disclosures.

## 14. Long-term policy liabilities (continued)

### 14.7 Maturity analysis of insurance policy contracts

R million	< 1 year	1 - 5 years	> 5 years	Open ended	Total
<b>2017</b>					
Linked and market-related liabilities	2 779	10 404	23 242	6 145	42 570
Smoothed bonus business	4 713	15 795	26 347	5 847	52 702
Guaranteed business	35	21	1	6	63
Annuities – guaranteed	108	354	9 654	40 808	50 924
Annuities – participating	3	-	1 614	7 234	8 851
Non-participating risk business	401	1 235	4 448	13 350	19 434
Other non-participating liabilities	207	-	-	4 117	4 324
<b>Total insurance policies</b>	<b>8 246</b>	<b>27 809</b>	<b>65 306</b>	<b>77 507</b>	<b>178 868</b>
<b>2016</b>					
Linked and market-related liabilities	3 244	10 213	23 008	5 749	42 214
Smoothed bonus business	4 641	15 436	30 677	4 190	54 944
Guaranteed business	5	24	20	-	49
Annuities – guaranteed	107	350	630	47 666	48 753
Annuities – participating	1	-	1 457	7 582	9 040
Non-participating risk business	464	1 404	3 901	13 097	18 866
Other non-participating liabilities	326	-	-	3 483	3 809
<b>Total insurance policies</b>	<b>8 788</b>	<b>27 427</b>	<b>59 693</b>	<b>81 767</b>	<b>177 675</b>
<b>R million</b>				<b>2017</b>	<b>2016</b>
<b>14.8 Policy liabilities include the following:</b>					
Provision for HIV/Aids and other pandemics				3 259	3 120
Asset mismatch reserve				3 827	3 680

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 15. Term finance

### Term financial liabilities include:

- Liabilities incurred as part of interest margin business and matched by specific financial assets measured at amortised cost
- Other term finance liabilities measured at stock exchange prices or amortised cost as applicable

Preference shares issued by the Group that are redeemable or subject to fixed dividend payment terms are classified as term finance liabilities. Dividends paid in respect of term finance are recognised in the statement of comprehensive income as a finance cost.

R million	2017	2016
<b>15.1 Term finance comprises:</b>		
Interest-bearing liabilities held in respect of margin business	1 918	1 652
Other interest-bearing liabilities	4 508	4 814
	<b>6 426</b>	6 466
<b>Interest-bearing liabilities held in respect of margin business</b>		
Redeemable cumulative non-voting preference shares issued by subsidiary companies, with dividend terms that range between 6,4% and 6,9% (2016: 6,0% and 6,8%) or linked to prime interest rates. The preference shares have different redemption dates up to 2020.	1 918	1 652
<b>Other interest-bearing liabilities</b>		
Unsecured subordinated bond, with interest payable at 8,70% and a final maturity date of 15 August 2023. The bond has a redemption call option at its nominal value of R1 160 million, which the Group can exercise on 15 August 2018.	1 163	1 147
Unsecured subordinated bond, with interest payable at 9,27% and a final maturity date of 15 August 2026. The bond has a redemption call option at its nominal value of R1 000 million, which the Group can exercise on 15 August 2021.	1 003	1 000
Unsecured subordinated notes, which include both notes that pay interest at a floating and a fixed rate of interest, with interest payable between 8,6% and 11,77% for both types of notes. Fixed interest rate notes have a redemption call option at their nominal value of R1 500 million with a maturity date of 12 April 2028. The group has exercised their call option of R1 000 million of the fixed interest rate notes on 15 September 2017 and the remainder of the fixed rate notes have an optional redemption date on 12 April 2023. The unsecured unsubordinated notes that pay interest at a floating rate of interest have a final maturity date of 12 April 2028. These notes have a redemption call option at their nominal value of R500 million which the Group can exercise on 13 April 2023. Additional floating rate notes were issued at an effective interest rate representing the three-month JIBAR plus 210 basis points. Such notes have an optional redemption date on 27 June 2022 and a final maturity date on 27 June 2027.	2 056	2 054
Mortgage bonds over properties held in unit-linked policyholder funds. The mortgage over each property is negotiated separately, varies in term from 5 to 20 years, with interest rates linked at a premium between 1,5% and 4% above the Bank of England base rate.	174	285
Redeemable non-voting preference shares issued by subsidiary company; redeemed during 2017.	-	201
Other	112	127
	<b>4 508</b>	4 814

## 15. Term finance (continued)

### 15.2 Reconciliation of term finance (including interest accrued)<sup>(1)</sup>

R million	2017	2016
<b>Balance at 1 January 2017</b>	<b>6 744</b>	
Cash movements	(832)	
New issuances	1 388	
Capital repayment	(1 352)	
Interest paid	(868)	
Non-cash movements	748	
Net fair value movements	(26)	
Interest expense	824	
Foreign currency translation differences	(50)	
<b>Balance at 31 December 2017 (including interest accruals)</b>	<b>6 660</b>	
Balance comprises		
Term Finance	6 426	
Accrued interest (included in trade and other payables)	234	

<sup>(1)</sup> Comparative information not required in terms of IFRS.

### 15.3 Maturity analysis of term finance - present value

Due within one year	703	1 491
Due within two to five years	1 834	2 016
Due after more than five years	3 889	2 959
<b>Total term finance liabilities</b>	<b>6 426</b>	<b>6 466</b>
Maturity analysis of term finance - undiscounted		
Due within one year	921	1 669
Due within two to five years	2 587	2 487
Due after more than five years	5 709	4 635
<b>Total term finance liabilities</b>	<b>9 217</b>	<b>8 791</b>

### 15.4 Classification of term finance

At fair value through profit or loss	15.4.1	4 300	4 501
Other financial liabilities	15.4.2	2 126	1 965
<b>Total term finance liabilities</b>		<b>6 426</b>	<b>6 466</b>

#### 15.4.1 Term finance classified as at fair value through profit or loss

Total designated as at fair value through profit or loss	4 300	4 501
Amount contractually payable at maturity	4 420	4 539

#### 15.4.2 Term finance classified as other financial liabilities

Estimated fair value of term finance liabilities measured at amortised cost	2 126	1 965
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# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 16. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the amounts that are expected to be paid to settle these obligations.

Details of the different classes of provisions are as follows:

R million	Possible claims	Other	Total
<b>Balance at 1 January 2016</b>	130	189	319
Charged to the statement of comprehensive income	44	32	76
Additional provisions	44	37	81
Unused amounts reversed	-	(5)	(5)
Utilised during the year	-	(63)	(63)
<b>Balance at 31 December 2016</b>	174	158	332
Charged to the statement of comprehensive income	<b>(1)</b>	<b>94</b>	<b>93</b>
Additional provisions	-	<b>97</b>	<b>97</b>
Unused amounts reversed	<b>(1)</b>	<b>(3)</b>	<b>(4)</b>
Utilised during the year	<b>(44)</b>	<b>(48)</b>	<b>(92)</b>
<b>Balance at 31 December 2017</b>	<b>129</b>	<b>204</b>	<b>333</b>
Current	<b>6</b>	<b>119</b>	<b>125</b>
Non-current	<b>123</b>	<b>85</b>	<b>208</b>

### Possible claims

The Group provides for possible claims that may arise as a result of past events, transactions or investments. Due to the nature of the provision, the timing of the expected cash outflows is uncertain.

Estimates are reviewed annually and adjusted as appropriate for new circumstances.

Additional information in respect of these claims cannot be provided, due to the potential prejudice that such disclosure may confer on the Group.

### Other

Includes sundry provisions for probable outflows of resources from the Group arising from past events. The timing of settlement cannot reasonably be determined.

## 17. Financial services income

Financial services income is considered to be revenue for IFRS purposes and includes:

- Income earned from long-term insurance activities, such as investment and administration fees, risk underwriting charges and asset mismatch profits or losses in respect of non-participating business;
- Income from general insurance business, such as general insurance premiums;
- Income from investment management activities, such as fund management fees and collective investment and linked-product administration fees;
- Income from capital market activities, such as realised and unrealised gains or losses on trading accounts, unsecured corporate bonds and money market assets and liabilities, other securities-related income and fees, and commissions; and
- Income from other financial services, such as independent financial advice and trust services.

**Fees for investment management services** in respect of investment contracts are recognised as services are rendered. Initial fees that relate to the future rendering of services are deferred and recognised as those future services are rendered.

Investment and insurance contract policyholders are charged for policy administration, risk underwriting and other services. The **long-term policy contract fee income** is recognised as revenue on an accrual basis as the related services are rendered.

**General insurance premiums** are accounted for when receivable, net after a provision for unearned premiums relating to risk periods that extend to the following year. Inward general reinsurance agreement premiums are accounted for on an intimated basis.

**Consulting fees** are earned for advice and other services provided to clients of the Group's financial advisory businesses. Fees are accounted for on an accrual basis as the related services are rendered.

R million	2017	2016
<b>Analysis per revenue source</b>		
Long-term insurance	28 620	26 311
General insurance	29 811	26 348
Other financial services	5 499	5 530
<b>Total financial services income</b>	<b>63 930</b>	58 189
<b>Analysis per revenue category</b>		
Long-term insurance fee income	28 620	26 311
Investment management fees	591	746
Risk benefit charges and other fee income*	28 029	25 565
General insurance premiums	29 811	26 348
Premiums receivable	30 508	26 541
Change in unearned premium provision	(697)	(193)
Other financial services fees and income	5 494	5 506
Trading profit	3	24
Foreign exchange gains	2	-
<b>Total financial services income</b>	<b>63 930</b>	58 189

\* Includes risk benefit charges, administration services and other fee income.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 18. Reinsurance premiums paid

R million	2017	2016
Long-term insurance	1 709	1 520
General insurance	7 837	6 106
Premiums payable	8 257	6 307
Change in unearned premium provision	(420)	(201)
<b>Total reinsurance premiums paid</b>	<b>9 546</b>	<b>7 626</b>

## 19. Reinsurance income

<b>Reinsurance commission received</b>		
Long-term insurance	30	25
General insurance	1 655	1 371
<b>Total reinsurance commission received</b>	<b>1 685</b>	<b>1 396</b>
<b>Reinsurance claims received</b>		
Long-term insurance	1 385	1 160
General insurance	6 526	4 281
<b>Total reinsurance claims received</b>	<b>7 911</b>	<b>5 441</b>

## 20. Expenses

**Sales remuneration** consists of commission payable to sales staff on long-term and short-term investment and insurance business and expenses directly related thereto, bonuses payable to sales staff and the Group's contribution to their retirement and medical aid funds. Commission is accounted for on all in-force policies in the financial period during which it is incurred.

