

# **CHANNEL LIFE LIMITED**

(Registration no. 1969/012487/06)

**AUDITED ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 December 2018**

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### Statement of responsibility by the board of directors

The Board of Channel Life Limited (the "Board") takes responsibility for the integrity, objectivity and reliability of the annual financial statements of Channel Life 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 annual financial statements based on their audit of Channel Life Limited (the "Company"). The Audit, Actuarial and Risk Committee has satisfied itself that the external auditors were independent of the Company during the year under review.

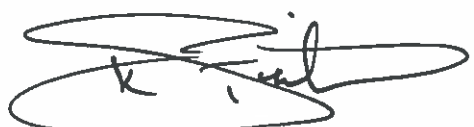
The Audit, Actuarial and Risk Committee has confirmed that effective systems of internal control and risk management are being maintained. There were no breakdowns in the functioning of the internal financial control systems during the year which had a material impact on the annual financial statements. 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 is supported by reasonable and prudent judgements consistently applied.

A description of how the Audit, Actuarial and Risk Committee carried out its functions is included in the Audit Committee and Directors' reports.

The Board is of the opinion that Channel Life Limited is financially sound and operates as a going concern. The annual financial statements have accordingly been prepared on this basis.

Consolidated annual financial statements have not been prepared for the reasons set out in the Directors' report.

The annual financial statements on pages 13 to 81 were approved by the Board and signed on its behalf by:



K Socikwa  
Chief Executive Officer



J Grobler  
Chief Financial Officer

Johannesburg  
15 April 2019

Certification by the company secretary

In my capacity as Company Secretary, I hereby certify, in terms of the Companies Act of South Africa (the 'Companies Act'), that for the year ended 31 December 2018, the company has lodged with the Register 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.



O. Ramatlhane  
Company Secretary

Johannesburg  
15 April 2019

## **Audit, Actuarial and Risk Committee ("Audit Committee") Report**

### **Members and dates of appointment**

CG Swanepoel (Chairman) (24/08/2012) , P de V Rademeyer (Previous Chairman) (28/08/2006) resigned 17/04/2018, KT Nondumo (23/08/2016), PE Speckmann (22/05/2018), PE Burton (22/08/2017) resigned 21/02/2018.

The Audit, Actuarial and Risk Committee ("the Audit Committee") comprises of only independent non-executive directors. All Audit Committee members have financial or actuarial and/or other relevant areas of experience (as described in its charter). We confirm, on behalf of the Audit Committee, that they met 4 times in the year.

The Audit Committee has formal terms of reference reviewed and approved annually by the Board of Directors, which are listed in the Audit Committee's Annual Plan. The Audit Committee is satisfied it has discharged these responsibilities. All matters on the Annual Plan were considered and we are satisfied that they were appropriately addressed. A list of the functions of the Audit Committee is contained in the Audit, Actuarial and Risk Committee Charter. The Audit Committee ensured that, at all times, it adhered to the Audit, Actuarial and Risk Committee Charter.

The role of the Audit Committee is to fulfil all of the functions set out in the Companies Act, except those done by the Sanlam Life Limited Audit, Actuarial and Finance Committee, to assist the Board in fulfilling its responsibility with regard to financial and auditing oversight responsibilities, as well as the overall quality and integrity of financial and actuarial reporting and internal control matters. The Audit Committee annually evaluates the Company's internal controls and has satisfied itself that there were no material breakdowns in internal financial control systems during the year.

In our deliberations with the external auditors we are confident that the auditors were independent at all times for the year ended 31 December 2018.

### **The Audit Committee Report for the 2018 financial year:**

The Audit Committee has pleasure in submitting this report, as required in terms of the Companies Act. The Audit Committee consists of independent non-executive directors. During the period under review, four meetings were held, refer to page 10 for the attendance of the Audit Committee members. At the meetings, the members fulfilled all their functions as prescribed by the Companies Act as well as those additional functions as determined by the Board, except those performed by the Sanlam Life Limited Audit, Actuarial and Finance Committee. A list of the functions of the Audit Committee is contained in the Audit, Actuarial and Risk Committee Charter, some of which is elaborated upon above. The Audit Committee evaluated the Company's internal financial controls, on the basis of reports from management, internal and external audit, and has satisfied itself that there were no material breakdowns in such controls during the year. The Audit Committee has satisfied itself that the auditors are independent of the Company and are therefore able to conduct their audit functions without any undue influence from the Company. The Audit Committee 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 is supported by reasonable and prudent judgements consistently applied and has recommended their approval to the Board.



**CG Swanepoel**  
**Audit, Actuarial and Risk Committee Chairman**

## **Independent Auditor's Report to the Shareholder of Channel Life Limited**

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Channel Life Limited set out on pages 13 to 59, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Channel Life Limited as at 31 December 2018, and its financial performance and 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 Financial Statements* section of our report. We are independent of the company 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 audits of Channel Life Limited. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Channel Life Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Other Information***

The directors are responsible for the other information. The other information comprises of the following:

- Statement of responsibility by the board of directors;
- Certification of the company secretary;
- Audit, actuarial and risk committee's report;
- Directors report;
- Capital management; and
- Risk management report.

The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

#### *Responsibilities of the Directors for the financial statements*

The directors are responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company'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 company or to cease operations, or have no realistic alternative but to do so.

#### *Auditor's Responsibilities for the Audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the 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 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 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 company'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 company'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 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 company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

#### *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. has been the auditor of Channel Life Limited for 13 years.



Ernst & Young Inc.  
 Director - Eugene Breytenbach  
 Chartered Accountant SA  
 Registered Auditor  
 Johannesburg

30 April 2019



#### Nature of business

The Company is a registered Life Insurer, incorporated and domiciled in the Republic of South Africa, providing risk and savings products.

#### Issue of shares

No shares were issued during the year. Details of the Company's authorised and issued share capital are set out in note 6 on Page 42. No shares were issued subsequent to year end up to date of this report.

#### Dividends

A dividend of 29.62 cents per share (49.91 cents on 21 February 2018) was declared on 21 February 2019 in respect of the 2018 earnings. No withholding tax on the dividend declared is raised as the dividend is declared within the Group.

#### Auditors

Ernst & Young Inc.  
102 Rivonia Road  
Sandton  
2146

#### Company details

Registration number:

1969/012487/06

Registered address:

Sanlam Business Park  
13 West Street  
Houghton  
2198

Postal address:

P O Box 1941  
Houghton  
2041

Company secretary

O Ramatlhape

#### Holding company

The Company's holding company is Sanlam Life Insurance Limited and its ultimate holding company is Sanlam Limited.

#### Transfer of business

The intention of the Board is to transfer the business into Sanlam Developing Markets Limited. The timing and regulatory approval thereof has not been finalised, thus the basis of preparation of the 2018 annual financial statements is unaffected.

#### Board of directors and committee memberships

Name	Qualification	Age in 2019	Date Appointed	Date Resigned
<b>Executive directors</b>				
K Socikwa <sup>(1)</sup>	Bcom, LLB, MAP, AMP(Harvard Business School)	50	01-May-17	
J Grobler <sup>(2)</sup>	CA (SA)	49	12-Oct-11	
<b>Non-executive chair</b>				
I Visagie <sup>(3)</sup>	CA (SA)	48	01-Nov-16	
<b>Non-executive directors</b>				
P de V Rademeyer <sup>(4)</sup>	CA(SA), CTA, SEP(Stanford)	72	28-Aug-06	17-Apr-18
J Strydom	BBusSci, CFA, MBA, FIA, FASSA	44	19-Feb-16	
KT Nondumo	CA (SA)	41	23-Aug-16	
CG Swanepoel	FASSA	69	24-Aug-12	
N Mmali	BSocSc, BA(Hons), MDP, ELP	54	23-Aug-16	14-Feb-19
PE Burton	Bcom(Hons), PGD Tax Law	67	22-Aug-17	21-Feb-18
PE Speckmann <sup>(5)</sup>	CA (SA)	63	21-Feb-18	

<sup>(1)</sup> Chief Executive

<sup>(2)</sup> Chief Financial Officer

<sup>(3)</sup> Chairman effective June 2017

<sup>(4)</sup> Previous Lead Independent Director; resigned 17 April 2018

<sup>(5)</sup> Lead Independent Director since 1 May 2018

#### Summary of meetings attended by directors

Name	Board		Audit, Actuarial and Risk Committee		Remuneration Committee	
	A	B	A	B	A	B
J Strydom	4	4				
K Socikwa	4	4	invitation	4	invitation	4
J Grobler	4	3	invitation	3	invitation	3
I Visagie	4	4	invitation	4	invitation	4
P de V Rademeyer	1	1	1	1	1	1
KT Nondumo	4	4	4	3	4	4
CG Swanepoel	4	4	4	4	4	4
N Mmali	4	4	invitation	4		
PE Burton	1	1	1	1		
PE Speckmann	3	3	3	3	3	2

Column A: indicates the number of meetings held during the year while the director was a member of the board or committee.

Column B: indicates the number of meetings attended by the director during the year while the director was a member of the board or committee.

#### Events after the reporting date

No material facts or circumstances have arisen between the date of the Statement of Financial Position and this report which may materially affect the financial position of Channel Life Limited at 31 December 2018.

#### Group annual financial statements

The Company is a wholly owned subsidiary of Sanlam Life Insurance Limited. Channel Life Limited elected in accordance with IFRS 10 paragraph 4(a) not to present consolidated group financial statements. The Board is satisfied that the publication of the Directors' Report together with the annual financial statements of the Company, informs shareholders adequately about the Company's financial position in terms of the Companies Act.

#### Internal control

Based on the reports from management as well as the internal and external auditors, the directors are satisfied that effective systems of internal financial controls are being maintained.

#### Subsidiaries

Details of the Company's principal subsidiaries and associates are set out in note 3.1.

#### Directors' Interests in contracts

No material contracts involving directors' interests were entered into in the year under review, with the exception of contracts within the Sanlam Group.

#### Approval of annual financial statements

The annual financial statements have been approved by the directors as reflected on page 3, including the certification by the Company Secretary on page 4, and the Audit, Actuarial and Risk Committee report for the 2018 financial year on page 5.

#### Notice in terms of section 45 of the Companies Act

A special resolution in terms of section 45 of the Companies Act has been passed authorising the Board to make loans to related companies. The Board is satisfied that the publication of the Directors' Report together with the annual financial statements of Channel Life Limited, informs shareholders adequately about the Company's financial position, results and cash flow in terms of the Companies Act.

#### Corporate governance

The Company is a member of the Sanlam Group of companies and is a wholly owned subsidiary of Sanlam Life Insurance Limited with its ultimate holding Company being Sanlam Limited ("Sanlam"). As a member of the Sanlam Group, the Company has to comply with the Sanlam Group Corporate Governance Policy. After considering the nature of the business of the Company (being that of a Public Operating Company), its position in the Sanlam Group as well as the contents of the Sanlam Group Corporate Governance Policy, the Board has decided to apply all King IV principles and practices covered by the Sanlam Group Corporate Governance Policy. As a first step in the ongoing commitment to continuous improvement and alignment to sound corporate governance business practices the Company reviewed its board charters and policies against the King IV principles and recommended practices.

