# 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 |
| --- | --- |
| **1. Valuation of insurance contract liabilities**<br><br>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 |
|---|---|
| **1. Valuation of insurance contract liabilities** (continued)<br><br>We have therefore identified the following areas of focus in relation to the valuation of insurance contract liabilities:<br><br>a) Appropriateness of actuarial assumptions, models and methodology; and<br><br>b) Data processes and controls relevant to the actuarial valuation.<br><br>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). | |
| **1a. Appropriateness of actuarial assumptions,models and methodology**<br><br>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:<br><br>→ Mortality, longevity, disability and morbidity;<br>→ Persistency;<br>→ Expenses;<br>→ Risk discount rates; and<br>→ Allowance for credit defaults.<br><br>The integrity and appropriateness of models and methodology are also considered to be critical in the overall valuation of insurance contract liabilities. | Our audit of these actuarial assumptions, models and methodology applied in the valuation of insurance liabilities, *inter alia*, included the following audit procedures that were executed with the assistance of our actuarial experts, across the areas considered material:<br><br>→ We assessed the valuation methodology and assumptions for compliance with the latest actuarial guidance, legislation and approved company policy;<br>→ 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;<br>→ 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;<br>→ 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;<br>→ 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; |

| Key Audit Matter | How the matter was addressed in the audit |
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| **1a. Appropriateness of actuarial assumptions,models and methodology** (continued) | → 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;<br>→ 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;<br>→ We evaluated and performed procedures over management's modelling of Investment Guarantee Reserves in terms of the applicable actuarial guidance notes;<br>→ We considered the level of margins held, management's justification for holding these margins and how these will be released in future;<br>→ 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<br>→ 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. |
| **1b. Data processes and controls relevant to the actuarial valuation**<br><br>Data is a key input into the valuation process: the calculation of insurance contract liabilities has a number of inputs, which are reliant on various processes and systems for accurate and complete data. A breakdown of these processes and systems could result in a misstatement of the value of insurance contracts. | In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we, *inter alia*, performed the following audit procedures:<br><br>→ 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;<br>→ 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<br>→ We performed procedures to evaluate management's grouping of data for input into the actuarial valuation models. |

| Key Audit Matter | How the matter was addressed in the audit |
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| **2. Valuation of unlisted financial instruments**<br><br>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.<br><br>The financial instruments we considered most complex and most sensitive to unobservable valuation inputs are private equity and unlisted debt.<br><br>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.<br><br>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). | Our audit included the following audit procedures across the areas considered material:<br><br>→ 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;<br>→ We assessed the valuation methodologies applied for appropriateness against generally accepted market practice;<br>→ We compared the assumptions used in the Group's models and methodologies to independent external sources where possible;<br>→ Where valuation inputs were unobservable, we involved our valuation experts to assist us in assessing these inputs; and<br>→ We independently tested the valuation of a sample from each type of financial instrument.<br><br>In addition to the above, our specific procedures included the following:<br><br>**Private equity:**<br><br>→ 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<br>→ Where deemed appropriate, we performed an independent corroboration of the valuations to comparable entities in the market. |

| Key Audit Matter | How the matter was addressed in the audit |
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| **2. Valuation of unlisted financial instruments** (continued) | **Unlisted debt:**<br>→ 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<br>→ 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.<br>**Collateralised lending:**<br>→ 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;<br>→ 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;<br>→ Through enquiry we obtained information on known legal processes instituted and/or processes followed with other creditors;<br>→ 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;<br>→ 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;<br>→ We involved our valuation experts to consider the valuation of the material items of collateral held; and<br>→ We performed subsequent events procedures up to the date of our audit report. |

# 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.

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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)

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7 March 2018