The portion of sales remuneration that is directly attributable to the acquisition of long-term recurring premium investment policy contracts is capitalised to the deferred acquisition cost (DAC) asset and recognised over the period in which the related services are rendered and revenue recognised (refer to policy statement for DAC asset).

Acquisition cost for general insurance business is deferred over the period in which the related premiums are earned.

Sales remuneration recognised in the statement of comprehensive income includes the amortisation of deferred acquisition costs as well as sales remuneration incurred that is not directly attributable to the acquisition of long-term investment policy contracts or general insurance business.

**Administration costs** include, *inter alia*, indirect taxes such as VAT, property and administration expenses relating to owner-occupied property, property and investment expenses related to the management of the policyholders' investments, claims handling costs, product development and training costs.

**Leases** of assets, under which the lessor effectively retains all the risks and benefits of ownership, are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases, where the Group effectively assumes all the risks and benefits of ownership, are classified as finance leases. Finance leases are capitalised at inception at the lower of the present value of minimum lease payments and the fair value of the leased assets. The effective interest rate method is used to allocate lease payments between finance cost and the lease liability. The finance cost component is recognised as an expense in the statement of comprehensive income. Finance lease assets recognised are depreciated, where applicable, over the shorter of the assets' useful lives and the lease terms.



## 20. Expenses (continued)

The following **staff long-term incentive schemes** have been implemented in the Group and have unvested conditions at the reporting date:

### *Deferred Share Plan (DSP)*

The DSP was introduced in 2007. In terms of the DSP, Sanlam undertakes to deliver a fixed number of shares to selected employees on predetermined dates in the future, on condition that the employee is still in the employment of Sanlam on those dates. Vesting can occur in three tranches over a period starting three years from the grant date, subject to certain performance targets. The fair value of equity instruments granted is measured on grant date using an appropriate valuation model, which takes into account the market price on grant date and the fact that employees will not be entitled to dividends until the shares vest. The fair value on grant date is recognised in the statement of comprehensive income on a straight-line basis over the vesting period of the equity instruments, adjusted to reflect actual levels of vesting, with a corresponding increase in equity.

### *Restricted Share Plan*

The Restricted Share Plan was introduced in 2006. Selected key employees are granted fully paid-up shares at no consideration in terms of retention and performance agreements. Unconditional vesting can occur on predetermined dates subject to certain performance targets being met. The fair value of the equity instruments granted on the date of grant is recognised in the statement of comprehensive income on a straight-line basis over the vesting period, adjusted to reflect actual levels of vesting.

R million	2017	2016
<b>Directors' remuneration</b>		
Refer to Remuneration Report online for additional audited information on directors' remuneration.		
<b>Auditors' remuneration</b>		
Audit fees: statutory audit	158	124
Other services provided by:	19	26
Subsidiaries' own auditors	15	23
Other Group auditors	4	3
<b>Total auditors' remuneration</b>	<b>177</b>	150
<b>Depreciation</b>	<b>296</b>	280
<b>Operating leases</b>	<b>747</b>	704
Properties	502	474
Equipment	227	213
Other	18	17
<b>Consultancy fees</b>	<b>1 008</b>	836
<b>Technical, administrative and secretarial fees</b>	<b>847</b>	721
<b>Employee benefits</b>	<b>9 368</b>	8 840
Salaries and other short-term benefits	8 292	7 804
Pension costs – defined contribution plans	593	545
Pension costs – defined benefit plans	(17)	37
Share-based payments	376	362
Other long-term incentive schemes	124	92
<b>Number of employees</b>	<b>16 628</b>	15 856

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 21. Finance cost

R million	2017	2016
Finance costs are recognised as an expense in the statement of comprehensive income on an accrual basis.		
Interest paid and term finance cost in respect of margin business	134	106
<b>Finance cost - margin business</b>	<b>134</b>	106
Interest-bearing liabilities designated as at fair value through profit or loss	683	443
Interest-bearing liabilities held at amortised cost	7	17
<b>Finance cost - other</b>	<b>690</b>	460

## 22. Earnings per share

For basic earnings per share the weighted average number of ordinary shares is adjusted for the treasury shares held by subsidiaries, consolidated investment funds and policyholders. Basic earnings per share is calculated by dividing earnings by the adjusted weighted average number of shares in issue.

For diluted earnings per share the weighted average number of ordinary shares is adjusted for the shares not yet issued under the Sanlam Share Incentive Scheme and treasury shares held by subsidiaries, consolidated investment funds and policyholders. Diluted earnings per share is calculated by dividing earnings by the adjusted diluted weighted average number of shares in issue.

Cents	2017	2016
<b>Basic earnings per share:</b>		
Headline earnings	486,3	493,0
Profit attributable to shareholders' fund	544,4	481,1
<b>Diluted earnings per share:</b>		
Headline earnings	481,3	488,1
Profit attributable to shareholders' fund	538,8	476,4
<b>R million</b>	<b>2017</b>	<b>2016</b>
<b>Analysis of earnings:</b>		
Profit attributable to shareholders' fund	10 923	9 623
Less: Net profit on disposal of subsidiaries	(139)	(15)
Profit on disposal of subsidiaries	(207)	(18)
Tax on profit on disposal of subsidiaries	-	3
Non-controlling interest	68	-
Less: Net profit on disposal of associated companies	(1 196)	(16)
Profit on disposal of associated companies	(1 194)	(16)
Tax on profit on disposal of associated companies	24	-
Non-controlling interest	(26)	-
Less: Equity-accounted non-headline earnings	(134)	3
Plus: Impairments	303	265
Gross Impairments	395	340
Tax on impairment	-	(11)
Non-controlling interest	(92)	(64)
Headline earnings	9 757	9 860

## 22. Earnings per share (continued)

Million	2017	2016
<b>Number of shares:</b>		
Number of ordinary shares in issue	2 166,5	2 166,5
Less: Weighted Sanlam shares held by subsidiaries and consolidated investment funds (including policyholders)	(160,0)	(166,3)
<b>Adjusted weighted average number of shares for basic earnings per share</b>	<b>2 006,5</b>	2 000,2
Add: Total number of shares in respect of Sanlam Limited long-term incentive schemes	20,8	19,9
<b>Adjusted weighted average number of shares for diluted earnings per share</b>	<b>2 027,3</b>	2 020,1

R million	2017	2016
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## 23. Collateral

### 23.1 Collateral provided

The following assets have been pledged as collateral for the Group's structured transactions, liabilities or contingent liabilities:

#### Investments

Properties	694	860
Interest-bearing investments	660	852
Cash, deposits and similar securities	413	-

#### Working capital assets

Trading account	2 209	1 095
Cash, deposits and similar securities	2 575	1 065

The transferee does not have the right to sell or repledge the assets.

### 23.2 Collateral received

The following collateral has been received in respect of securities lending activities conducted by the Group:

Fair value of collateral accepted as security for these activities	25 393	22 518
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Collateral of between 100% and 120% of the value of the loaned securities is held at 31 December 2017.

Fair value of the collateral held that the Group is permitted to sell or repledge in the absence of default

	3 448	3 376
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# Notes to the **Group financial statements** (continued)

for the year ended 31 December 2017

## **24. Critical accounting estimates and judgements**

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the amounts reported for the Group's assets and liabilities. Management applies judgement in determining best estimates of future experience. These judgements are based on historical experience and reasonable expectations of future events and changes in experience. Estimates and assumptions are regularly updated to reflect actual experience. It is reasonably possible that actual outcomes in future financial years may differ to the current assumptions and judgements, possibly significantly, which could require a material adjustment to the carrying amounts of the affected assets and liabilities.

The critical estimates and judgements made in applying the Group's accounting policies are summarised below. Given the correlation between assumptions, it is not possible to demonstrate the effect of changes in key assumptions while other assumptions remain unchanged. Further, in some instances the sensitivities are non-linear. Interdependencies between certain assumptions cannot be quantified and are accordingly not included in the sensitivity analyses; the primary example being the relationship between economic conditions and lapse, surrender and paid-up risk.

An important indicator of the accuracy of assumptions used by a life insurance company is the experience variances reflected in the embedded value earnings during a period. The experience variances reported by the Group to date have been reasonable compared to the embedded value of covered business, confirming the accuracy of assumptions used by the Group. Refer to the embedded value of covered business on page 164 of the online Integrated Report for additional information.

### **24.1 Impairment of goodwill and value of business acquired**

The recoverable amount of goodwill, value of business acquired and other intangible assets for impairment testing purposes has been determined based on the embedded value of life insurance businesses and the fair value of other businesses, as applicable, less the consolidated net asset value of the respective businesses. The embedded value (plus a value of new life insurance business multiple for goodwill) or fair value of a business therefore has a significant impact on whether an impairment of goodwill and/or value of business acquired is required. Refer to pages 176 to 178 of the online Integrated Report respectively for the main assumptions applied in determining the embedded value of covered business and the fair value of other Group businesses. Embedded value of covered business and fair value sensitivity analyses are provided on pages 174 to 175 and 178 of the online Integrated Report respectively.

### **24.2 Policy liabilities in respect of long-term insurance contracts and investment contracts other than those with investment management services**

This disclosure should be read in conjunction with the valuation methodology as described on pages 70 to 73.