#### Sanlam Group Corporate Governance Policy

The Board promotes and supports high standards of corporate governance and in doing so endorses the principles of the fourth report on Corporate Governance in South Africa (King IV). The Company subscribes to a governance system whereby, in particular, ethics and integrity set the standards for compliance. It constantly reviews and adapts its structures and processes to facilitate effective leadership, sustainability and corporate citizenship in support of the Sanlam Group Strategy and to reflect national and international corporate governance standards, developments and best practice. With regard to the year under review, the directors believe that the King IV principles are already entrenched in the internal controls, policies and procedures governing corporate conduct within the Company.

#### Application of and approach to King IV

The Board remains committed to the implementation of King IV at the same level as the Sanlam Group. The Board is satisfied that, during 2018, every effort was made to apply and explain all aspects of King IV and has taken steps to ensure adherence with the obligations placed on the Company as a consequence thereof. The Company regularly assesses its compliance levels in respect of King IV to ensure that all areas that require improvement are identified and addressed.

Focus areas during the past financial year for the Company included:

- On going compliance with and enhancement of the Sanlam Group Corporate Governance Policy Framework.
- Implementation of the Sanlam Group Strategy as refined in 2018.
- The annual evaluation of the Company's directors in accordance with the King IV independent criteria and other indicators, and on a substance over form basis.
- Annual review and approval of the Company's Risk Appetite Statement.
- On going adherence to the IT Governance Framework and Charter as well as the IT Policy Framework.

#### Corporate governance (continued)

Information Technology (IT) is essential for the Company as it has become truly pervasive. The Board's governance of IT directs the strategic and operational use of IT, ensuring benefits are realised at an acceptable and articulated level of risk. IT receives appropriate focus and is viewed as an important enabler of projects that effect change in the Company. Thus, IT Governance is extended to include all major change projects. The IT Governance framework established at Sanlam Group level extends into the Company and is tailored to suit their specific needs. Similarly, IT Governance capacity and awareness are established within the Company. The Company uses Sanlam Group policies for risk management, compliance, internal audit, IT management as well as the performance of the non-audit services by the external auditors.

Refer to the Sanlam Group Corporate Governance report 2018 for a greater appreciation of the application of King IV by the Sanlam Group. Specifically, under the Group's Code of Ethical Conduct, no material breaches were reported during 2018. The Group compliance function, together with the compliance functions of the business divisions and units, facilitates the management of compliance through the analysing of statutory and regulatory requirements, and monitoring of the implementation and execution thereof. Material deviations are reported to the Sanlam Risk and Compliance Committee. No material matters of non-compliance with applicable laws, industry regulations and codes, as well as internal policies, were reported during 2018.

#### Board structure and committees

The Board of the Company as at 31 December 2018 consists of 2 executive and 6 non-executive directors, 3 directors of whom are independent, including a lead independent director. All the directors were appointed with the approval of the Company's holding company, also a member of the Sanlam Group of companies. The details of the directors including their attendance of meetings, education, age and length of service can be found on page 10 of the annual financial statements. Details of the director fees paid to individual directors can be found on pages 51 and 52 of the annual financial statements. Formal Board appraisals are conducted. The Company has an Audit, Actuarial and Risk Committee and a Remuneration Committee.

The Audit, Actuarial and Risk Committee and Remuneration Committee consists of independent non-executive directors. Their roles and responsibilities are set out in detail in their respective terms of reference which are reviewed annually. The Company does not have a Nominations Committee, Customer Interest Committee, Social, Ethics & Sustainability Committee, IT Steering Committee or an Investment Committee. Where necessary these functions are appropriately addressed by the Board or by the relevant Board Committee of its holding or ultimate holding company.

#### Summary

The Board is satisfied that the Company complied with all the applicable Sanlam governance policies as well as with all applicable laws and regulations. The Board, after due consideration, has recommended the financial statements to the shareholder for approval.

## 1. Introduction

Channel Life Limited's (the "Company") 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 South African Rand is the functional and presentation currency for the entity.

The Company is a wholly owned subsidiary of Sanlam Life Insurance Limited. Channel Life Limited elected in accordance with IFRS 10 paragraph 4(a) not to present consolidated group financial statements. The Consolidated Financial Statements of the holding company can be found on <https://www.sanlam.com/investorrelations/downloadscentre/Pages/default.aspx>.

The Channel Life Limited annual financial statements was compiled by Mr R Hübner, CA(SA) ACMA CGMA under the supervision of the Chief Financial Officer, Johann Grobler CA (SA).

The following new or revised IFRS and interpretations became effective in the current financial years and have therefore been applied:

- IFRS 9 – Financial Instruments (effective 1 January 2018)
- IFRS 15 – Revenue from Contracts with Customers (effective 1 January 2018)

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

- IFRS 16 – Leases (effective 1 January 2019)
- IFRIC 23 – Uncertainty over income tax treatments (effective 1 January 2019)
- IFRS 17- Insurance Contracts (effective 1 January 2022)

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 Company does not intend to adopt the standard before its effective date. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. Under the new standard, an asset (the right to use the leased item) and the liability to pay rentals are recognised. The only exceptions are short term and low-value leases. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The accounting for lessors will not change significantly.

As lessor: This new standard is not expected to have a significant impact on how the Company (as lessor) accounts for leases due to the carry forward of the lessor accounting model from IAS 17. However, the Company anticipates an impact as a result of the enhanced disclosures for lessors required by IFRS 16 namely:

- components of lease income; and
- risk management with respect to exposure to residual asset risk.

As lessee: The standard will affect primarily the accounting of the Company's operating leases. As at the reporting date, the Company has non-cancellable operating lease commitments of R14.8 million. However, the Company has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Company's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value assets and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

As lessee, the Company can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

## 1. Introduction (continued)

The lessee applies the election consistently to all of its leases. The Company plans to apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach the leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company is assessing the potential impact of using these practical expedients.

The Company is not required to make any adjustments for any leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

IFRIC 23: Uncertainty over Income Tax Treatments was issued in June 2017. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. Initial work performed, indicates that there will be limited impact on the financial statements as a result of this standard interpretation.

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 Company 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 2019.

The Company does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Company.

## 2. Financial statements presentation

### 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 Company's 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; and
- Potential claims and contingencies.
- Impairment of financial assets
- Classification of financial assets

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 20 for further information on critical estimates and judgements.

### Policyholders' and shareholders' activities

The Company's financial statements set out on pages 13 to 81 include the activities of the policyholders and shareholders.

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 actuarial professional guidance. The valuation bases in respect of policy liabilities and the profit entitlement of shareholders are set out in accounting policy note 3 and note 20.

### 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 discretionary shareholders' fund investment portfolios, which are disclosed as investments in the Company's 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.

## 2. Financial statements presentation (continued)

### Financial instruments

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

- Note 3: Investments;
- Note 7: Long-term policy liabilities;
- Note 20: Critical accounting estimates and judgements; and
- Page 63: Risk management report.

### Funds received from clients

Funds received from clients include single and recurring long-term insurance premium income from insurance and investment policy contracts, which are included in the financial statements.

### New business

In the case of long-term insurance business, the value of all new policies (insurance and investment contracts) that have been issued during the financial year and have at least one premium recognised in the financial statements, which was not subsequently refunded, is regarded as new business.

### Payments to clients

Payments to clients include policy benefits paid in respect of long-term insurance and investment policy contracts, which are included in the financial statements.

### Intergroup loans

Intergroup loans are disclosed as follows:

- Loans between the Company and the ultimate holding company are disclosed as intercompany loans;
- Loans between the Company and other fellow subsidiary companies are disclosed as intercompany loans; and
- Loans between the Company and subsidiaries are included in investment in subsidiaries, to reflect the total investment in these subsidiaries.

The fair value of intergroup loans is approximated by its carrying amount.

## 1. Introduction

The Company 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, derivative financial instruments and the determination of impairment losses.

These policies (as set out below) are in accordance with and comply with IFRS and have been applied consistently for all periods presented, unless otherwise noted.

## 2. Significant accounting policies

### 2.1. Equipment

Equipment is reflected at its depreciated cost prices less accumulated impairment, 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 three and ten 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 of the assets and depreciation methods are reviewed at each statement of financial position date and adjusted as appropriate.

Useful life for types of equipment:

• Computer Equipment	3 years
• Office Equipment	5 years
• Office Furniture	10 years
• Vehicles	5 years

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 Company 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 differences between the carrying amounts at the date of de-recognition and any disposal proceeds, as applicable, is recognised in the statement of comprehensive income.

### 2.2. Long-term reinsurance assets

Contracts entered into with reinsurers under which the Company is compensated for losses on one or more long-term policy contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as long-term reinsurance contracts. The expected claims and benefits to which the Company is entitled under these contracts are recognised as assets where material. The Company 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.

### 2.3. Financial instruments

Financial instruments carried on the statement of financial position include investments (excluding associates), receivables, cash, deposits and similar securities, loan to/from holding company, investment policy contracts and trade creditors.



## 2.3. Financial instruments (continued)

### 2.3.1. Recognition and de-recognition

Financial instruments are recognised when the Company becomes party to a contractual arrangement that constitutes a financial asset or financial liability for the Company that is not subject to suspense conditions.

Financial instruments are derecognised when the contractual right to receive the cash flows expire or when the asset is transferred. On derecognition of a financial asset, the difference between the carrying amount at the date of derecognition and the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation to deliver cash or other resources in terms of the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Collateral placed at counterparties as part of the Company'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 counterparties 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.

### 2.3.2. Classification

#### 2.3.2.1. Financial assets

On initial recognition, a financial asset is classified as measured at:

- Amortised cost; or
- Fair value through profit or loss (either mandatory or designated); or
- Fair value through other comprehensive income.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principle and interest on the principle amount outstanding.

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principle and interest on the principle amount outstanding.

All financial assets not classified as measured at amortised cost or at fair value through other comprehensive income as described above are mandatorily measured at fair value through profit and loss. In addition, the Company designated certain financial assets that would meet the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

#### 2.3.2.2. Financial liabilities

On initial recognition, the Company classifies its financial liabilities into one of the following categories:

- Amortised cost; or
- Fair value through profit or loss (either mandatory or designated);

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 liabilities classified as at fair value through profit or loss comprise held-for-trading liabilities, including derivatives (mandatory fair value through profit or loss) as well as financial liabilities designated as at fair value through profit or loss.

### 2.3. Financial Instruments (continued)

On initial recognition the Company designates a financial liability as at fair value through profit or loss when doing so results in more relevant information either because:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and on them on a different basis; or
- a group of financial liabilities; or a group of financial assets and liabilities in managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the entity's key management personnel.

The Company 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 Company's capital and activities on a fair value basis. The Company's internal management reporting basis is consistent with the classification of its financial instruments.

#### 2.3.3. Initial measurement

A financial asset or financial liability is initially measured at fair value, plus for a financial asset or financial liability not measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. 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 part of investment surpluses.

#### 2.3.4. Subsequent measurement

Financial instruments classified as at fair value through profit or loss are measured at fair value after initial recognition. Net gains and losses (i.e. on the sale of investments and fair value gains and losses), interest or dividend income and foreign exchange gains or losses are recognised in profit or loss. 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.

Financial instruments classified as at amortised cost are measured at amortised cost using the effective interest method. Interest income, interest expense, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss or derecognition is also measured in profit or loss.

#### 2.3.5. Impairment

The Company recognises loss allowances for expected credit losses ("ECL") on financial assets measured at amortised cost.

At each reporting date, the loss allowances are measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition.

At each reporting date, the loss allowances are measured at an amount equal to the 12 month expected credit losses if:

- The credit risk on a financial instrument has not increased significantly since initial recognition; or
- Financial instruments are determined to have a low credit risk at the reporting date.