The following process is followed to determine the valuation assumptions:

- Determine the best estimate for a particular assumption.
- Prescribed margins are then applied as required by the Long-term Insurance Act (LTIA) in South Africa and Board Notice 14 of 2010 issued in terms of the Act.
- Discretionary margins may be applied as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

The best estimate of future experience is determined as follows:

#### ***Investment return***

Future investment return assumptions are derived from market-related interest rates on fixed-interest securities with adjustments for the other asset classes. The appropriate asset composition of the various asset portfolios, investment management expenses, taxation at current tax rates and charges for investment guarantees are taken into account. Investment return information for the most important solutions are as follows:

%	Sanlam Life		Sanlam Developing Markets		Sanlam Life Namibia		Sanlam Life and Pensions UK	
	2017	2016	2017	2016	2017	2016	2017	2016
Reversionary bonus business								
Retirement annuity business	10,7	10,9	n/a	n/a	10,7	10,9	n/a	n/a
Individual policyholder business	8,8	9,1	6,7	7,1	10,1	10,2	n/a	n/a
Individual stable bonus business								
Retirement annuity business	10,4	10,6	8,7	9,3	10,4	10,6	n/a	n/a
Individual policyholder business	8,4	8,8	6,7	7,1	9,8	9,9	n/a	n/a
Non-taxable business	10,4	10,6	n/a	n/a	10,4	10,6	n/a	n/a
Corporate policyholder business	7,9	8,1	n/a	n/a	9,8	9,9	n/a	n/a
Individual market-related business								
Retirement annuity business	10,7	10,9	8,7	9,3	10,7	10,9	1,6	1,7
Individual policyholder business	8,8	9,1	6,7	7,1	10,1	10,2	1,3	1,3
Non-taxable business	10,7	10,9	n/a	n/a	10,7	10,9	n/a	n/a
Corporate policyholder business	8,2	8,4	n/a	n/a	10,1	10,2	n/a	n/a
Participating annuity business	8,9	9,1	n/a	n/a	8,7	8,9	n/a	n/a
Non-participating annuity business <sup>(1)</sup>	9,7	9,6	10,2	10,3	9,7	9,7	1,9	2,0
Guarantee plans <sup>(1)</sup>	4,4	7,5	4,4	4,8	n/a	n/a	n/a	n/a

<sup>(1)</sup> The calculation of policy liabilities is based on discount rates derived from the zero-coupon yield curve. This is the average rate that produces the same policy liabilities as calculated using the yield curve applied in the valuation.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 24. Critical accounting estimates and judgements (continued)

### *Future bonus rates for participating business*

Assumed future bonus rates are determined to be consistent with the valuation implicit rate assumptions.

### *Decrements*

Assumptions with regard to future mortality, disability and disability payment termination are consistent with the experience for the 4,5 years up to 30 June 2017. Mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of Aids and for expected improvements in mortality rates in the case of annuity business. Assumptions with regard to future surrender, lapse and paid-up rates are based on the experience for the 4,75 years ending 30 September 2017.

### *Expenses*

Unit expenses are based on 31 October 2017 actual figures plus estimates for the last two months of the year (adjusted for significant differences from actual) and escalated at estimated expense inflation rates per annum.

Refer to note 2 on page 174 of the online Integrated Report for a sensitivity analysis of the value of in-force covered business to the main valuation assumptions.

## 24.3 Policy liabilities for investment contracts with investment management services

The valuation of these contracts is linked to the fair value of the supporting assets and deviations from future investment return assumptions will therefore not have a material impact. The recoverability of the DAC asset is not significantly impacted by changes in lapse experience; if future lapse experience was to differ by 10% (2016: 10%) from management's estimates, no impairment of the DAC asset would be required.

## 24.4 The ultimate liability arising from claims under general insurance contracts

The estimation of the ultimate liability arising from claims under general insurance contracts is an important accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Group will ultimately incur.

The risk environment can change suddenly and unexpectedly owing to a wide range of events or influences. The Group is constantly refining its general insurance risk monitoring and management tools to enable the Group to assess risks appropriately, despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which the Group operates means that there are, however, natural limits. There will never be absolute certainty in respect of identifying risks at an early stage, measuring them sufficiently or correctly estimating their real hazard potential.

Refer to the Capital and Risk Management Report on page 15 for further information on the estimation of the claims liability.

## 24.5 Valuation of unlisted investments

The valuation of unlisted investments is based on generally accepted and applied investment techniques, but is subject to judgement in respect of the adjustments made by the Group to allow for perceived risks. The appropriateness of the valuations is continuously tested through the Group's approval framework, in terms of which the valuation of unlisted investments is reviewed and recommended for approval by the Audit, Actuarial and Finance Committee and Board by the Sanlam Non-listed Asset Controlling Body at each reporting period. Refer to note 32 for additional information.

## **24. Critical accounting estimates and judgements (continued)**

### **24.6 Consolidation of investment funds**

The Group invest in a number of investment funds and has varying holdings. In terms of IFRS 10, the Group considers itself to have control of a fund when it both owns the asset manager of the fund and holds greater than 20% thereof.

### **24.7 Cash flow hedging instruments**

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk, in this case the foreign currency and equity risk associated with a forecast transaction, and could affect profit or loss. For a forecast transaction, the key criterion for hedge accounting purposes is that the forecast transaction must be “highly probable”. Management has assessed the facts and circumstances relating to the proposed acquisition of the remaining interest of 53,4% in Saham Finances (to be announced on 8 March 2018), and concluded that the likelihood of the transaction not being concluded was remote. The expected effectiveness of the hedging relationship was also assessed and it is expected that the hedge would be effective throughout the hedging period. It was therefore concluded that hedge accounting can be applied. Refer to page 65 for more information on the hedging transactions.

### **24.8 Deferred tax assets**

In the prior year, changes to South African insurance tax legislation gave rise to a change in the probability and timing of utilisations of historic losses in certain tax funds. As a result, management determined that it is now probable that these losses will be utilised and therefore that a deferred tax asset should be raised. In determining the extent to which these losses should be recognised, management forecast future profits, including the impact of new business, where applicable, as well as other business decisions that may affect future profits. Changes in these assumptions, as well as decisions made by the Group in future may affect the extent to which these losses are utilised.

# Notes to the **Group financial statements** (continued)

for the year ended 31 December 2017

## **25. Retirement benefits for employees**

Retirement benefits for employees are provided by a number of defined-benefit and defined-contribution pension and provident funds. The assets of these funds, including those relating to any actuarial surpluses, are held separately from those of the Group. The retirement plans are funded by payments from employees and the relevant Group companies, taking into account the recommendations of the retirement fund valuator.

### **Defined-benefit plans**

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised immediately in other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements and net interest expense or income in net profit. When a fund is in a net surplus position, the value of any defined benefit asset recognised is restricted to the sum of any unrecognised past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

### **Defined-contribution plans**

Group contributions to the defined contribution funds are charged against the statement of comprehensive income in the year incurred.

The Sanlam Group provides for the retirement and medical benefits of full-time employees and for certain part-time employees by means of defined benefit and defined contribution pension and provident funds.

At 31 December 2017, 100% of employees were covered by defined contribution funds and none by defined benefit funds (2016: 100%).

### **25.1 Defined-contribution funds**

There are separate defined contribution funds for advisers, full-time and part-time office staff. The Sanlam group contributed R593 million to these funds during 2017 (2016: R545 million).

### **25.2 Defined-benefit pension funds**

The Sanlam Group has three defined-benefit pension funds. These funds relate to:

- Sanlam Office Personnel;
- Sanlam Investments and Pensions Office Personnel; and
- Sanlam Developing Markets defined benefit fund SA.

The majority of the Group's defined benefit obligation was made up of the Sanlam Office Personnel fund at the end of 2017. This fund does not have any active members, only pensioners.

In the second half of 2017, the trustees of the fund fully insured the pension obligations through a policy with Sanlam Life Insurance Limited. The value of the fund is R787 million, of which R762 million has been paid as a premium in terms of this insurance policy. The trustees also decided to replace the current insurance policy between the fund and Sanlam Life Insurance Limited with individual policies between the pensioners and Sanlam Life Insurance Limited, to be effected after year end.



## 25. Retirement benefits for employees (continued)

### 25.2 Defined-benefit pension funds (continued)

The remaining assets of R25 million in the fund will be used to augment the pensions payable in terms of the individual policies. Through this process the fund obligations towards the pensioners will be transferred to Sanlam Life Insurance Limited in terms of the relevant Pension Fund regulations. The fund will thereafter have no further obligations.

Boards of Trustees oversee the affairs of the other defined benefit funds as required by the relevant legislation. The responsibilities of the Trustees are defined in these regulations. Adequate allowance for future salary increases for active members and allowance for pension increases in line with the funds' pension increase policies are required to ensure that the funds are always financially sound.

Both the Sanlam Investments and Pensions as well as Sanlam Developing Markets SA funds were in materially sound positions at 31 December 2017.

Principal actuarial assumptions:	Sanlam	Sanlam
	Investments and Pensions	Developing Markets SA
<b>2017</b>	<b>31 Dec 2017</b>	<b>31 Dec 2017</b>
Valuation date		
Pre-retirement discount rate	% pa 2,4%	9,8%
Post-retirement discount rate	% pa 2,4%	4,6%
Future pension increases	% pa 3,1%	5,0%
<b>Actual experience:</b>		
Actual return on assets	% pa -0,8%	14,1%
<b>2016</b>	31 Dec 2016	31 Dec 2016
Valuation date		
Pre-retirement discount rate	% pa 2,6%	9,8%
Post-retirement discount rate	% pa 2,6%	4,6%
Future pension increases	% pa 3,1%	5,0%
<b>Actual experience:</b>		
Actual return on assets	% pa -0,7%	9,6%

Based on reasonable actuarial assumptions about future experience, the employers' contribution, as a fairly constant percentage of the remuneration of the members of the funds, should be sufficient to meet the promised benefits of the funds. The expected return on defined benefit fund assets is calculated based on the long-term asset mix of these funds. The fund assets are analysed into different classes such as equities, bonds and cash, and a separate expected return is calculated for each class. Current market information and research of future trends are used as the basis for calculating these expected returns.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 25. Retirement benefits for employees (continued)

### 25.2 Defined-benefit pension funds (continued)

R million	2017	2016	2015	2014	2013
<b>Net liability recognised in statement of financial position:</b>					
Present value of fund obligations	1 774	1 656	1 714	1 602	1 886
Actuarial value of fund assets	(1 779)	(1 721)	(1 800)	(1 932)	(2 234)
Net present value of funded obligations	(5)	(65)	(86)	(330)	(348)
Effect of limiting defined benefit asset to amount available to employer (asset ceiling)	5	65	86	186	348
<b>Net asset recognised in statement of financial position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(144)</b>	<b>-</b>