The Company determines whether the credit risk on a financial instrument has increased significantly by comparing this risk of default occurring on the financial instrument as at the reporting date with the risk of default occurring on the financial instrument as at the date of initial recognition together with reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition.

At each reporting date the loss allowance are measured at an amount equal to the 12-month expected credit losses if the credit risk on a financial instrument has not increased significantly since initial recognition. Financial instruments that are determined to have a low credit risk at the reporting date are assumed to have no significant increase in credit risk.

### 2.3. Financial instruments (continued)

At each reporting date, the loss allowance are measured at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition in credit risk.

12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

An impairment gain or loss is recognised in profit or loss for the amount of expected credit losses (or reversals) that is required to adjust the allowance at the reporting date.

#### 2.3.6. *Measurement of expected credit losses*

Expected credit losses are a probability-weighted estimate of credit losses measured as the present value of all cash short falls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

#### 2.3.7. *Presentation of loss allowances in the statement of financial position*

Loss allowances for expected credit losses are presented as a deduction from the gross carrying amounts of the financial assets.

#### 2.3.8. *Write-offs*

The gross carrying amount of a financial asset is written off and reduced when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof.

#### 2.3.9. *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.

#### 2.3.10. *Determination of fair value and fair value hierarchy*

The Company is required to disclose the 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 financial assets and liabilities that are measured by reference to unadjusted, quoted prices in an active market for identical assets and liabilities.

Included in Level 2 category are financial 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.

Financial assets and liabilities measured using inputs that are not based on observable market data are categorised as Level 3.

## 2.4. Investments

### 2.4.1. Subsidiaries

The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investments in subsidiaries are treated as investments at fair value through profit and loss. The fair value of insurance companies are determined by using the Group Equity Value methodology and non-insurance companies are determined by the using the net asset value methodologies. The net asset value approximates fair value.

### 2.4.2. Other investments

Other investments comprise:

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

These investments are either classified 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. Structured transactions include derivatives, structured notes and collateralised securities.

The following bases are used to determine fair value, for those investments that are classified at fair value through profit or loss:

- Listed shares and units in collective investment schemes are valued at the stock exchange and net asset value prices respectively;
- The value of unlisted shares is determined by the directors using appropriate valuation bases;
- Listed bonds are valued at the stock exchange prices;
- Unlisted interest-bearing investments are valued by discounting expected future cash flows at appropriate market interest rates; and
- Listed derivative instruments are valued at the South African Futures Exchange prices and the value of unlisted derivatives is determined by the directors using generally accepted valuation models.

### 2.4.3. Structured transactions

Structured transactions include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency, 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 Company 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 Company calibrates its valuation techniques against market transactions or any available observable market data. Day one gains or losses on derivatives, 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. In all other cases the difference is deferred until 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 Company does not separate out embedded derivatives that meet the definition of an insurance contract or relate to investment contracts recognised at fair value.

Structured transaction liabilities are classified as mandatorily measured at fair value through profit or loss.

## 2.5. Trade and other receivables

Trade and other receivables are measured at amortised cost using the effective interest rate method.

Accrued investment income is classified in accordance with the classification of the asset that the investment income stems from to the extent that it forms part of the carrying value of the instrument.

## 2.6. 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.

## 2.7. Share capital

Share capital is classified as equity where the Company 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.

## 2.8. Long-term policy liabilities

A contract is classified as insurance where the Company 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 Company, 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 IFRS 9 (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.

## 2.9. Provisions

Provisions are recognised when the Company 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 for onerous contracts are recognised when the expected benefits to be derived from contracts are less than the unavoidable cost of meeting the obligations under the contracts. Provisions are measured at the present value of the amounts that are expected to be paid to settle the obligations. Provisions are charged to the income statement in the line item to which it relates.

## 2.11. Financial services income (continued)

## 2.10. Trade and other payables

Trade and other payables are measured at amortised cost using the effective interest rate method.

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

### 2.10.1. Leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated annual leave as a result of services rendered by employees up to balance sheet date and is included in accounts payable in trade and other payables.

## 2.11. Financial services income

Financial services income is considered to be revenue for IFRS purposes and includes both IFRS 15 revenue and revenue scoped out of IFRS 15. The different sources of revenue are listed below:

- Major IFRS 15 revenue sources:
  - > Income from investment management activities, such as fund management fees, collective investment and linked-product administration fees, commissions, performance fees and other fees;
  - > Income from capital market activities, such as advisory fees and structuring fees on financing provided; and
  - > Income from other financial services, such as independent financial advice and trust services.
- Major revenue sources not within the scope of IFRS 15:
  - > Income earned from long-term insurance activities, such as risk underwriting charges and asset mismatch profits or losses in respect of non-participating business;
  - > Income from investments held for capital market activities, such as realised and unrealised gains or losses on unsecured corporate bonds and money market assets and liabilities.

Revenue within the scope of IFRS 15 is either recognised at point in time or over time. Revenue is recognised over time if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
- The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

If none of the above criteria is met, revenue is recognised at point in time.

### IFRS 15 revenue disaggregation

Revenue from contracts with customers are disaggregated by geographic location and type of revenue. We believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

### Recognition of different sources of revenue

Fees for investment management or administration services in respect of investment contracts are recognised as services rendered. Initial fees that relate to future rendering of services are deferred and recognised as those future services are rendered. Related performance fees are also recognised over time, however represent variable consideration and therefore recognition is constrained until there is a "high degree of confidence" that revenue will not be reversed in a subsequent reporting period; this is typically on crystallisation of the fee.

Commissions from investment management or administration services in respect of investment contracts are recognised as services are rendered. For IFRS 15 purposes, these commissions are recognised either at point in time or over time.

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 over time as the related services are rendered.



## 2.12. Investment return

### 2.12.1. Investment income

Investment income includes interest 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 net income earned from interest margin business.

Dividend income is recognised when the right to receive payment has been established. Dividend income from subsidiaries is recognised when the dividends are declared by the subsidiary.

### 2.12.2. 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 valuation of investments at fair value excluding dividend and interest income. These surpluses are recognised in the statement of comprehensive income on the date of sale or upon valuation to 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.

## 2.13. 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.

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 Company's statement of comprehensive income but reflected as a reduction in long-term policy liabilities.

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.

## 2.14. Sales remuneration

Sales remuneration consists of commission payable to sales staff on long-term investment and insurance business and expenses directly related thereto, bonuses payable to sales staff and the Company'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.

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.

## 2.15. Administration costs

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

## 2.16. Leases

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 a penalty is recognised as an expense in the period in which termination takes place.

## 2.17. Taxation

### 2.17.1. Normal income tax

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

### 2.17.2. Deferred income tax

Deferred income tax is provided for on all taxable 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 where the Company 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 income 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.

## 2.18. Foreign currencies

Foreign currency transactions are translated to functional currency, i.e. the currency of the primary economic environment in which each of the Company'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 working capital assets and liabilities are recognised in the statement of comprehensive income as financial services income. Exchange differences on non-monetary assets and monetary assets classified as investment assets, such as equities and foreign interest-bearing investments, are included in investment surpluses.

## 2.19. Retirement benefits

Retirement benefits for employees are provided by way of defined contribution pension and provident funds. The assets of these funds are held in separate trustee-administered funds. The retirement plans are funded by payments from employees and from the Company, taking into account the recommendations of independent qualified actuaries.

The Company's contributions to the defined contribution funds are charged to the statement of comprehensive income in the year in which they are incurred in accordance with IAS 19 Employee Benefits.



#### **2.19.1. Defined contribution plans**

A defined contribution plan is a pension plan under which a Company and employees pay contributions into a fund. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employees service in the current and prior periods. Company contributions to the pension funds are based on a percentage of the payroll and are charged against income as incurred.

#### **2.20. Dividends**

Dividends proposed or declared after the statement of financial position date are not recognised at the statement of financial position date.

#### **2.21. Other reserve**

The deferred tax asset recognised in respect of the assessed tax loss in policyholder funds increased the Company's net assets without a corresponding increase in policy liabilities. This created a mismatch with a corresponding impact on the shareholders' fund. A separate reserve is created for this deferred tax asset owing to the fact that it represents net assessed losses to the extent assets are considered recognisable, and will be realised as the assessed tax loss is utilised.

### **3. Policy liabilities**

#### **3.1. 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 the Company are set out below.

The valuation bases and methodology, which comply with South African actuarial guidelines and require 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 2018 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 subsidiaries, associated companies and consolidated funds, which are valued at fair value.

#### **3.2. Classification of contracts**

A distinction is made between investment contracts without discretionary participation features (DPF) (which fall within the scope of IFRS 9 – Financial Instruments), 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 an insurance contract where the Company 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 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.

### 3.2. Classification of contracts (continued)

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 Company, 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 IFRS 9 (i.e. all investment contracts without DPF) are designated as at fair value through profit or loss.

### 3.3. Insurance contracts

#### 3.3.1. Individual insurance contracts

The actuarial value of the policy liabilities is determined using the FSV method as described in the Standard of Actuarial Practice (SAP) 104 issued by the Actuarial Society of South Africa (Actuarial Society), which is 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.

Liabilities are valued as the present value of expected future cash flows discounted at the rate of return assumed on the assets backing the policyholder funds. There is a small portfolio of non-profit life annuities for which cash flows are discounted using the South African risk-free yield curve. Future cash flows are projected on a best estimate basis with an allowance for compulsory margins as set out in SAP104 and discretionary margins in line with Company policy. Best estimate assumptions are required for future: investment returns, bonus rates, expenses, persistency, mortality and other factors that may impact on the financial position of the Company. Future voluntary premium increases are profitable and are therefore ignored in line with SAP 104. In order to ensure appropriate recognition of profit over the life of a contract, no policy is permitted to have an overall negative liability. This results in a discretionary margin for insurance contracts of R306 million (2017: R276 million). No other discretionary margins are added for insurance contracts.

Economic assumptions are derived with reference to the yield at the valuation date on the risk free yield curve at duration consistent with that of the liabilities. The duration is 5 years (2017: 5 years).

The appropriate asset composition of the various asset portfolios, investment management expenses, taxes at current tax rates and charges for investment guarantees are taken into account in determining the valuation discount rate for each portfolio. The assumptions adopted allow for the current and expected future tax position of the Company.

The economic assumptions are as follows:

	Dec-18	Dec-17
Fixed interest	8.60%	8.00%
Equities	12.10%	11.50%
Property	9.60%	9.00%
Cash	7.60%	7.00%

The gross weighted average return is 9.3% (2017: 8.7%) based on an assumed asset mix of fixed interest (35%), equities (30%) and cash (35%).

Expense inflation is also based on the fixed interest yield and is assumed to be 6.6% (2017: 6%).

Demographic assumptions including mortality, morbidity and persistency rates are derived directly from recent experience and are adjusted for anticipated future trends. Investigations are performed at least annually and the most recent was performed in June 2018. The future development of AIDS mortality is projected in line with the requirements of Advisory Practice Note (APN) 105, of the Actuarial Society.

### 3.3.1. Individual insurance contracts (continued)

Future expenses are projected on a per policy basis where the per policy expense is derived from the higher of budget 2019 expenses and actual 2018 expenses and deflated/escalated at the assumed expense inflation rate. Renewal expenses are determined by removing acquisition costs and non-recurring expenses from the total expenses and adding an allowance for future project costs which is derived from an analysis of historical project costs.