R million	Fund assets	Fund liabilities	Asset ceiling	Net asset/ (liability)
<b>2017</b>				
Balance at beginning of the year	1 721	(1 656)	(65)	-
Past service cost	-	(25)	-	(25)
Contributions				
Employer	20	-	-	20
Benefit payments	(106)	106	-	-
Interest income/(expense)	107	(103)	(4)	-
Actuarial gains and losses: change in financial assumptions	-	(81)	-	(81)
Returns from plan assets (excluding amounts included in interest)	73	-	-	73
Foreign exchange gains and (losses)	(10)	(15)	-	(25)
Effect of limiting defined benefit asset to amount available to employer	-	-	(4)	(4)
Other	(26)	-	68	42
<b>Balance at end of the year</b>	<b>1 779</b>	<b>(1 774)</b>	<b>(5)</b>	<b>-</b>

## 25. Retirement benefits for employees (continued)

### 25.2 Defined-benefit pension funds (continued)

R million	Fund assets	Fund liabilities	Asset ceiling	Net asset/ (liability)
<b>2016</b>				
Balance at beginning of the year	1 800	(1 714)	(86)	-
Past service cost	-	(13)	-	(13)
Contributions: employer	28	-	-	28
Benefit payments	(98)	98	-	-
Interest income/(expense)	105	(112)	(8)	(15)
Actuarial gains and losses: change in financial assumptions	-	(210)	-	(210)
Returns from plan assets (excluding amounts included in interest)	127	-	-	127
Foreign exchange losses	(232)	295	-	63
Effect of limiting defined benefit asset to amount available to employer	-	-	29	29
Other	(9)	-	-	(9)
<b>Balance at end of the year</b>	<b>1 721</b>	<b>(1 656)</b>	<b>(65)</b>	<b>-</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>R million</b>	<b>R million</b>	<b>%</b>	<b>%</b>
<b>Fund assets comprise:</b>				
Properties	-	10	-	1%
Equities and similar securities	424	623	24%	36%
Interest-bearing investments	559	862	31%	50%
Cash, deposits and similar securities	9	226	1%	13%
Insurance policy	787	-	44%	-
	<b>1 779</b>	1 721	<b>100%</b>	100%

The above value of fund assets includes an investment of Rnil (2016 :Rnil) in Sanlam Shares.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 25. Retirement benefits for employees (continued)

### 25.2 Defined-benefit pension funds (continued)

R million	2017	2016
<b>Net expense recognised in the statement of comprehensive income (included in administration costs):</b>		
Interest	-	15
Past service cost	25	13
Other	(42)	9
<b>Total included in staff costs</b>	<b>(17)</b>	37
<b>The following discounted benefits are expected payments to be made in future years out of the defined benefit plan:</b>		
< 1 year	(877)	(149)
1 - 5 years	(299)	(497)
> 5 years	(608)	(1 010)
<b>Total expected payments</b>	<b>(1 784)</b>	(1 656)

The table above includes information for all three funds. As explained before, there is a process whereby the Sanlam Office Personnel Fund will replace the current insurance policy between the fund and Sanlam Life Insurance Limited with individual policies between the pensioner and Sanlam Life Insurance Limited. This will be effected after year end and as a result the retirement benefit fund will come to an end.

### 25.3 Medical aid funds

The actuarially determined present value of medical aid obligations for disabled members and certain pensioners is fully provided for at year-end and is considered to be immaterial. The Group has no further unprovided post-retirement medical aid obligations for current or retired employees.

## 26. Borrowing powers

In terms of the memorandum of incorporation of Sanlam Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation.

Material borrowings of the Sanlam Group are disclosed in note 15.

## 27. Commitments and contingencies

Possible obligations of the Group, the existence of which will only be confirmed by the occurrences or non-occurrence of uncertain future events not wholly within the control of the Group and present obligations of the Group where it is not probable that an outflow or economic benefits will be required to settle the obligation or where the amount of the obligation cannot be measured reliably, are not recognised in the Group statement of financial position but are disclosed in the notes to the financial statements.

Possible assets of the Group, the existence of which will only be confirmed by the occurrence of non-occurrence of uncertain future events not wholly within the control of the Group, are not recognised in the Group statement of financial position and are only disclosed in the notes to the financial statements where an inflow of economic benefits is probable.

## 27.1 Operating leases

R million	2017	2016
Future operating lease commitments:		
Lease rentals due within one year	519	459
Lease rentals due within two to five years	1 315	894
Lease rentals due within more than five years	683	294
<b>Total operating lease commitments</b>	<b>2 517</b>	1 647

## 27.2 Guarantees provided in favour of Sanlam Capital Markets (SCM) and others

Sanlam has guaranteed obligations that may arise under SCM's unlisted commercial paper programme, as well as SCM's obligations arising from transactions with approved, specified counterparties through direct guarantees. The total limit for the unlisted commercial paper programme is R15 billion, but both these and the direct guarantees are subject to an overall R9 billion guarantee utilisation limit in terms of the Group governance processes (reduced to R7 billion in March 2018). At 31 December 2017 the utilisation of guarantees by SCM amounted to R6 billion (2016: R10,4 billion).

Sanlam has provided a performance guarantee facility to third parties in respect of the business operations of Letshego Holdings, which is subject to an overall limit of R500 million in terms of the Group's governance processes. No portion of the guarantee was utilised at 31 December 2017.

Security to 3rd parties in respect of the preference share business subject to and within the overall approved limit of R3,5 billion.

Sanlam has approved a guarantee facility, in March 2018 in respect of the distribution agreement between SPF and Capitec, which will be launched in 2018. The facility is subject to an internal limit of R500 million.

Sanlam has also issued letters of support, in the ordinary course of business, for the activities of certain subsidiaries in the Group.

## 27.3 Other

Financial claims are lodged against the Group from time to time. Provisions are recognised for claims based on best estimates of the expected outcome of the claims (refer to note 16). Given the high degree of uncertainty involved in determining the expected outcome, it is reasonably possible that outcomes in future financial years will be different to the current estimates.

Agreements were concluded whereby Sanlam Emerging Markets, a wholly owned subsidiary of Sanlam Life, will acquire the remaining 53,4% stake Saham Finances, a financial services provider (predominantly general insurance) across various countries in Africa. The total consideration is dependent on the effective date of the transaction and is expected to be a maximum of US\$1050 million should the effective date occur in the second half of 2018. Sanlam will fund the acquisition from a combination of a Sanlam Limited share issuance, debt and available discretionary capital.

There are no material commitments or contingencies that have not been provided for or fully disclosed, unless additional disclosures may potentially prejudice the legal arguments of the Group. For details in respect of the Saham Finances transaction, refer to page 65.

# Notes to the **Group financial statements** (continued)

for the year ended 31 December 2017

## **28. Related parties**

### **28.1 Major shareholders**

Sanlam Limited is the ultimate holding company in the Group.

By virtue of its relationship with Sanlam Limited, Ubuntu-Botho Investments is considered to be a related party to the Group. Apart from Ubuntu-Botho Investments' (UB) role as the Group's broad-based black economic empowerment partner and jointly pursuing investments in complimentary financial services businesses, the Group does not enter into transactions with UB in the normal course of business. During 2017, the Group provided preference share funding of R500 million to a Special Purpose Vehicle (SPV) co-owned by UB and the Sanlam Ubuntu-Botho Community Development Trust on arms' length terms. The preference shares are redeemable after 10 years, carry a dividend rate of 72,5% of the prime lending rate and are secured by Sanlam shares at a 1,5 times cover ratio. The preference shares will also participate in 10% of the net asset value of SPV at the time of redemption.

No other Sanlam shareholders have a significant holding and thus no other shareholder is a related party. The shares are widely held by public and non-public shareholders.

Details of transactions between the policyholders' and shareholders' funds of the Sanlam Group are disclosed in note 14.

The shareholder spread is presented on page 97.

### **28.2 Transactions with post-employment benefit plans**

Contributions to the post-employment benefit plans were R613 million in 2017 (2016: R573 million). There are no amounts outstanding at year-end.

The trustees of the Sanlam Office Personnel Fund insured the pension fund obligations through a policy with Sanlam Life Insurance Limited (refer to note 25).

### **28.3 Transactions with directors**

Remuneration is paid to directors in the form of fees to non-executive directors and remuneration to executive directors of the Company. All directors of Sanlam Limited have notified that they did not have a material interest in any contract of significance with the Company or any of its subsidiaries, which could have given rise to a conflict of interest during the year. Details relating to directors' emoluments are included in note 20 and their shareholdings and share participation in the Company are disclosed as part of the Remuneration Report online.

### **28.4 Transactions with entities in the Group**

During the year the Company and its subsidiaries, in the ordinary course of business, entered into various transactions with other Group companies, associated companies, joint ventures and other stakeholders.

The Group provides financing for the loans granted to Sanlam Personal Loans. Most of these loans earn interest of the asset swap rate plus a premium of between 1,48% and 2,75%, and will mature in tranches up to 30 December 2018 (refer to Capital and Risk Management Report).

### **28.5 Policy administration**

Certain companies in the Group carry out third party policy and other administration activities for other related parties in the Group. These transactions are entered into in the normal course of business.

## 28. Related parties (continued)

R million	2017	2016
<b>28.6 Key management personnel compensation</b>		
Compensation paid to the Group's key management personnel is as follows:		
Short-term employee benefits	687	631
Share-based payments <sup>(1)</sup>	148	145
Termination benefits	21	3
Other long-term benefits and incentive schemes	27	24
<b>Total key management personnel compensation</b>	<b>883</b>	803

<sup>(1)</sup> Consists of redemption of shares in respect of share-based payment schemes.