For individual policies where benefits are linked to the return on an underlying investment portfolio (including smoothed bonus business), the liabilities are taken as the market values of the underlying investments, built up from the investment allocations made from the premiums paid, adjusted to allow for the discounted present value of the difference between expected future expenses and expected future charges.

Policyholder reasonable expectations are allowed for by projecting future bonuses in line with future investment returns.

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.

For certain minor classes of business, including certain rider benefits, liabilities were calculated as a multiple of the monthly premium.

The financial soundness methodology includes allowance for liability adequacy testing (as required by IFRS 4) to ensure that the carrying amount of technical provisions is sufficient in view of estimated future cash flows. When performing the liability adequacy test, contractual cash flows are discounted and compared to the carrying value of the liability. Where a shortfall is identified an additional provision is made. No such provision was required at 31 December 2018. For smoothed bonus business, this results in an implicit bonus smoothing reserve which is currently positive for all such business.

### 3.3.2. Group insurance contracts

For group insurance contracts, appropriate reserves are held for the unexpired risk portion of cover provided and for disability claims in payment.

### 3.4. Investment contracts

#### 3.4.1. Investment contracts without discretionary participation features

Investment contracts without discretionary participation features have been valued in terms of IAS 39. These contracts are disclosed under "liabilities under investment contracts" and are valued at fair value. All movements, other than fair value movements, on investment contracts are excluded from the statement of comprehensive income and accounted for directly as part of the liability.

Fully linked investment contracts are valued by setting the value of the liabilities equal to the market value of the assets backing the policies.

Single premium guaranteed policies are valued by discounting expected future cash flows using a risk free yield curve. Liabilities are currently held for single premium policies marketed through two different distribution channels. The first group were marketed by the Company; no further single premium policies are being sold through the Company's distribution staff, other than continuations of existing contracts. The second group of single premium policies were marketed by Sanlam Personal Finance (SPF). No further single premium guaranteed policies are being sold through SPF. A flat deduction is made from the yield curve to ensure that the liability value for a newly incepted contract is no less than the premium received (after direct initial costs for the Company marketed policies and direct and indirect initial costs for SPF marketed policies). The level of this deduction is derived for cohorts of similar policies. Profits are recognised over the term of the contract in line with the release of this margin. A test is performed to ensure that this methodology results in a liability figure at least as large as the liability calculated using the compulsory margins as set out in SAP104.

### 3.5. Reinsurance

Liabilities are valued at a gross level before taking reinsurance into account. Where material, the difference between the gross and net (after reinsurance) value of liabilities is held as a reinsurance asset. No impairment is currently provided for against the reinsurance asset based on the credit ratings of the reinsurers.

	Notes	2018 R'000	Restated <sup>(1)</sup> 2017 R'000
<b>ASSETS</b>			
Equipment	1.	9,328	14,794
Long-term reinsurance assets	2.	116,629	124,308
Investments		5,580,808	6,082,011
Investment in subsidiaries	3.1.	1,147	652
Equities and similar securities	3.2.	66,596	77,040
Interest bearing investments	3.3.	1,216,530	1,468,879
Structured transactions	3.3.	536,396	642,204
Investment funds	3.3.	262,860	171,183
Cash, deposits and similar securities	3.3.	3,497,279	3,722,053
Intercompany loans receivable	4.	662	-
Deferred tax asset	8.	25,213	137,882
Working capital assets		419,782	519,596
Trade and other receivables	5.	29,592	57,294
Cash, deposits and similar securities		390,190	462,302
<b>Total assets</b>		<b>6,152,422</b>	<b>6,878,591</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital and premium	6.	200,000	200,000
Other reserve		25,213	137,882
Retained earnings		470,471	567,377
<b>Total equity</b>		<b>695,684</b>	<b>905,259</b>
Long-term policy liabilities		5,110,570	5,655,175
Investment contracts	7.	4,689,944	5,179,796
Insurance contracts	7.	420,626	475,379
Intercompany loans payable	9.	57,417	25,450
Working capital liabilities		288,751	292,707
Trade and other payables	10.	267,565	234,692
Provisions	11.	847	889
Taxation		20,339	57,126
<b>Total liabilities</b>		<b>5,456,738</b>	<b>5,973,332</b>
<b>Total equity and liabilities</b>		<b>6,152,422</b>	<b>6,878,591</b>

<sup>(1)</sup> Refer to note 25 for details on the restatement

			Restated <sup>(1)</sup>
	Notes	2018 R'000	2017 R'000
Net Income		1,011,572	1,405,222
Financial services income	12.	537,695	746,601
Reinsurance premiums paid	13.	(32,818)	(32,853)
Reinsurance commission received	13.	12,983	12,622
Investment income	14.1.	471,734	399,955
Investment surpluses	14.2.	21,978	278,897
Net insurance and investment contract benefits and claims		(590,970)	(818,840)
Insurance contract benefits	15.	(176,711)	(231,963)
Investment contract benefits	15.	(439,215)	(613,368)
Reinsurance claims received	13.	24,956	26,491
		420,602	586,382
Expenses		(126,996)	(123,588)
Sales remuneration		(43,081)	(45,829)
Administration costs	16.	(83,915)	(77,759)
Profit before tax		293,606	462,794
Taxation	17.	(198,181)	(254,255)
Profit after tax		95,425	208,539
Other comprehensive income		-	-
Total comprehensive income for the year attributable to equity holders of the parent		95,425	208,539

<sup>(1)</sup> Refer to note 25 for details on the restatement

	Notes	Share capital R'000	Share premium R'000	Other reserve ( <sup>(1)</sup> ) R'000	Retained earnings R'000	Total equity R'000
Balance at 1 January 2017		10,694	189,306	255,392	463,328	918,720
Profit for the year <sup>(1)</sup>		-	-	-	208,539	208,539
Dividends declared	19.	-	-	-	(222,000)	(222,000)
Transfer to / (from) other reserve <sup>(1)</sup>		-	-	(117,510)	117,510	-
Balance at 31 December 2017		10,694	189,306	137,882	567,377	905,259
Profit for the year		-	-	-	95,425	95,425
Dividends declared	19.	-	-	-	(305,000)	(305,000)
Transfer to / (from) other reserve		-	-	(112,669)	112,669	-
Balance at 31 December 2018		10,694	189,306	25,213	470,471	695,684

<sup>(1)</sup> Refer to note 25 for details on the restatement

	Notes	2018 R'000	Restated 2017 R'000
Cash flow generated / (utilised) from operating activities <sup>(1)</sup>		(72,112)	164,571
Cash generated by operations	23.1.	(116,547)	85,456
Interest received	14.1.	466,497	395,284
Dividends received	14.1.	5,237	4,671
Dividends paid		(305,000)	(222,000)
Taxation paid	23.2.	(122,299)	(98,840)
Cash flow from investing activities <sup>(1)</sup>		-	-
Net increase/(decrease) in cash and cash equivalents		(72,112)	164,571
Cash, deposits and similar securities at beginning of year	23.3.	462,302	297,731
Cash, deposits and similar securities at end of year		390,190	462,302

<sup>(1)</sup> Refer to note 25 for details on the restatement

1. Equipment	Computer equipment R'000	Motor vehicles R'000	Office furniture and equipment R'000	Total R'000
<b>2018</b>				
Balance at the beginning of the year	84	11,050	3,660	14,794
Cost	6,501	21,639	11,785	39,925
Accumulated depreciation	(6,417)	(10,589)	(8,125)	(25,131)
Additions and expenditure capitalised	120	-	-	120
Disposals	-	(809)	(1)	(810)
Cost	-	(4,231)	(12)	(4,243)
Accumulated depreciation	-	3,422	11	3,433
Depreciation	(77)	(4,082)	(617)	(4,776)
Balance at the end of the year	127	6,159	3,042	9,328
Cost	6,621	17,408	11,773	35,802
Accumulated depreciation	(6,494)	(11,249)	(8,731)	(26,474)
<b>2017</b>				
Balance at the beginning of the year	112	12,498	3,921	16,531
Cost	6,763	19,311	11,346	37,420
Accumulated depreciation	(6,651)	(6,813)	(7,425)	(20,889)
Additions and expenditure capitalised	18	2,512	439	2,969
Disposals	-	(101)	-	(101)
Cost	(280)	(184)	-	(464)
Accumulated depreciation	280	83	-	363
Depreciation	(46)	(3,859)	(700)	(4,605)
Balance at the end of the year	84	11,050	3,660	14,794
Cost	6,501	21,639	11,785	39,925
Accumulated depreciation	(6,417)	(10,589)	(8,125)	(25,131)



2. Long-term Reinsurance Assets	2018 R'000	2017 R'000
Balance at the beginning of the year	124,308	125,845
Movement in reinsurers' share of insurance liabilities	(7,679)	(1,537)
Movement in policyholder liabilities	(7,001)	(1,456)
Movement in IBNR	(678)	(81)
Balance at end of year	116,629	124,308

Maturity analysis of long-term reinsurance assets	0 to 1 year R'000	1 to 5 years R'000	> 5 years R'000	Open ended R'000	Total R'000
31 December 2018	16,941	30,604	66,676	2,408	116,629
31 December 2017	19,094	29,490	73,248	2,476	124,308

3. Investments	2018 R'000	2017 R'000
3.1. Investment in subsidiaries		
Channel Management Services (Pty) Ltd		
10 000 000 ordinary shares of R0.01 each, at fair value, representing 100% of the issued share capital of the company	1,147	652
Total investment in subsidiaries	1,147	652
Balance at the beginning of the year	652	652
Fair value adjustment	495	-
Total investment in subsidiaries	1,147	652

3.2. Equities and similar securities		
Equities and similar securities - Listed	66,596	77,040
Total equities and similar securities	66,596	77,040

3. Investments (continued)	Mandatorily measured at fair value through profit or loss R'000	Designated as at fair value through profit or loss R'000	Total fair value R'000	Amortised cost Gross R'000	Expected credit loss allowance for financial assets at amortised cost R'000	Amortised cost Net R'000	Total R'000
3.3. <i>Investments other than equities and similar securities</i>							
<b>31 December 2018</b>							
Interest bearing investments	-	1,216,530	1,216,530	-	-	-	1,216,530
Government	-	254,566	254,566	-	-	-	254,566
Corporate	-	961,964	961,964	-	-	-	961,964
Structured transactions	485,395	51,001	536,396	-	-	-	536,396
Investment funds	262,860	-	262,860	-	-	-	262,860
Cash, deposits and similar securities	-	3,497,279	3,497,279	-	-	-	3,497,279
<b>Total investments other than equities and similar securities</b>	<b>748,255</b>	<b>4,764,810</b>	<b>5,513,065</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,513,065</b>

3. Investments (continued)	Designated at fair value through profit or loss R'000	Held for trading at fair value R'000	Loans and receivables at amortised cost R'000	Total R'000
3.3. <i>Investments other than equities and similar securities (continued)</i>				
<b>31 December 2017</b>				
Interest bearing investments	1,468,879	-	-	1,468,879
Government interest bearing investments	225,639	-	-	225,639
Corporate interest bearing investments	1,243,240	-	-	1,243,240
Structured transactions	642,204	-	-	642,204
Investment funds	171,183	-	-	171,183
Cash, deposits and similar securities	3,722,053	-	-	3,722,053
<b>Total investments other than equities and similar securities</b>	<b>6,004,319</b>	<b>-</b>	<b>-</b>	<b>6,004,319</b>

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 2018 and 2017 was not material.

3. Investments (continued)

3.3. Investments other than equities and similar securities (continued)

Maturity analysis of investments other than equities and similar securities	0 to 1 year R'000	1 to 5 years R'000	> 5 years R'000	Open ended R'000	Total R'000
<b>31 December 2018</b>					
Interest bearing investments	377,460	757,555	81,516	-	1,216,530
Government interest bearing investments	32,519	211,974	10,074	-	254,566
Corporate interest bearing investments	344,941	545,581	71,442	-	961,964
Structured transactions	-	536,396	-	-	536,396
Investment funds <sup>(1)</sup>	-	-	-	262,860	262,860
Cash, deposits and similar securities	1,806,806	1,690,473	-	-	3,497,279
<b>Total investments other than equities and similar securities</b>	<b>2,184,266</b>	<b>2,984,424</b>	<b>81,516</b>	<b>262,860</b>	<b>5,513,065</b>
<b>31 December 2017</b>					
Interest bearing investments	608,448	776,575	83,856	-	1,468,879
Government interest bearing investments	24,247	190,889	10,503	-	225,639
Corporate interest bearing investments	584,201	585,686	73,353	-	1,243,240
Structured transactions	186,799	455,405	-	-	642,204
Investment funds <sup>(1)</sup>	-	-	-	171,183	171,183
Cash, deposits and similar securities	622,964	3,099,089	-	-	3,722,053
<b>Total investments other than equities and similar securities</b>	<b>1,418,211</b>	<b>4,331,069</b>	<b>83,856</b>	<b>171,183</b>	<b>6,004,319</b>

<sup>(1)</sup> Investment funds are classified as open ended. Assets are considered open ended when they have no fixed maturity date or regularly traded to meet liquidity requirements.

Equity price risk sensitivity	Total non linked equity exposure R'000	Effect of an 1% increase/decrease in equity prices on carrying value	
		+1%	-1%
<b>31 December 2018</b>			
Equities and similar securities	61,208	612	(612)
Investment funds	53,404	534	(534)
Structured transactions	-	-	-
<b>Total</b>	<b>114,612</b>	<b>1,146</b>	<b>(1,146)</b>
<b>31 December 2017</b>			
Equities and similar securities	71,749	717	(717)
Investment funds	51,906	519	(519)
Structured transactions	(56)	(1)	1
<b>Total</b>	<b>123,599</b>	<b>1,235</b>	<b>(1,235)</b>

3. Investments (continued)

3.4. Fair value disclosures

Valuation techniques used in determining the fair value of financial instruments measured at fair value.

Instrument	Applicable to level	Valuation basis	Main assumptions	Significant Unobservable input
Investment in subsidiaries and associates	2, 3	Group Equity Value, Net Asset Value (NAV)	Bond and interbank swap interest rate curve, Cost of Capital, Consumer price index	Cost of capital
Interest-bearing investments (including insurance policies)	2	Discounted cash flow model (DCF), Quoted put/surrender price by issuer	Bond and interbank swap interest rate curve, Consumer price index	n/a
Structured transactions and investment funds	2	Quoted (exit) price provided by fund manager	n/a	n/a
Investment contract liabilities	2	Current unit price of underlying unitised financial asset, multiplied by the number of units held	Bond and interbank swap interest rate curve, Consumer price index Bond interest rate curve	n/a
Cash, deposits and similar securities	2	Discounted cash flow model (DCF)	Bond and interbank swap interest rate curve	n/a

Fair value hierarchy	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
<b>31 December 2018</b>				
Investment in subsidiaries and associated companies	-	-	1,147	1,147
Equities and similar securities	66,596	-	-	66,596
Interest bearing investments	223,564	992,966	-	1,216,530
Structured transactions	702,800	(166,404)	-	536,396
Investment funds	256,008	6,852	-	262,860
Cash deposits and similar securities	-	3,497,279	-	3,497,279
<b>Total investments at fair value</b>	<b>1,248,968</b>	<b>4,330,693</b>	<b>1,147</b>	<b>5,580,808</b>
Investment contract liabilities	-	4,689,944	-	4,689,944
<b>Total liabilities at fair value</b>	<b>-</b>	<b>4,689,944</b>	<b>-</b>	<b>4,689,944</b>

<sup>(1)</sup> Structured transactions includes net derivative liabilities

<b>31 December 2017</b>				
Investment in subsidiaries and associated companies	-	-	652	652
Equities and similar securities	77,040	-	-	77,040
Interest bearing investments	201,392	1,267,487	-	1,468,879
Structured transactions	653,348	(11,144)	-	642,204
Investment funds	125,305	45,878	-	171,183
Cash deposits and similar securities	91,932	3,630,121	-	3,722,053
<b>Total investments at fair value</b>	<b>1,149,017</b>	<b>4,932,342</b>	<b>652</b>	<b>6,082,011</b>
Investment contract liabilities	-	5,179,796	-	5,179,796
<b>Total liabilities at fair value</b>	<b>-</b>	<b>5,179,796</b>	<b>-</b>	<b>5,179,796</b>

3. Investments (continued)	2018	2017
3.4. Fair value disclosures (continued)	R'000	R'000
Reconciliation of movement in Level 3 financial instruments measured at fair value.		
	Investment in subsidiaries	
Financial assets		
Balance at the beginning of the year	652	652
Total (loss)/gain in statement of comprehensive income - Investment surplus	495	-
Balance at end of year	1,147	652
Gains and losses (realised and unrealised) included in profit or loss		
Total unrealised gains or losses included in profit or loss for the period for assets held at the end of the reporting period	495	-
Transfers between categories		
	Interest-bearing investments	
	R'000	
Financial assets		
31 December 2018		
Transfer from Level 1 to Level 2		-
Transfer from Level 2 to Level 1		-
31 December 2017		
Transfer from Level 1 to Level 2		-
Transfer from Level 2 to Level 1		-

Investments traded in a market that became inactive during the year have been transferred from Level 1 to Level 2. Conversely, investments traded in a market that became active have been transferred from Level 2 to Level 1.

3. Investments (continued)

The table below shows credit risk concentration by credit rating for the Company using international rating scales:

	AAA R'000	AA R'000	A R'000	BBB R'000	BB R'000	Other R'000	Not rated R'000	Total R'000
<b>31 December 2018 <sup>(1)</sup></b>								
<b>Policyholder portfolio</b>								
Government interest bearing investments	-	-	-	218,347	4,303	356	-	223,006
Corporate interest bearing investments	-	118,956	-	24,421	358,387	95,035	-	596,799
Cash deposits and similar securities	-	13,066	-	1,476,439	1,807,301	-	19,499	3,316,305
Structured transactions	-	-	-	486,640	49,756	-	-	536,396
Working capital assets	-	-	-	-	-	-	7,888	7,888
Linked business	-	-	-	4,213	1,657	215	-	6,085
<b>Total</b>	-	132,022	-	2,210,060	2,221,404	95,606	27,387	4,686,479
<b>Shareholder Portfolio</b>								
Government interest bearing investments	-	-	-	25,944	-	5,005	-	30,949
Corporate interest bearing investments	-	6,051	-	164,233	183,672	10,341	-	364,297
Cash, deposits and similar securities	-	-	-	117,415	58,519	-	434	176,368
Intercompany loans receivable	-	-	-	-	-	-	662	662
Structured transactions	-	-	-	-	-	-	-	-
Working capital assets	-	-	-	153,459	137,374	3,861	117,200	411,894
<b>Total</b>	-	6,051	-	461,051	379,565	19,207	118,296	984,170

<sup>(1)</sup> Sanlam aligns the process by which ratings are derived with the SAM disclosure process and as such are derived principally from the internally assessed rating for issuers as opposed to external ratings. This process includes rating structured transactions.

3. Investments (continued)

The table below shows credit risk concentration by credit rating for the Company using international rating scales <sup>(a)</sup>:

	AAA R'000	AA R'000	A R'000	BBB R'000	BB R'000	Other R'000	Not rated R'000	Total R'000
<b>31 December 2017 <sup>(a)</sup> <sup>(b)</sup></b>								
<b>Policyholder portfolio</b>								
Government interest bearing investments	-	-	-	201,911	-	1,305	-	203,216
Corporate interest bearing investments	-	674	125,011	34,576	505,585	99,971	-	765,817
Cash deposits and similar securities	-	-	12,301	3,396,850	244,939	-	8,529	3,662,619
Structured transactions	-	-	-	590,723	50,005	-	-	640,728
Working capital assets	-	-	-	-	-	-	5,301	5,301
Linked business	-	206	685	11,606	3,855	-	-	16,352
<b>Total</b>	-	880	137,997	4,235,666	804,384	101,276	13,830	5,294,033
<b>Shareholder Portfolio</b>								
Government interest bearing investments	-	-	-	21,869	-	-	-	21,869
Corporate interest bearing investments	-	8,118	-	323,087	133,802	-	-	465,007
Cash, deposits and similar securities	-	-	10,900	44,448	-	-	740	55,088
Intercompany loans receivable	-	-	-	-	-	-	-	-
Structured transactions	-	-	-	1,440	-	-	-	1,440
Working capital assets	-	-	17,411	214,305	18,408	-	264,171	514,295
<b>Total</b>	-	8,118	28,311	605,149	152,210	-	264,911	1,058,699

<sup>(a)</sup> Sanlam aligns the process by which ratings are derived with the SAM disclosure process and as such are derived principally from the internally assessed rating for issuers as opposed to external ratings. This process includes rating structured transactions.

<sup>(b)</sup> Prior year figures were restated to align to international rating scales



		2018 R'000	2017 R'000
4.	<b>Intercompany loans receivable</b>		
	Sanlam Developing Markets Limited      Subsidiary of holding company	662	-
	<b>Total intercompany loans</b>	<b>662</b>	<b>-</b>

**Analysis of Intercompany loans:**

	Current	662	-
	<b>Total intercompany loans</b>	<b>662</b>	<b>-</b>

These loans are unsecured and payable on demand. No interest is charged but these arrangements are subject to revision from time to time. The fair value of inter-company loans is approximated by its carrying amount.

	Fair value R'000	Gross amortised cost R'000	ECL on financial assets at amortised cost R'000	Net amortised cost R'000	Non-financial instruments R'000	Total R'000
5.	<b>Trade and other receivables</b>					
<b>31 December 2018</b>						
	-	10,389	-	10,389	-	10,389
	12,348	-	-	-	-	12,348
	-	3,896	-	3,896	-	3,896
	527	2,633	(201)	2,432	-	2,959
	<b>Total trade and other receivables</b>	<b>12,875</b>	<b>16,918</b>	<b>(201)</b>	<b>16,717</b>	<b>29,592</b>
<b>31 December 2017</b>						
						16,351
						11,525
						4,410
						25,008
	<b>Total trade and other receivables</b>					<b>57,294</b>

	2018 R'000	2017 R'000
<b>Classification of trade and other receivables:</b>		
Fair value through profit or loss	12,875	-
Mandatorily measured at fair value through profit or loss	(10,435)	-
Designated at fair value through profit or loss <sup>(1)</sup>	23,310	-
Amortised cost	16,717	57,294
<b>Total trade and other receivables</b>	<b>29,592</b>	<b>57,294</b>

<sup>(1)</sup> The amount of change, during the period and cumulatively, in the fair value of assets designated at fair value through profit or loss that is attributable to changes in credit risk of the financial asset is determined as the change triggered by factors other than changes in the benchmark interest rate. The impact of the changes in credit risk for 2017 and 2018 was not material.