R million	2017	2016
<b>29. Notes to the cash flow statement</b>		
<b>29.1 Cash generated/(utilised) in operations</b>		
Profit before tax per statement of comprehensive income	16 332	13 604
Net movement in policy liabilities (note 14.1)	40 108	20 815
Non-cash flow items	(34 605)	(9 898)
Depreciation	296	280
Bad debts written off	47	39
Share-based payments	376	362
Profit/(loss) on disposal of subsidiaries and associates (note 7.4)	(1 401)	(34)
Fair value adjustments	(32 022)	(9 116)
Impairment of investments and goodwill	395	340
Amortisation of intangibles	350	326
Equity-accounted earnings	(2 646)	(2 095)
Items excluded from cash utilised in operations	(28 510)	(26 756)
Interest and preference share dividends received	(18 035)	(17 136)
Interest expense	868	566
Dividends income	(11 343)	(10 186)
Net purchase of fixed assets	(291)	(285)
Net purchase of owner-occupied properties	(14)	(1)
Increase in net working capital assets and liabilities	11 925	1 207
<b>Cash generated/(utilised) in operations</b>	<b>4 945</b>	(1 314)

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 29. Notes to the cash flow statement (continued)

### 29.2 Acquisition of subsidiaries and associated companies

R million	2017	2016
During the year, various interests in subsidiaries were acquired within the Group.		
Investments in associated companies	(4 790)	(7 546)
The fair value of assets acquired via business combinations is as follows:		
Equipment	(18)	(2)
Goodwill	(607)	(6)
Value of business acquired	(657)	(150)
Other Intangible assets	(48)	(59)
Long-term reinsurance assets	(6)	-
Investments	(4 617)	(52)
Deferred tax assets	(15)	(3)
General insurance technical assets	(407)	-
Trade and other receivables	(616)	(1)
Cash, deposits and similar securities	(1 155)	(85)
Long-term policy liabilities	1 736	-
Cell owners' interest	1 849	-
Deferred tax liabilities	206	20
General insurance technical provisions	2 301	83
Working capital liabilities	512	17
Non-controlling interest	260	-
<b>Total purchase consideration</b>	<b>(6 072)</b>	<b>(7 784)</b>
Cash and cash equivalents acquired	1 155	85
<b>Cash component of acquisition of subsidiaries and associated companies</b>	<b>(4 917)</b>	<b>(7 699)</b>

### 29.3 Disposal of subsidiaries and associated companies

The fair value of assets disposed of were as follows:

Investments	550	1
Goodwill	-	34
Trade and other receivables	-	255
Cash, deposits and similar securities	-	57
Term finance	-	(247)
Deferred tax liabilities	-	(3)
Working capital liabilities	-	(19)
Non-controlling interest	-	(37)
Profit on disposal of subsidiaries and associates	1 146	34
<b>Total disposal price</b>	<b>1 696</b>	<b>75</b>
Less: Cash and cash equivalents disposed of	-	(57)
<b>Cash component of disposal of subsidiaries and associated companies</b>	<b>1 696</b>	<b>18</b>



## 29. Notes to the cash flow statement (continued)

### 29.4 Cash, deposits and similar securities

R million	2017	2016
Working capital: Cash and cash equivalents	21 960	18 761
Investment cash	33 620	34 032
Bank overdrafts	(161)	(172)
<b>Total cash and cash equivalents</b>	<b>55 419</b>	<b>52 621</b>

## 30. Business combinations

Material acquisitions of the Group consolidated in the 2017 financial year are as follows:

### BrightRock Holdings

During August 2017 the Group acquired a 53% interest in BrightRock Holdings, a life insurance provider in South Africa. The acquisition is in line with Sanlam's commitment to invest in South Africa. The excess amount paid over fair value of net assets is recognised as goodwill. Non-controlling interests are measured at the proportional share of the acquiree's identifiable net assets.

The goodwill arising on the acquisition is attributable to synergies and future opportunities expected.

### Santam Structured Insurance

During March 2017, the Santam Group acquired a shareholding of 100% in RMB-SI Investments (Pty) Ltd (now Santam Structured Insurance (Pty) Ltd (SSI)) for R193 million in cash.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 30. Business combinations (continued)

Details of the assets acquired and liabilities assumed, at fair value, are as follows:

R million	BrightRock Holdings	Santam Structured Insurance
<b>Assets</b>		
Equipment	-	15
Intangibles	49	-
Value of business acquired	386	-
Long-term reinsurance assets	6	-
General insurance technical assets	-	400
Investment assets	243	4 358
Cash, deposits and similar securities	10	1 045
Trade and other receivables	50	519
Deferred tax asset	15	-
<b>Total identifiable assets</b>	<b>759</b>	<b>6 337</b>
<b>Liabilities</b>		
Long-term policy liabilities	(49)	(1 551)
Cell owners' interest	-	(1 849)
General insurance technical provisions	-	(2 242)
Deferred tax liability	(108)	(86)
Trade and other payables	(74)	(372)
Provisions	-	(30)
Taxation	-	(14)
<b>Total identifiable liabilities</b>	<b>(231)</b>	<b>(6 144)</b>
<b>Total identifiable net assets</b>	<b>528</b>	<b>193</b>
Non-controlling interest	(248)	-
Goodwill arising on acquisition	441	-
Purchase consideration	721	193

### 31. Disposal groups classified as held for sale

Assets of disposal group classified as held for sale comprise non-current assets for which the carrying value will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of their carrying value and their fair value less costs to sell, unless they are specifically excluded from the measurement provisions of IFRS 5: Non-current Assets Held For Sale and Discontinued Operations, in which case they are measured in accordance with the applicable IFRS. Immediately before initial classification as held for sale, the assets to be reclassified are measured in accordance with applicable IFRS. When the sale of such non-current assets held for sale is expected to occur beyond one year, costs to sell are measured at their present value. Any increase in the present value of the costs to sell arising from the passage of time is presented in profit and loss as a financing cost.

#### Investment Properties

During 2016, management approved the sale of two properties, namely Roodepoort Hillfox Centre and Johannesburg Braampark, for a combined sales price of R655 million. Contracts of sale were entered into and duly authorised. As at 31 December 2016 transfer had not yet taken place, but was originally expected to have occurred by 31 December 2017. The Group did not dispose of the properties during the 2017 financial year. The properties were reclassified from disposal groups classified as held for sale to Investment Properties as at 31 December 2017.

During 2017, management approved the sale of the MCIS Headquarters building for R321 million. The sale is expected to occur within the next financial year.

R million	2017	2016
Assets of disposal groups classified as held for sale		
Equities and similar securities	-	8
Owner-occupied properties	217	-
Investment properties	104	655
	321	663

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 32. Fair value disclosures

### Financial instruments

Financial instruments carried on the statement of financial position include investments (excluding investment properties, associates and joint ventures), receivables, cash, deposits and similar securities, investment policy contracts, term finance liabilities, liabilities in respect of external investors in consolidated funds and trade creditors.

### Recognition and derecognition

Financial instruments are recognised when the Group becomes party to a contractual arrangement that constitutes a financial asset or financial liability for the Group that is not subject to suspensive conditions. Financial assets are derecognised when the contractual rights to receive the cash flows expire or when the asset is transferred. Financial liabilities are derecognised when the obligation to deliver cash or other resources in terms of the contract is discharged, cancelled or expires.

Collateral placed at counter-parties as part of the Group's capital market activities are not derecognised. No transfer of ownership takes place in respect of collateral other than cash and any such collateral accepted by counter-parties may not be used for any purpose other than being held as security for the trades to which such security relates. In respect of cash security, ownership transfers in law. However, the counterparty has an obligation to refund the same amount of cash, together with interest, if no default has occurred in respect of the trades to which such cash security relates. Cash collateral is accordingly also not derecognised.

### Classification

Financial instruments are classified into the following categories:

- Financial assets:
  - At fair value through profit or loss
  - Loans and receivables
- Financial liabilities:
  - At fair value through profit or loss
  - Other financial liabilities

The classification of financial instruments is determined at initial recognition based on the purpose for which the financial assets are acquired or liabilities assumed. Financial instruments classified as at fair value through profit or loss comprise held-for-trading assets and liabilities as well as financial instruments designated as at fair value through profit or loss. All non-trading financial instruments are designated as at fair value through profit or loss apart from:

- Working capital receivables that are classified as loans and receivables based on their short-term nature;
- Financial assets acquired as part of interest margin business to match specific financial liabilities, which are classified as loans and receivables;
- Term finance liabilities incurred as part of interest margin business and matched by specific financial assets, which are classified as other financial liabilities; and
- Working capital payables that are classified as other financial liabilities based on their short-term nature.

The Group designates financial instruments as at fair value through profit or loss in line with its risk management policies and procedures that are based on the management of the Group's capital and activities on a fair value basis, apart from the exceptions outlined above. The Group's internal management reporting basis is consistent with the classification of its financial instruments.

## 32. Fair value disclosures (continued)

### Initial measurement

Financial instruments at fair value through profit or loss are initially recognised at fair value. Costs directly attributable to the acquisition of financial assets classified as at fair value through profit or loss are recognised in the statement of comprehensive income as investment surpluses. Other financial instruments are recognised at the fair value of the consideration given or received in exchange for the instrument plus transaction costs that are directly attributable to their acquisition. Regular way investment transactions are recognised by using trade date accounting.

### Subsequent measurement and impairment

Financial instruments classified as at fair value through profit or loss are carried at fair value after initial recognition, with changes in fair value recognised in the statement of comprehensive income as investment surpluses. The particular valuation methods adopted are disclosed in the individual policy statements associated with each item. Loans and receivables and other financial liabilities are carried at amortised cost using the effective interest rate method.

The carrying values of all loans and receivables are assessed for indicators of impairment bi-annually. A financial asset is deemed to be impaired when there is objective evidence of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the asset's estimated future cash flows discounted at the original effective interest rate, and is recognised in the statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can objectively be attributed to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income, to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised.

### Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Other financial liabilities

Other financial liabilities include:

- Term finance liabilities incurred as part of interest margin business and matched by specific financial assets measured at amortised cost;
- Other term finance liabilities measured at stock exchange prices or amortised cost as applicable;
- Investment contract liabilities measured at fair value, determined on the bases as disclosed in the section on Policy Liabilities and Profit Entitlement; and
- External investors in consolidated funds measured at the attributable net asset value of the respective funds.

### Determination of fair value and fair value hierarchy

Below follows required disclosure of fair value measurements, using a three-level fair value hierarchy that reflects the significance of the inputs used in determining the measurements. It should be noted that these disclosure only cover assets and liabilities measured at fair value.

Included in **level 1** category are assets and liabilities that are measured by reference to unadjusted, quoted prices in an active market for identical assets and liabilities.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 32. Fair value disclosures (continued)

### Determination of fair value and fair value hierarchy (continued)

Included in level 2 category are assets and liabilities measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are categorised as level 2.

Assets and liabilities measured using inputs that are not based on observable market data are categorised as level 3.