The fair value of trade and other receivables is approximated by its carrying amount. No trade and other receivables of the Company were pledged as collateral. All trade and other receivables are expected to be received within one year.

5. Trade and other receivables (continued)

	2018 R'000
<b>Reconciliation of expected credit losses</b>	
Accounts receivable	
Balance at the beginning of the year	-
IFRS transitional adjustments	(31,324)
Net measurement of loss allowance	(201)
<b>Balance at the end of the year</b>	<b>(31,525)</b>

Expected credit losses have been provided as follows:

Commission receivable (included in accounts receivable):

- 50% of commission receivable iro active tied agents;
- 50% of commission receivable iro active sales representatives;
- 100% of commission receivable iro inactive sales representatives; and
- Broker commission receivable is based on the debtors which amount due is higher than net present value of unearned commission:
  - Target of 83% is set as standard provision for brokers whose outstanding balance is higher than the value of unearned commission
  - 100% of the outstanding amount for terminated brokers with higher risk assessment as determined by the Company.

	2018 R'000	2017 R'000
<b>6. Share capital and premium</b>		
Share capital		
Authorised		
900 million ordinary shares of R0.0175 each	15,750	15,750
Issued		
611 077 563 ordinary shares issued of R0.0175 each	10,694	10,694
Share premium	189,306	189,306
<b>Total issued share capital and share premium</b>	<b>200,000</b>	<b>200,000</b>

	Insurance contracts R'000	Investment contracts R'000	Total R'000
<b>7. Long-term policy liabilities</b>			
<b>7.1. Analysis of movement in policy liabilities</b>			
<b>31 December 2018</b>			
Income	516,567	509,587	1,026,154
Premium income (note 7.2.)	499,094	70,372	569,466
Investment return	17,473	439,215	456,688
Outflow	(563,642)	(994,801)	(1,558,443)
Policy benefits (note 7.3.)	(96,371)	(942,479)	(1,038,850)
Fees, risk premiums and other payments to shareholders' fund (note 12)	(467,271)	(52,322)	(519,593)
Movement in reinsurance assets	(7,678)	-	(7,678)
Movement in partial surrenders	-	(4,638)	(4,638)
<b>Net movement for the year</b>	<b>(54,753)</b>	<b>(489,852)</b>	<b>(544,605)</b>
<b>Balance at beginning of year</b>	<b>475,379</b>	<b>5,179,796</b>	<b>5,655,175</b>
<b>Balance at end of year</b>	<b>420,626</b>	<b>4,689,944</b>	<b>5,110,570</b>

	Insurance contracts R'000	Investment contracts R'000	Total R'000
<b>7. Long-term policy liabilities (continued)</b>			
<b>7.1. Analysis of movement in policy liabilities (continued)</b>			
<b>31 December 2017</b>			
Income	622,568	656,847	1,279,415
Premium income (note 7.2.)	585,083	43,479	628,562
Investment return	37,485	613,368	650,853
Outflow	(651,424)	(786,879)	(1,438,303)
Policy benefits (note 7.3.)	(66,383)	(649,555)	(715,938)
Fees, risk premiums and other payments to shareholders' fund (note 12.)	(585,041)	(137,324)	(722,365)
Movement in reinsurance assets	(1,537)	-	(1,537)
Movement in partial surrenders	-	-	-
Net movement for the year	(30,393)	(130,032)	(160,425)
Balance at beginning of year	505,772	5,309,828	5,815,600
Balance at end of year	475,379	5,179,796	5,655,175

	2018 R'000	2017 R'000
<b>7.2. Analysis of premium income</b>		
Individual business	569,424	624,942
Recurring	499,049	581,463
Single	-	352
Continuations	70,375	43,127
Employee benefits business	42	3,620
Recurring	42	3,620
Total premium income	569,466	628,562

<b>7.3. Analysis of long-term policy benefits</b>		
Individual business	(1,038,850)	(715,938)
Maturity benefits	(888,524)	(525,816)
Surrenders	(120,598)	(163,946)
Life and term annuities	(176)	9
Death and disability benefits	-	(50)
Cash bonuses	(29,552)	(26,135)
Total policy benefits	(1,038,850)	(715,938)

7. Long-term policy liabilities (continued)	2018	2017
7.4. Composition of policy liabilities	R'000	R'000
Individual business	5,089,092	5,628,772
Risk business (including inwards reinsurance)	195,969	232,429
Investments	4,764,167	5,257,465
Linked business	61,539	103,527
Business with no investment guarantees	136,534	98,619
Smoothed bonus	2,077	2,033
Fully guaranteed business	4,564,017	5,053,286
Life Annuities	1,952	2,090
Combined policies	127,004	136,788
Employee benefits business	21,478	26,403
Risk business (including inwards reinsurance)	21,478	26,403
<b>Total policy liabilities</b>	<b>5,110,570</b>	<b>5,655,175</b>

The composition of policy liabilities have been aligned with the new solvency regime compositions. Prior year have been reclassified accordingly.

7.5. Maturity analysis of investment policy contracts	0 to 1 year R'000	1 to 5 years R'000	> 5 years R'000	Open ended R'000	Total R'000
<b>31 December 2018</b>					
Investments	-	4,570,194	64,388	55,362	4,689,944
Linked business	-	-	-	61,539	61,539
Business with no investment guarantees	-	-	64,388	-	64,388
Fully guaranteed business	-	4,570,194	-	(6,177)	4,564,017
<b>Total investment policy contracts</b>	<b>-</b>	<b>4,570,194</b>	<b>64,388</b>	<b>55,362</b>	<b>4,689,944</b>
<b>31 December 2017</b>					
Investments	39,340	5,053,286	22,983	64,187	5,179,796
Linked business	39,340	-	-	64,187	103,527
Business with no investment guarantees	-	-	22,983	-	22,983
Fully guaranteed business	-	5,053,286	-	-	5,053,286
<b>Total investment policy contracts</b>	<b>39,340</b>	<b>5,053,286</b>	<b>22,983</b>	<b>64,187</b>	<b>5,179,796</b>

Investment policy contracts are classified as at fair value through profit or loss.

The composition of investment policy contracts have been aligned with the new solvency regime compositions. Prior year have been reclassified accordingly.

7. Long-term policy liabilities (continued)

7.6. Maturity analysis of insurance policy contracts	0 to 1 year R'000	1 to 5 years R'000	> 5 years R'000	Open ended R'000	Total R'000
<b>31 December 2018</b>					
Risk business (including inwards reinsurance)	13,568	41,366	61,092	101,421	217,447
Investments	18,539	49,483	3,795	2,406	74,223
Business with no investment guarantees	18,539	49,483	3,795	329	72,146
Smoothed bonus	-	-	-	2,077	2,077
Life Annuities	-	-	-	1,952	1,952
Combined policies	18,108	28,662	77,925	2,309	127,004
<b>Total insurance policy contracts</b>	<b>50,215</b>	<b>119,511</b>	<b>142,812</b>	<b>108,088</b>	<b>420,626</b>
<b>31 December 2017</b>					
Risk business (including inwards reinsurance)	19,287	51,696	71,287	116,560	258,830
Investments	19,656	46,643	9,007	2,362	77,668
Business with no investment guarantees	19,656	46,643	9,007	329	75,635
Smoothed bonus	-	-	-	2,033	2,033
Life Annuities	-	-	-	2,090	2,090
Combined policies	19,624	28,478	86,265	2,424	136,791
<b>Total insurance policy contracts</b>	<b>58,567</b>	<b>126,817</b>	<b>166,559</b>	<b>123,436</b>	<b>475,379</b>

These maturity analyses are based on the valuation bases and methodology set out in note 3. of the accounting policies.

The composition of insurance policy contracts have been aligned with the new solvency regime compositions. Prior year have been reclassified accordingly.

7.7. Policy liabilities include:	2018 R'000	2017 R'000
Provision for HIV / Aids and other pandemics	69,893	91,204
	Income Tax R'000	Capital Gains Tax R'000
<b>8. Deferred Tax asset / (liability)</b>		<b>Total R'000</b>
<b>2018</b>		
Balance at the beginning of the year	142,710	(4,828)
Temporary differences (charged) / credited to statement of comprehensive income	(116,716)	4,047
Tax losses and credits	(116,716)	-
Net unrealised investment surpluses on on shareholders' fund	-	4,047
<b>Balance at the end of the year</b>	<b>25,994</b>	<b>(781)</b>

	Income Tax R'000	Capital Gains Tax R'000	Total R'000
<b>8. Deferred Tax asset / (liability) (continued)</b>			
<b>2017 restated <sup>(1)</sup></b>			
Balance at the beginning of the year	258,281	(2,889)	255,392
Temporary differences (charged) / credited to statement of comprehensive income	(115,571)	(1,939)	(117,510)
Tax losses and credits	(115,571)	-	(115,571)
Net unrealised investment surpluses on on shareholders' fund	-	(1,939)	(1,939)
<b>Balance at the end of the year</b>	<b>142,710</b>	<b>(4,828)</b>	<b>137,882</b>

<sup>(1)</sup> Refer to note 25 for details on the restatement

<i>Analysis of deferred tax balances</i>	R'000	R'000	R'000
<b>2018</b>			
Tax losses and credits	25,994	-	25,994
Net unrealised investment surpluses	-	(781)	(781)
<b>Balance at the end of the year</b>	<b>25,994</b>	<b>(781)</b>	<b>25,213</b>
<b>2017 restated <sup>(1)</sup></b>			
Tax losses and credits	142,710	-	142,710
Net unrealised investment surpluses	-	(4,828)	(4,828)
<b>Balance at the end of the year</b>	<b>142,710</b>	<b>(4,828)</b>	<b>137,882</b>

<sup>(1)</sup> Refer to note 25 for details on the restatement

#### 8.1. Deferred tax assets raised in respect of policyholder funds

The taxation of risk business written by the Company was amended through the introduction of a separate risk policyholder tax fund (RPF) effective 1 January 2016.

The Company wrote large volumes of risk business in the past which generated a tax loss within the individual policy fund (IPF) on an annual basis. The level of the tax loss generated annually by new risk business was of such an extent that it was not considered probable that it would be fully utilised. No deferred tax asset was therefore recognised in respect of the tax loss. With all new risk business now being written within the RPF, taxable investment income generated by savings business remaining within the IPF will in future utilise the available tax loss. The International Financial Reporting Standards (IFRS) requirement for the recognition of a deferred tax asset in respect of the tax loss is therefore met, with an amount of R255 million recognised in 2016. The recognition of the asset in respect of the policyholder fund did not result in a similar increase in investment contract liabilities in terms of IFRS, causing a mismatch between policyholder assets and liabilities. This mismatch is recognised in the other reserve, with movements in the mismatch included in the taxation line in the income statement. The utilisation of this asset in the current financial year were R113 million (2017: R118 million).

		2018 R'000	2017 R'000
<b>9. Intercompany payable</b>			
Sanlam Life Insurance Limited	Holding company	57,417	25,162
Sanlam Developing Markets Limited	Fellow subsidiary	-	288
<b>Total intercompany loans</b>		<b>57,417</b>	<b>25,450</b>

	2018 R'000	2017 R'000
<b>9. Intercompany payable (continued)</b>		
<b>Analysis of intercompany loans:</b>		
Current	57,417	25,450
<b>Total intercompany loans</b>	<b>57,417</b>	<b>25,450</b>

These amounts are classified as loans and payables. These loans are unsecured and payable on demand. No interest is charged but these arrangements are subject to revision from time to time. The fair value of inter-company loans is approximated by its carrying amount.