R million	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurements</b>				
<b>31 December 2017</b>				
<b>Non-financial instruments</b>	-	-	11 505	11 505
Properties	-	-	11 505	11 505
<b>Financial instruments</b>	456 755	175 420	1 152	633 327
Equities and similar securities	198 226	2 436	433	201 095
Investment in joint ventures	-	-	359	359
Interest-bearing investments	42 154	141 825	30	184 009
Structured transactions	7 130	8 251	-	15 381
Investment funds	173 802	3 103	330	177 235
Trading account assets	11 090	5 233	-	16 323
Cash deposits and similar securities	24 353	14 572	-	38 925
<b>Total assets at fair value</b>	<b>456 755</b>	<b>175 420</b>	<b>12 657</b>	<b>644 832</b>
<b>Financial instruments</b>	<b>73 349</b>	<b>363 302</b>	<b>2 732</b>	<b>439 383</b>
Investment contract liabilities	-	343 368	2 205	345 573
External investors in consolidated funds	61 802	-	527	62 329
Term finance	-	4 300	-	4 300
Structured transactions liabilities	-	4 187	-	4 187
Trading account liabilities	11 547	11 447	-	22 994
<b>Total liabilities at fair value</b>	<b>73 349</b>	<b>363 302</b>	<b>2 732</b>	<b>439 383</b>

### 32. Fair value disclosures (continued)

R million	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurements (continued)</b>				
<b>31 December 2016 Restated</b>				
<b>Non-financial instruments</b>	-	655	10 664	11 319
Properties	-	-	10 664	10 664
Properties held for sale	-	655	-	655
<b>Financial instruments</b>	399 402	181 988	1 702	583 092
Equities and similar securities	180 752	2 072	420	183 244
Investment in joint ventures	-	-	423	423
Interest-bearing investments	48 621	120 570	392	169 583
Structured transactions	6 741	7 254	-	13 995
Investment funds	136 835	17 209	467	154 511
Trading account assets	3 661	19 288	-	22 949
Cash deposits and similar securities	22 792	15 595	-	38 387
<b>Total assets at fair value</b>	<b>399 402</b>	<b>182 643</b>	<b>12 366</b>	<b>594 411</b>
<b>Financial instruments</b>	56 217	331 022	3 117	390 356
Investment contract liabilities	-	303 761	2 312	306 073
External investors in consolidated funds	54 389	493	604	55 486
Term finance	-	4 300	201	4 501
Structured transactions liabilities	-	1 298	-	1 298
Trading account liabilities	1 828	21 170	-	22 998
<b>Total liabilities at fair value</b>	<b>56 217</b>	<b>331 022</b>	<b>3 117</b>	<b>390 356</b>

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 32. Fair value disclosures (continued)

### Reconciliation of movements in level 3 assets and liabilities measured at fair value

R million	Properties	Investment in joint ventures	Equities and similar securities	Interest-bearing investments	Investment funds	Total assets
<b>2017</b>						
<b>Assets</b>						
Balance at 1 January 2017	10 664	423	420	392	467	12 366
Total gains/(loss) in statement of comprehensive income	499	(64)	1	-	(19)	417
Acquisitions	544	-	21	-	-	565
Disposals	(501)	-	(2)	-	(118)	(621)
Foreign exchange movements	(239)	-	(7)	-	-	(246)
Reclassified from disposal groups classified as held for sale	551	-	-	-	-	551
Settlements	-	-	-	(362)	-	(362)
Transfers to owner-occupied properties	(13)	-	-	-	-	(13)
<b>Balance at 31 December 2017</b>	<b>11 505</b>	<b>359</b>	<b>433</b>	<b>30</b>	<b>330</b>	<b>12 657</b>
<b>2016</b>						
Balance at 1 January 2016	11 606	-	430	490	507	13 033
Total gains/(loss) in statement of comprehensive income	557	-	36	(114)	(33)	446
Acquisitions	1 050	423	54	50	-	1 577
Disposals	(1 014)	-	(83)	-	(7)	(1 104)
Foreign exchange movements	(961)	-	(17)	(34)	-	(1 012)
Reclassified as disposal groups classified as held for sale	(655)	-	-	-	-	(655)
Transfers from owner-occupied property	81	-	-	-	-	81
<b>Balance at 31 December 2016</b>	<b>10 664</b>	<b>423</b>	<b>420</b>	<b>392</b>	<b>467</b>	<b>12 366</b>



### 32. Fair value disclosures (continued)

R million	Investment contract liabilities	Term finance	External investors in consolidated funds	Total liabilities
<b>2017</b>				
<b>Liabilities</b>				
Balance at 1 January 2017	2 312	201	604	3 117
Total gains in statement of comprehensive income	72	-	(38)	34
Acquisitions	36	-	-	36
Disposals	(189)	-	-	(189)
Foreign exchange movements	(26)	(37)	(39)	(102)
Settlements	-	(164)	-	(164)
<b>Balance at 31 December 2017</b>	<b>2 205</b>	<b>-</b>	<b>527</b>	<b>2 732</b>
<b>2016</b>				
Balance at 1 January 2016	3 178	359	-	3 537
Total gains in statement of comprehensive income	(84)	-	(67)	(151)
Acquisitions	201	-	-	201
Disposals	(335)	-	-	(335)
Foreign exchange movements	(648)	(24)	-	(672)
Settlements	-	(134)	-	(134)
Transfers in <sup>(1)</sup>	-	-	671	671
<b>Balance at 31 December 2016</b>	<b>2 312</b>	<b>201</b>	<b>604</b>	<b>3 117</b>

<sup>(1)</sup> The market for the shares to which the external investors in consolidated funds relate became inactive in 2016.

R million	2017	2016
<b>Gains and losses (realised and unrealised) included in profit and loss</b>		
Total gains or losses included in profit or loss for the period	383	597
Total unrealised gains or losses included in profit or loss for the period for assets held at the end of the reporting period	258	515

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 32. Fair value disclosures (continued)

### Transfers between categories

R million	Equities and similar securities	Interest-bearing investments	Structured transactions	Investment funds	Cash, deposits and similar securities	Total assets
<b>Assets</b>						
<b>2017<sup>(2)</sup></b>						
Transfer from level 1 to level 2	-	169	-	-	-	169
Transfer from level 2 to level 1	-	107	-	-	-	107
<b>2016<sup>(1)</sup></b>						
Transfer from level 1 to level 2	-	15 521	162	-	350	16 033
Transfer from level 2 to level 1	-	10	-	6	-	16

R million	External investors <sup>(3)</sup>	Term finance <sup>(1)</sup>	Total liabilities
<b>Liabilities</b>			
<b>2017</b>			
Transfer from level 2 to level 1	328	-	328
<b>2016</b>			
Transfer from level 1 to level 2	-	3 145	3 145

<sup>(1)</sup> During the year ended December 2016 management have re-evaluated their determination of what constitutes an active market to a more conservative approach. As a result, certain bonds are now considered to be classified as level 2 valuations.

<sup>(2)</sup> During the year ended December 2017, instruments that were not actively traded in the market have been transferred from level 1 to level 2. Conversely, instruments that have become actively traded in the market have been transferred from level 2 to level 1.

<sup>(3)</sup> External investors in consolidated funds transfers relate to investment funds that listed during the year ended December 2017. As a result, those funds are now classified as level 1.

### 32. Fair value disclosures (continued)

#### Valuation techniques used in determining the fair value of assets and liabilities

Instrument	Applicable to level	Valuation basis	Main assumptions	Significant Unobservable input
Properties	2 and 3	Recently contracted prices, discounted cash flow model (DCF), Earnings multiple	Bond and interbank swap interest rate curve, Cost of Capital, Consumer price index	Capitalisation rate Discount rate
Equities and similar securities	2 and 3	DCF, Earnings multiple	Bond and interbank swap interest rate curve, Cost of Capital, Consumer price index	Cost of Capital Earnings multiple
Interest-bearing investments	2 and 3	DCF, Earnings multiple, Quoted put/ surrender price by issuer	Bond and interbank swap interest rate curve, Cost of Capital, Consumer price index	Earnings multiple Discount rate
Trading account assets and liabilities	2	DCF	Forward rate Credit risk spread Liquidity spread	n/a
Investment contract liabilities and investment funds	2 and 3	Current unit price of underlying unitised asset, multiplied by the number of units held. Earnings multiple DCF	Bond and interbank swap interest rate curve, Cost of Capital, Consumer price index Bond interest rate curve	Earnings multiple
Term finance	2 and 3	DCF	Bond & forward rate Credit ratings of issuer Liquidity spread Agreement interest curves	Liquidity spread
Structured transactions assets and liabilities	2	Option pricing models DCF	Bond and interbank swap interest rate curve Forward equity and currency rates Volatility risk adjustments	n/a
External investors in consolidated funds	2 and 3	Current unit price of underlying unitised asset, multiplied by the number of units held	Bond and interbank swap interest rate curve, Cost of Capital, Consumer price index	Capitalisation rate Discount rate
Cash, deposits and similar securities	2	Mark-to market Yield curve	Bond and interbank swap interest rate curve	n/a
Investment in joint ventures	3	DCF	Bond and interbank swap interest rate curve, Cost of Capital, Consumer price index	Cost of Capital

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 32. Fair value disclosures (continued)

### Sensitivity of level 3 assets and liabilities measured at fair value to changes in key assumptions

#### Assets

R million	Carrying amount	Effect of a 10% increase in risk adjustments	Effect of a 10% decrease in risk adjustments	Carrying amount <sup>(1)</sup>	Effect of a 1% increase in base/capitalisation rate	Effect of a 1% decrease in base/capitalisation rate
<b>Properties</b>						
<b>2017</b>						
Cash flow risk adjustments	11 505	(1 151)	1 151	-	-	-
Base rate	-	-	-	8 091	(264)	284
Capitalisation	-	-	-	8 091	(357)	437

#### 2016

Cash flow risk adjustments	10 664	(1 066)	1 066	-	-	-
Base rate	-	-	-	7 670	(290)	310
Capitalisation	-	-	-	7 670	(340)	411

R million	Carrying amount <sup>(2)</sup>	Effect of a 10% increase in multiple	Effect of a 10% decrease in multiple	Carrying amount <sup>(3)</sup>	Effect of a 1% increase in discount rate	Effect of a 1% decrease in discount rate
<b>Other investments</b>						
<b>2017</b>						
Equities and similar securities	433	43	(43)	-	-	-
Interest bearing investments	-	-	-	30	(1)	1
Investment funds	330	33	(33)	-	-	-
Investment in joint ventures	-	-	-	359	(32)	36
<b>Total</b>	<b>763</b>	<b>76</b>	<b>(76)</b>	<b>389</b>	<b>(33)</b>	<b>37</b>

#### 2016

Equities and similar securities	420	42	(42)	-	-	-
Interest bearing investments	361	36	(36)	31	(1)	1
Investment funds	467	47	(47)	-	-	-
Investment in joint ventures	-	-	-	423	(29)	32
<b>Total</b>	<b>1 248</b>	<b>125</b>	<b>(125)</b>	<b>454</b>	<b>(30)</b>	<b>33</b>

### 32. Fair value disclosures (continued)

#### Sensitivity of level 3 assets and liabilities measured at fair value to changes in key assumptions (continued)

##### Liabilities

R million	Carrying amount	Effect of a 10% increase in value	Effect of a 10% decrease in value	Carrying amount	Effect of a 1% increase in discount rate	Effect of a 1% decrease in discount rate
<b>2017</b>						
Investment contract liabilities	2 205	221	(221)	-	-	-
External investors in consolidated funds	527	53	(53)	-	-	-
<b>Total liabilities</b>	<b>2 732</b>	<b>274</b>	<b>(274)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2016</b>						
Investment contract liabilities	2 312	231	(231)	-	-	-
Term finance	201	20	(20)	-	-	-
External investors in consolidated funds	604	60	(60)	-	-	-
<b>Total liabilities</b>	<b>3 117</b>	<b>311</b>	<b>(311)</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> Investment Properties comprise a majority of Sanlam Life properties valued using capitalisation and discount rates, with sensitivities based on these two unobservable inputs.