**10. Trade and other payables**

Accounts payable	80,991	67,256
Policy benefits payable	172,505	153,307
Amounts due to reinsurers	739	8
Operating lease creditor	139	-
Claims incurred but not reported	13,191	14,121
<b>Total trade and other payables</b>	<b>267,565</b>	<b>234,692</b>

**Classification of trade and other payables:**

Amortised cost	254,235	234,692
Non-financial instrument <sup>(1)</sup>	13,330	-
<b>Total trade and other payables</b>	<b>267,565</b>	<b>234,692</b>

<sup>(1)</sup> Non-financial instruments include liability for share based payments, operating lease creditor, income received in advance and claims incurred but not reported.

The fair value of trade and other payables is approximated by its carrying amount. With the exception of the liability for share based payments, trade and other payables are payable within one year. In respect of the liability for the share based payments, the amounts outstanding are payable over five years, however weighted towards three to five years. The effect of discounting is considered immaterial.

	Bonus provision R'000	Other R'000	Total R'000
<b>11. Provisions</b>			
<b>2018</b>			
Balance at the beginning of the year	639	250	889
Charged to statement of comprehensive income	(217)	175	(42)
Additional provisions	632	600	1,232
Unused amounts reversed	22	-	22
Utilised during the year	(871)	(425)	(1,296)
<b>Balance at the end of the year</b>	<b>422</b>	<b>425</b>	<b>847</b>

11. Provisions (continued)	Bonus provision R'000	Other R'000	Total R'000
<b>2017</b>			
Balance at the beginning of the year	607	150	757
Charged to statement of comprehensive income	32	100	132
Additional provisions	908	100	1,008
Balance at the end of the year	639	250	889

Analysis of provisions:	2018 R'000	2017 R'000
Current	847	889
Total provisions	847	889

11. Provisions (continued)

**Bonus provision**

This provision relates to bonus payments to staff.

**Other provision**

Includes sundry provision for possible outflows arising from past events. The timing of settlement cannot reasonably be determined but the amount can be reliably estimated.

12. Financial services income	2018 R'000	2017 R'000
Long term insurance gross of reinsurance (note 7.1.)	519,593	722,365
Long term insurance (net of reinsurance)	486,775	689,512
Reinsurance premiums	32,818	32,853
Other financial services income	18,102	24,236
Total financial services income	537,695	746,601

**Analysis per revenue category**

Long-term insurance fee income	519,593	722,365
Other financial services income	18,102	24,236
Working capital	2,992	7,822
Funeral Parlour	14,411	16,212
Other	699	202
Total financial services income	537,695	746,601



**12. Financial services income (continued)**

**Disaggregation of revenue**

According to primary geography	South Africa R'000	Rest of Africa R'000	Other International R'000	Total R'000
IFRS 15 Revenue	32,000	-	-	32,000
Administration fees	32,000	-	-	32,000
Revenue not within the scope of IFRS 15	505,695	-	-	-
<b>Total financial services income</b>	<b>537,695</b>	<b>-</b>	<b>-</b>	<b>537,695</b>

According to timing of revenue recognition	At a point in time	Over time R'000	Not in the scope of IFRS 15 R'000	Total R'000
IFRS 15 Revenue	1,770	30,230	-	32,000
Administration fees	1,770	30,230	-	32,000
Revenue not within the scope of IFRS 15	-	-	505,695	505,695
<b>Total financial services income</b>	<b>1,770</b>	<b>30,230</b>	<b>505,695</b>	<b>537,695</b>

<b>13. Reinsurance</b>	<b>2018 R'000</b>	<b>2017 R'000</b>
<b>Reinsurance premium paid</b>		
Long-term insurance	(32,818)	(32,853)
<b>Total reinsurance premium paid</b>	<b>(32,818)</b>	<b>(32,853)</b>
<b>Reinsurance commission received</b>		
Long-term insurance	12,983	12,622
<b>Total reinsurance claims received</b>	<b>12,983</b>	<b>12,622</b>
<b>Reinsurance claims received</b>		
Long-term insurance	24,956	26,491
<b>Total reinsurance claims received</b>	<b>24,956</b>	<b>26,491</b>

**14. Investment return**

**14.1. Investment income**

Equities and similar securities	5,237	4,671
Interest-bearing preference shares and similar securities	466,497	395,284
<b>Total investment income</b>	<b>471,734</b>	<b>399,955</b>

14.2. <i>Investment surpluses / (losses)</i>	2018 R'000	2017 R'000
Financial assets designated as at fair value through profit or loss	41,946	278,897
Financial assets mandatorily measured at fair value through profit or loss	(19,968)	-
<b>Total investment surpluses</b>	<b>21,978</b>	<b>278,897</b>

**15. Long-term investment and insurance contract benefits**

Insurance contracts	(176,711)	(231,963)
Net underwriting policy benefits	(134,282)	(167,987)
After tax investment return attributable to insurance contract liabilities (note 7.1.)	(17,473)	(37,485)
Reinsurance claims received	(24,956)	(26,491)
Investment contracts	(439,215)	(613,368)
After tax investment return attributable to investment contract liabilities (note 7.1.)	(439,215)	(613,368)
<b>Total Long-term investment and insurance contract benefits</b>	<b>(615,926)</b>	<b>(845,331)</b>

**Analysis of gross underwriting policy benefits:**

Individual life	(159,246)	(184,725)
Employee benefits	8	(9,753)
<b>Total gross underwriting policy benefits</b>	<b>(159,238)</b>	<b>(194,478)</b>

**16. Administration costs**

Administration costs include:

Auditors' remuneration	6,376	6,234
Audit fees: statutory audit	6,376	6,234
Other services provided	-	-
Depreciation property and equipment (note 1.)	4,776	4,605
Operating leases - Properties	8,257	8,442
Consultancy fees	457	710
Employee benefits	12,585	12,851
Salaries and other short-term benefits	12,252	12,391
Pension costs - defined contribution plans	333	460

## 16. Administration costs (continued)

16.1. Directors' and prescribed officers' remuneration <sup>(1)</sup>

31 December 2018	Salary	Company contributions	Bonus	Attributable value of LTIs <sup>(2)</sup>	OPP payment	Directors' fees	Allowance	Attendance and committees	Included in Total paid by the Company	Total
K Socikwa <sup>(3)</sup>	3,613	212	2,827	428	-	-	-	-	7,080	7,080
J Grobler	2,107	171	1,285	683	-	-	-	-	4,246	4,246
Executive directors	5,720	383	4,112	1,111	-	-	-	-	11,326	11,326
I Visagie <sup>(4)</sup>	2,715	178	2,318	1,170	-	-	-	-	-	6,381
P de V Rademeyer <sup>(5)</sup>	-	-	-	-	-	-	-	83	83	83
K Nondumo	-	-	-	-	-	622	-	1,754	199	2,376
CG Swanepoel	-	-	-	-	-	614	-	3,078	313	3,692
N Mmatli <sup>(6)</sup>	2,480	239	1,051	345	-	-	-	-	-	4,115
P Burton <sup>(7)</sup>	-	-	-	-	-	-	-	43	43	43
PE Speckmann <sup>(8)</sup>	-	-	-	-	-	303	561	162	162	1,026
Non-executive directors	5,195	417	3,369	1,515	-	1,539	561	5,120	800	17,716

<sup>(1)</sup> The remuneration disclosed reflects the total remuneration paid to Channel Life Limited directors for services rendered to the broader Sanlam Limited Group for the full year.

<sup>(2)</sup> Fair value of LTIs granted during the year, assuming 100% vesting.

<sup>(3)</sup> New Chief Executive appointed 01 May 2017

<sup>(4)</sup> Chairman effective June 2017; Non-Executive director before that date

<sup>(5)</sup> Resigned as at 17 April 2018

<sup>(6)</sup> Resigned as at 14 February 2019

<sup>(7)</sup> Resigned 21 February 2018

<sup>(8)</sup> Appointed 21 February 2018. PE Speckmann is a direct holder of 2 000 Sanlam Limited ordinary shares.

Refer to page 9 for dates of appointment of directors.

16. Administration costs (continued)  
 16.1. Directors' and prescribed officers' remuneration <sup>(1)</sup> (continued)

31 December 2017	Salary	Company contributions	Bonus	Attributable value of LTIs <sup>(2)</sup>	OPP payment	Directors' fees	Allowance	Attendance and committees	Included in Total paid by the Company	Total
K Socikwa <sup>(3)</sup>	2,294	146	1,800	4,737	-	-	-	-	8,976	8,976
J Grobler	1,973	158	1,417	474	-	-	-	-	4,023	4,023
Executive directors	4,267	305	3,217	5,210	-	-	-	-	12,999	12,999
J Strydom <sup>(4)</sup>	4,027	209	4,000	3,325	7,125	-	-	-	-	18,686
H Brody <sup>(5)</sup>	2,202	84	-	2,500	-	-	-	-	-	4,786
I Visagie <sup>(6)</sup>	2,483	205	1,884	1,073	-	-	-	-	-	5,645
P de V Rademeyer	-	-	-	-	-	564	46	1,378	323	1,988
D Ladds <sup>(7)</sup>	-	-	-	-	-	889	12	477	53	1,378
K Nondumo	-	-	-	-	-	400	46	758	207	1,204
CG Swanepoel	-	-	-	-	-	736	46	2,440	222	3,222
N Mmadi	2,240	225	1,077	799	-	-	-	-	-	4,341
P Burton	-	-	-	-	-	26	-	41	67	67
Non-executive directors	10,952	723	6,961	7,697	7,125	2,615	150	5,094	804	41,251

<sup>(1)</sup> The remuneration disclosed reflects the total remuneration paid to Channel Life Limited directors for services rendered to the broader Sanlam Limited Group for the full year.

<sup>(2)</sup> Fair value of LTIs granted during the year, assuming 100% vesting.

<sup>(3)</sup> New Chief Executive appointed 01 May 2017

<sup>(4)</sup> Acting Chief Executive from 19 February 2016 to 1 May 2017

<sup>(5)</sup> Resigned as at 31 May 2017

<sup>(6)</sup> Chairman effective June 2017; Non-Executive director before that date

<sup>(7)</sup> Resigned 22 May 2017

<sup>(8)</sup> An OPP was granted to J Strydom with effect from 1 January 2016 in respect of his role as Deputy Chief Executive of Sanlam Personal Finance. Achievement in respect of this OPP was measured as at 31 December 2017, with the amount convertible into RSP shares that will vest in April 2019.

Refer to page 9 for dates of appointment of directors.

	2018 R'000	Restated <sup>(1)</sup> 2017 R'000
<b>17. Taxation</b>		
Analysis of income tax per category:		
Normal income tax	(85,515)	(136,745)
RSA normal income taxation	(85,515)	(136,745)
Deferred tax <sup>(1)</sup>	(112,666)	(117,510)
Normal tax	(116,713)	(115,571)
Capital gains tax	4,047	(1,939)
<b>Tax (income) / expense</b>	<b>(198,181)</b>	<b>(254,255)</b>

<sup>(1)</sup> Refer to note 25 for details on the restatement

The Company's income tax is determined on the five funds basis applicable to companies conducting life insurance business. The fifth fund (Risk Policy Fund – RPF) became effective 1 January 2016. All new risk products are required to be allocated to the RPF.