<sup>(2)</sup> Represents mainly private equity investments valued on earnings multiple, with sensitivities based on the full valuation.

<sup>(3)</sup> Represents mainly instruments valued on a discounted cash flow basis, with sensitivities based on changes in the discount rate.

# Notes to the Group financial statements (continued)

for the year ended 31 December 2017

## 33. Assets subject to offsetting, enforceable master netting arrangements and similar agreements

R million	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position
<b>31 December 2017</b>			
<b>Assets</b>			
Working capital cash	2 575	-	2 575
Trading account assets	3 243	(496)	2 747
Structured transactions assets	2 021	(1 746)	275
<b>Liabilities</b>			
Trading account liabilities	4 478	(496)	3 982
Structured transactions liabilities <sup>(5)</sup>	3 567	(2 136)	1 431
<b>31 December 2016</b>			
<b>Assets</b>			
Working capital cash	1 065	-	1 065
Trading account assets	7 206	(1 224)	5 982
Structured transactions assets <sup>(4)</sup>	1 453	(1 236)	217
<b>Liabilities</b>			
Trading account liabilities	6 938	(1 224)	5 714
Structured transactions liabilities <sup>(5)</sup>	2 581	(2 009)	572

<sup>(1)</sup> The figures for other financial instruments column are made up of ISDA netting, CSA collateral, Repo's and scrip received. These amounts have been limited to the net amount recognised on the statement of financial position.

<sup>(2)</sup> Amount used is the lower of collateral received or the value of the financial assets (normally the latter due to over-collateralisation) ISDA netting refers to the netting of derivative exposures to arrive at the net amount owed to and by each counterparty as envisaged in the ISDA agreements with these counterparties. Credit Support Agreements (CSA) have been signed with derivative counterparties to place collateral to offset the net exposures in footnote 1. Scrip lending agreements are governed by GMSLA agreements in terms of which the collateral - provided and the scrip received can be netted. Security/collateral received refers to equity collateral that collateral has been pledged to SCM to cover events of default.

<sup>(3)</sup> Excludes enforceable netting arrangements.

<sup>(4)</sup> Structured transaction assets have been restated. Refer to the restatement section in basis of presentation and accounting policies section.

<sup>(5)</sup> Structured transactions liabilities include derivative liabilities.

Related amounts not set off in the statement of financial position			Amounts not set off in the statement of financial position <sup>(3)</sup>	Total amounts recognised in the statement of financial position
Other financial instruments <sup>(1)</sup>	Cash collateral received <sup>(2)</sup>	Net amount		
(217)	(675)	1 683	20 277	21 960
(2 674)	(2 583)	(2 510)	13 813	16 323
-	-	275	15 106	15 381
(3 265)	(675)	42	22 952	22 994
-	(413)	1 018	3 169	4 187
(384)	(569)	112	17 696	18 761
(5 101)	(711)	170	16 967	22 949
-	-	217	13 778	13 995
(4 200)	(1 280)	234	17 284	22 998
-	-	572	726	1 298

# Sanlam Limited **statement of financial position**

at 31 December 2017

R million	Note	2017	2016
<b>ASSETS</b>			
Investment in Group companies	2	18 220	17 988
Subsidiaries		18 220	17 988
Working capital assets		169	413
Cash and bank		4	5
Trade and other receivables		55	-
Loans to Group companies	2	110	408
<b>Total assets</b>		<b>18 389</b>	18 401
<b>EQUITY AND LIABILITIES</b>			
Capital and reserves			
Share capital and premium	3	22	22
Non-distributable reserves		9 342	9 342
Retained earnings		5 550	5 478
<b>Shareholders' funds</b>		<b>14 914</b>	14 842
Working capital liabilities		3 475	3 559
Accounts payable		771	726
Taxation payable		2	2
Loans from Group companies	2	2 702	2 831
<b>Total equity and liabilities</b>		<b>18 389</b>	18 401



# Sanlam Limited **statement of comprehensive income**

for the year ended 31 December 2017

R million	Note	2017	2016
<b>Net income</b>		<b>5 663</b>	5 172
Dividend income		<b>5 630</b>	5 072
Investment surpluses	4	-	19
Other income		<b>33</b>	81
<b>Expenses</b>			
Administration costs	5	<b>(16)</b>	(15)
<b>Net reversal of impairment of investments</b>	2	<b>232</b>	48
<b>Profit before tax</b>		<b>5 879</b>	5 205
<b>Taxation</b>		<b>(1)</b>	(4)
<b>Profit for the year</b>		<b>5 878</b>	5 201

# Sanlam Limited **statement of changes in equity**

for the year ended 31 December 2017

R million	Share capital	Share premium	Non-distributable reserve <sup>(1)</sup>	Retained income	Total
<b>Balance at 1 January 2016</b>	21	1	9 342	5 585	14 949
Profit for the year	-	-	-	5 201	5 201
Dividends declared	-	-	-	(5 308)	(5 308)
<b>Balance at 31 December 2016</b>	21	1	9 342	5 478	14 842
Profit for the year	-	-	-	<b>5 878</b>	<b>5 878</b>
Dividends declared	-	-	-	<b>(5 806)</b>	<b>(5 806)</b>
<b>Balance at 31 December 2017</b>	<b>21</b>	<b>1</b>	<b>9 342</b>	<b>5 550</b>	<b>14 914</b>

<sup>(1)</sup> Pre-acquisition reserves arising from the demutualisation of Sanlam Life Insurance Limited in 1998.

# Sanlam Limited cash flow statement

for the year ended 31 December 2017

R million	Note	2017	2016
<b>Cash flow from operating activities</b>		<b>(170)</b>	(166)
Cash utilised in operations	10	<b>(19)</b>	(2)
Dividends received		<b>5 575</b>	5 072
Dividends paid		<b>(5 728)</b>	(5 240)
Interest received		<b>3</b>	6
Taxation paid		<b>(1)</b>	(2)
<b>Increase in cash and cash equivalents</b>		<b>(170)</b>	(166)
Cash and cash equivalents at beginning of the year		<b>(2 418)</b>	(2 252)
<b>Cash and cash equivalents at end of the year</b>		<b>(2 588)</b>	(2 418)

# Notes to the financial statements

for the year ended 31 December 2017

## 1. Accounting policies

The accounting policies of the Sanlam Limited Group as set out on pages 66 to 69 are also applicable to Sanlam Limited except for investments in Group companies which are reflected at cost or at a lower value if there is an impairment in value.

### Additional accounting policy

#### Financial guarantee contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially accounted for at fair value, and are not designated as at fair value through profit or loss. Subsequently, the amount is measured at the higher of the amount determined according to IAS 37 *Provisions*, or the initial fair value less cumulative amortisation in accordance with IAS 18 *Revenue*.

#### IFRS 9 – Financial Instruments

IFRS 9 - Financial Instruments has an effective date (1 January 2018) applicable to future financial years and has not been early adopted.

The impact of IFRS 9 on the separate financial statements of Sanlam Limited is expected to be isolated to:

- the classification and measurement inter-company loans granted;
- the impairment considerations of inter-company loans, depending the conclusion on the appropriate classification; and
- the impairment considerations of financial guarantees and loan commitments granted to group companies.

We note that these items affect only the separate financial statements, and are eliminated on consolidation, in the Sanlam Limited Group financial statements.

No other standards issued but not yet effective are expected to impact these separate financial statements.

### Dividends

Dividends are shown as income. Dividend income from subsidiaries is recognised when dividends are declared. Impairment is considered when the dividends exceed the total comprehensive income of the subsidiary or associate in the period the dividend is declared and the carrying amount of the investment exceeds the carrying amount of the investee's net assets, including associated goodwill.

R million	2017	2016
<b>2. Group companies</b>		
Investment in Group companies – shares at cost less impairments	18 220	17 988
Current loans with Group companies	(2 592)	(2 423)
Loans to Group companies	110	408
Loans from Group companies	(2 702)	(2 831)
<b>Book value of interest in Group companies</b>	<b>15 628</b>	15 565
<b>Net (impairment)/reversal of impairment of investments in Group companies</b>		
Genbel Securities Limited	165	15
Sanlam Investments (Pty) Ltd	103	37
Sanlam PrefCo (Pty) Ltd	(36)	(4)
<b>Total net reversal of impairment of investment in Group companies</b>	<b>232</b>	48
<b>Fair value of net investment in Group companies</b>		
Investment in subsidiaries	104 615	94 541

# Notes to the financial statements

(continued)

for the year ended 31 December 2017

Investments in Group companies are carried at cost less accumulated impairment. The fair values disclosed are classified as level three instruments. Investment management subsidiaries are valued at a DCF basis, subsidiaries that conduct life insurance business are valued at embedded value and other subsidiaries and loans are valued at DCF. For a description of the valuation methodology used and sensitivities of main assumptions, refer to note 5 on page 178 of the online Integrated Report.

## Loans: Group companies

The loans to/from Group companies are unsecured and repayable on demand. No interest is charged but these arrangements are subject to revision from time to time. Details regarding the principal subsidiaries of Sanlam Limited are set out on page 158.

## 2. Group companies (continued)

R million	2017	2016
<b>Loans to Group companies</b>		
Sanlam Life Insurance Ltd	110	408
	<b>110</b>	408
<b>Loans from Group companies</b>		
Sanlam PrefCo (Pty) Ltd	2 310	2 310
Genbel Securities Limited	264	264
Sanlam Investment Holdings UK Limited	112	111
Sanlam Investment (Pty) Ltd	11	8
Sanpref (Pty) Ltd	5	5
Sanlam Spec (Pty) Ltd	-	133
	<b>2 702</b>	2 831

## 3. Share capital and premium

Details of share capital and premium are reflected in note 11 on page 106 of the Sanlam Limited Group financial statements.

## 4. Investment surpluses

Investment surpluses relates to the profit on sale of the investment in associates, as well as funds received on previously written off loan assets.

## 5. Administration costs include:

### Directors' remuneration

Detail of the directors' remuneration are reflected in note 20 on page 121 of the Sanlam Limited Group financial statements.

## 6. Dividends

Details of the dividends declared are disclosed on page 76 of the Sanlam Limited Group financial statements.

## 7. Borrowing powers

In terms of the articles of association of Sanlam Limited, the directors may, at their discretion, raise or borrow money for the purpose of the business of the Company without limitation.

## 8. Commitments and contingencies

Details of commitments and contingencies are reflected in note 27 on page 132 of the Sanlam Limited Group financial statements. The maximum utilisation under all of the guarantees granted in favour of Sanlam Capital Markets is R9 billion (2016: R11 billion).

## 9. Related parties

Details of related parties are reflected in note 28 on page 134 of the Sanlam Limited Group financial statements.

## 10. Notes to the cash flow statement

R million	2017	2016
<b>Cash utilised in operations</b>		
Profit before tax	5 879	5 205
Non-cash flow items		
Net reversal of impairment of investments in Group companies	(232)	(48)
Items disclosed separately		
Dividends received	(5 630)	(5 072)
Interest Income	(3)	(6)
Decrease in net working capital liabilities	(33)	(81)
<b>Cash generated from operations</b>	<b>(19)</b>	<b>(2)</b>

## 11. Capital and risk management

The main financial instrument risk that Sanlam Limited is exposed to, is credit risk in respect of its loans to Group companies. These loans are tested for impairment, by establishing whether the net asset value of the underlying Group company is sufficient to cover the outstanding loan amount. Where the net asset value (including any impairments recognised in that company), is less than the carrying value of the loan, an impairment loss is recognised, as disclosed in note 2 on page 155. The credit quality of each loan has been assessed as acceptable within the parameters used to measure and monitor credit risk.

Sanlam Limited's maximum exposure to credit risk is calculated as follows:

Carrying value of loans granted	110	480
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Further details of risk management are disclosed in the Capital and Risk Management Report on page 16.

## 12. Tax rate reconciliation

The effective tax rate of Sanlam Limited of 0,02% (2016: 0,1%) differs from the standard rate of taxation of 28% (2016: 28%) due to the effects of non-taxable income: -26,89% (2016: -27,8%) and other differences -1,09% (2016: -0,1%).

# Principal subsidiaries

at 31 December 2017

R million	%	Fair value of interest in subsidiaries				
		Interest	Issued ordinary capital	Shares		Loans
			2017	2017	2016	2017
<b>Long-term insurance</b>						
Sanlam Life Insurance Limited	100	5 000	93 051	83 866	110	408
<b>Investment and capital markets</b>						
Genbel Securities Limited	100	203	3 729	3 564	(264)	(264)
<b>Investment management and consulting</b>						
Sanlam Independent Financial Services Proprietary Limited <sup>(2)</sup>	100	(1)	(1)	(1)		-
Sanlam Investment Holdings Limited <sup>(2)</sup>	100	(1)	3 506	3 125		-
Sanlam Investment Holdings (UK) Limited	100	174	4 201	3 724	(112)	(112)
<b>Investment companies</b>						
Sanlam Spec Proprietary Limited <sup>(2),(3)</sup>	100	(1)	(1)	(1)	-	(133)
Sanlam Invest Proprietary Limited	100	500	289	186	(11)	(7)
Sanlam Share Incentive Trust	100	(1)	(1)	(1)		-
Sanpref Proprietary Limited	100	(1)	(1)	(1)	(5)	(5)
Sanlam PrefCo Proprietary Limited	100	(1)	2 463	2 499	(2 310)	(2 310)
<b>Total</b>			<b>107 239</b>	<b>96 964</b>	<b>(2 592)</b>	<b>(2 423)</b>

<sup>(1)</sup> Issued share capital is less than R1 000.

<sup>(2)</sup> Sanlam Limited provided a letter of guarantee to Sanlam Investment Holdings Limited, Sanlam Spec Proprietary Limited and Sanlam Independent Financial Services (Pty) Limited.

<sup>(3)</sup> Sanlam Limited, with Sanlam Spec (Pty) Limited, provided a letter of guarantee to Real Futures (Pty) Limited.

A register of all subsidiary companies is available for inspection at the registered office of Sanlam Limited. All investments above are unlisted and incorporated in South Africa unless otherwise indicated. Sanlam Limited, via its investment in Sanlam Life Insurance Limited, has the following subsidiaries with material non-controlling interests.

**Analysis of the Group's holding in material subsidiaries:**

	Santam Limited <sup>(1)</sup>		Botswana Insurance Holdings Limited <sup>(2)</sup>		MCIS Insurance <sup>(3)</sup>	
	2017	2016	2017	2016	2017	2016
	%	%	%	%	%	%
<b>Shareholders' fund</b>	<b>61,45</b>	61,50	<b>60,33</b>	60,16	<b>51,0</b>	51,0
<b>Policyholders' fund</b>	<b>0,15</b>	0,16	<b>2,27</b>	-	<b>-</b>	-
<b>Non-controlling interest</b>	<b>38,40</b>	38,34	<b>37,40</b>	39,84	<b>49,00</b>	49,00
<b>Total</b>	<b>100,00</b>	100,00	<b>100,00</b>	100,00	<b>100,00</b>	100,00

<sup>(1)</sup> The financial information of Santam Limited, incorporated and operating mainly in South Africa, which has a material non-controlling interest has been presented in the Shareholders Fund section on page 168 and page 170 of the online Integrated Report. The carrying amount of the non-controlling interest is presented in note 13 of the Group financial statements on page 109.

<sup>(2)</sup> The financial information of Botswana Insurance Holdings Limited, incorporated and operating mainly in Botswana, which has a material non-controlling interest has been summarised below. This information is provided based on amounts before inter-company eliminations.

<sup>(3)</sup> The financial information of MCIS Insurance, incorporated and operating mainly in Malaysia, which has a material non-controlling interest has been summarised below. This information provided is based on amounts before inter-company eliminations.

R million	2017	2016
<b>Santam summarised statement of cash flows for the year ending 31 December 2017:</b>		
Operating	<b>2 494</b>	1 329
Investing	<b>282</b>	(553)
Financing	<b>(1 266)</b>	(1 091)
<b>Net increase/(decrease) in cash and equivalents</b>	<b>1 510</b>	(315)
Dividends paid to non-controlling interests	<b>531</b>	808

# Principal subsidiaries (continued)

at 31 December 2017

## Financial information of Botswana Insurance Holdings Limited

R million	2017	2016
<b>Summarised statement of profit or loss:</b>		
Net income	3 728	1 920
Net insurance and investment contract benefits and claims	(2 316)	(500)
Expenses	(927)	(883)
Share of profit of associates and joint ventures	320	329
<b>Profit before tax</b>	<b>805</b>	866
Income tax	(139)	(149)
<b>Profit for the year</b>	<b>666</b>	717
<b>Total comprehensive income</b>	<b>363</b>	158
Attributable to non-controlling interests	144	62
Dividends paid to non-controlling interests	180	190
<b>Summarised statement of financial position as at 31 December 2017:</b>		
<b>Assets</b>		
Investments	19 234	18 107
Other non-current assets	322	320
Cash and cash equivalents (working capital)	194	51
Trade and other receivables	470	266
<b>Liabilities</b>		
Policyholder liabilities	(15 629)	(14 202)
Other non-current liabilities	-	(109)
Deferred tax (non-current)	(20)	(23)
Other current liabilities	(46)	(20)
Trade and other payables	(756)	(577)
<b>Total equity</b>	<b>3 769</b>	3 813
Attributable to:		
Equity holders of the parent	2 359	2 294
Non-controlling interest	1 410	1 519
<b>Summarised statement of cash flows for the year ending 31 December 2017:</b>		
Operating	591	971
Investing	(712)	(1 315)
Financing	19	(5)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(102)</b>	(349)



## Financial information of MCIS Insurance

R million	2017	2016
<b>Summarised statement of profit or loss:</b>		
Net income	1 530	1 772
Net insurance and investment contract benefits and claims	(872)	(998)
Expenses	(539)	(623)
Gross amortisation of intangible assets	(5)	-
<b>Profit before tax</b>	<b>114</b>	151
Income tax	(41)	(69)
<b>Profit for the year</b>	<b>73</b>	82
<b>Total comprehensive income</b>	<b>72</b>	(71)
Attributable to non-controlling interests	35	(40)
Dividends paid to non-controlling interests	26	166
<b>Summarised statement of financial position as at 31 December 2017:</b>		
<b>Assets</b>		
Investments	13 111	12 789
Other non-current assets	513	407
Cash and cash equivalents (working capital)	57	43
Trade and other receivables	408	344
<b>Liabilities</b>		
Policyholder liabilities	(12 038)	(11 677)
Deferred tax (non-current)	(65)	(54)
Other current liabilities	(20)	-
Trade and other payables	(1 050)	(955)
<b>Total equity</b>	<b>916</b>	897
Attributable to:		
Equity holders of the parent	468	457
Non-controlling interest	448	440
<b>Summarised statement of cash flows for the year ending 31 December 2017:</b>		
Operating	498	(2 376)
Investing	(836)	2 570
<b>Net increase in cash and cash equivalents</b>	<b>(338)</b>	194



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