The income tax charge relates to the shareholders' fund where the Company does not have any assessed losses. The Company has a tax loss of R87 million (2017: R464 million) in the policyholders' fund, of which the full amount has been recognised as a deferred tax asset. The build-up of further assessed losses within the IPF has largely been eliminated by the creation of the Risk Policy Fund (RPF) and the investment return earned by the investments underlying the investment policies should fully utilise the portion of the current calculated tax loss recognised as a deferred tax asset over time.

#### Reconciliation of taxation attributable to shareholders

Profit before tax	293,606	462,794
Standard tax rate	28%	28%
Standard rate of taxation	(82,210)	(129,582)
Adjusted for:		
Disallowable expenses	(3,175)	(7,679)
Investment surpluses	155	329
Fund transfer (movement in deferred tax assets not previously recognised) <sup>(1)</sup>	(112,669)	(117,510)
Utilisation of tax loss	241	619
Withholding tax	(523)	(432)
<b>Effective tax</b>	<b>(198,181)</b>	<b>(254,255)</b>

<sup>(1)</sup> Refer to note 25 for details on the restatement

#### 18. Commitments

##### Operating lease commitments

The business has the following future operating lease commitments:

Lease rentals due within one year	6,980	6,417
Lease rentals due within two to five years	7,828	10,093
<b>Total operating lease commitments</b>	<b>14,808</b>	<b>16,510</b>

All operating lease commitments are in respect of property leased by our distribution and service centres. These are in excess of 50 different leases. The duration of these leases ranges from 3 to 5 years on average. Annual escalation of these leases varies based on location from a CPI to CPI plus increase (6% to 10%). The full details of all the leases are kept by Sanlam Group Facilities and the Finance department.

## 19. Dividends

In 2018 a dividend of R305 million (2017: R222 million) was declared and paid. Subsequent to 31 December 2018 a dividend of R181m was declared on 21 February 2019.

## 20. 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 Company'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 outcomes in future financial years will be different to the current assumptions and judgements, which could require a material adjustment to the carrying amounts of the affected assets and liabilities.

The major items subject to the application of estimates, assumptions and judgements include:

- The fair value of investments – note 3;
- The valuation of policy liabilities – note 7., 20.1.

The critical estimates and judgements made in applying the Company's accounting policies are summarised below. Given the correlation between assumptions, it is not possible to demonstrate the effect of changes in key assumptions whilst 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 risks.

An important indicator of the accuracy of assumptions used by a life insurance company is the extent of the experience variations reflected in the Group Equity Value earnings during a period.

### 20.1. Policy liabilities in respect of long-term insurance contracts and investment contracts

This disclosure should be read in conjunction with the valuation methodology as set in the accounting policies for policy liabilities on pages 25 to 27.

The following process is followed to determine the valuation assumptions:

- Determine the best estimate for a particular assumption.
- Prescribed margins are then applied as specified in SAP104.
- Discretionary margins may be applied as required by the valuation methodology or if the Head of Actuarial Function considers such margins necessary to cover the risks inherent in the contracts.

The best estimate of future experience is determined as follows:

#### a) Investment return

Economic assumptions are derived with reference to the yield at the valuation date on the risk free yield curve at duration consistent with that of the liabilities. The duration of the yield curve used was 5 years (2017: 5 years). The appropriate asset composition of the various asset portfolios, investment management expenses, taxes at current tax rates and charges for investment guarantees are taken into account in determining the valuation discount rate for each portfolio. The assumptions adopted allow for the current and expected future tax position of the Company.

The economic assumptions are as follows:

	2018	2017
• Fixed interest	8.60%	8.00%
• Equities	12.10%	11.50%
• Property	9.60%	9.00%
• Cash	7.60%	7.00%

Expense inflation is also based on the fixed interest yield and is assumed to be 6.6% (2017: 6%).

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

### 20.1. Policy liabilities in respect of long-term insurance contracts and investment contracts (continued)

#### b) Future bonus rates for participating business

Assumed future bonus rates are determined to be consistent with the assumed investment returns.

#### c) Decrements

Demographic assumptions including mortality, morbidity and persistency rates are derived directly from recent experience and are adjusted for anticipated future trends.

Investigations are performed at least annually and the most recent investigations were performed in June 2018. The future development of AIDS mortality is projected in line with the requirements of APN 105 of the Actuarial Society.

#### d) Expenses

Future expenses are projected on a per policy basis where the per-policy expense is derived from the higher of budget 2019 expenses and actual 2018 expenses and deflated/escalated at the assumed expense inflation rate. Renewal expenses are determined by removing acquisition costs and non-recurring expenses from the total expenses and adding an allowance for future project costs which is derived from an analysis of historical once-off costs.

#### e) Margins

##### Compulsory margins

SAP104 requires that the following compulsory margins should be added to the best estimate assumptions for determining the policyholder liabilities.

Assumption	Margin
Mortality	7.5% (increase for assurance, decrease for annuities)
Morbidity	10%
Medical	15%
Lapse	25% (e.g. if the best estimate is 10%, the margin is 2.5%)
Disability income benefits in payment	10%
Surrenders	10% (increase or decrease, depending on which alternative increases policyholder liabilities)
Expenses	10%
Expense inflation	10% (of estimated escalation rate)
Charge against investment return	25 basis points in the management fee or an equivalent asset-based or investment performance-based margin

##### Discretionary margins

Future voluntary premium increases are profitable and are therefore ignored in line with SAP 104. In order to ensure appropriate recognition of profit over the life of a contract, no policy is permitted to have an overall negative liability. No other discretionary margins are added.

## 21. Retirement benefits obligations

The Company provides for the retirement benefits for full-time employees by means of a defined contribution pension fund.

## 22. Related parties

### Holding company

The ultimate Holding Company is Sanlam Limited. Details of investments in Sanlam Limited are as follows:

	2018	2017
No of Shares	22,287	22,493
Fair value (R'000)	1,901	1,957

### Transactions with entities in the Sanlam Group

During the year, the Company, in the ordinary course of business, entered into various transactions with subsidiary companies, associated companies and other stakeholders. Refer below for detail balances and transactions with related parties.

Nature of the transaction	Related party	2018	2017
		R'000 Debit/(Credit)	R'000 Debit/(Credit)
Administration fees	Sanlam Developing Markets Limited <sup>(2)</sup>	5,943	10,124

Nature of the transaction	Related party		
Intercompany: Loan receivable/(payable)	Sanlam Developing Markets Limited <sup>(2)</sup>	662	(288)
Intercompany: Loan payable	Sanlam Life Insurance Limited <sup>(1)</sup>	(57,417)	(25,162)

<sup>(1)</sup> Holding company

<sup>(2)</sup> Fellow subsidiary

### Transactions with directors

Remuneration is paid to directors in the form of fees to non-executive directors who are not also Sanlam Group executives and in the form of remuneration to executive directors of the Company. Non-executive directors who are also Sanlam Group executives are paid in the form of remuneration within the Sanlam Group. All directors of the Company 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 period, with the exception of contracts within the Sanlam Group. Details relating to directors' emoluments are included in note 16.1.



23. Notes to the statement of cash flows		2018	2017
23.1. Cash generated / utilised by operations <sup>(1)</sup>		R'000	R'000
Profit before tax per statement of comprehensive income		293,606	462,794
Movement on long term policy contracts		(544,605)	(160,425)
Non-cash flow items		(17,244)	(274,160)
Depreciation	1.	4,776	4,605
Movement in provisions		(42)	132
Investment surpluses	14.2.	(21,978)	(278,897)
Items disclosed separately		(471,734)	(399,955)
Interest received	14.1.	(466,497)	(395,284)
Dividends received	14.1.	(5,237)	(4,671)
Increase / (decrease) in intercompany loans receivable		(662)	3,844
Increase / (decrease) in intercompany loans payable		31,967	20,951
Increase / (decrease) in net working capital assets and liabilities		60,575	(14,092)
Net acquisition of investments		530,860	449,367
Net acquisition of fixed assets <sup>(1)</sup>	1.	690	(2,868)
<b>Cash generated / (utilised) by operations</b>		<b>(116,547)</b>	<b>85,456</b>
<sup>(1)</sup> Refer to note 25 for details on the restatement			
23.2. Reconciliation of taxation paid			
Movement between taxation balance at the beginning of the year and balance at end of year		(36,787)	37,905
Less movement for normal taxation through the income statement		(85,512)	(136,745)
<b>Taxation paid</b>		<b>(122,299)</b>	<b>(98,840)</b>
23.3. Cash, deposits and similar securities			
Working capital: Cash, deposits and similar securities		390,190	462,302
<b>Total cash, deposits and similar securities</b>		<b>390,190</b>	<b>462,302</b>

## 24. Adoption of new standards

### IFRS 9 – Financial Instruments

The principles with regards to the classification and measurement of financial assets and liabilities, measuring impairment allowances for financial assets, and hedge accounting have been amended due to the implementation of the new accounting standard, IFRS 9 – Financial Instruments, applicable to all accounting periods beginning on or after 1 January 2018. The Company has implemented the standard, other than the hedging provisions which have not yet been adopted, on a modified retrospective basis and therefore comparatives are not restated and the impact of the adoption is recognised in equity on 1 January 2018.

The key changes introduced by IFRS 9 are as follows:

- Classification and measurement – financial assets are required to be measured and classified based on the cash flow characteristics of the instrument and the business model under which the asset is managed. The classification and measurement of financial liabilities is largely unchanged, with the exception of the amendment requiring that the own credit risk component of fair value movements on liabilities designated at fair value through profit or loss now be presented in other comprehensive income.
- Impairment – IFRS 9 introduces an expected credit loss model. This entails the recognition of an allowance for expected credit loss looking one year into the future or over the lifetime of the financial asset if the credit risk.

## 24. Adoption of new standards (continued)

The majority of financial assets were measured at fair value through profit and loss under IAS39, and continue to be under IFRS 9, either because they are mandatorily measured as such, or through designation.

The Company has assessed the impact of the adoption of IFRS 9 financial instruments on its statement of financial position and concluded that there is no material impact for the Company.

### IFRS 15 – Revenue from Contracts with Customers

This standard relates to the measurement, classification and disclosure of revenue from contracts with customers of the Company.

The key factors in the application of IFRS 15 are as follows:

- A five-step model is applied to determine when to recognise revenue from contracts with customers, and at what amount.
- Revenue is recognised when (or as) the Company satisfies a performance obligation and transfers control of goods or services to a customer at the amount to which the Company expects to be entitled and that is allocated to that specific performance obligation.
- Depending on whether certain criteria are met, revenue is recognised either over time or at a point in time, as or when control of the goods or services is transferred to the customer.
- More extensive and detailed disclosure are required in terms of IFRS 15.

The Company has assessed the impact of the adoption of IFRS 15 on opening retained earnings and concluded that there is no quantitative impact for the Company.

## 25. Restatements

### 25.1. Correction of prior period error

During the period, we discovered the tax treatment of interest were not processed correctly. This resulted in an overstatement of the deferred tax asset in 2017.

The error has been corrected by retrospectively restating the comparative period's statement of comprehensive income, statement of financial position and statement of changes in equity.

Impact of restatement	As previously reported 2017 R'000	Adjustment 2017 R'000	Restated R'000
<b>Statement of financial position</b>			
Deferred tax asset	170,318	(32,436)	137,882
Other reserve	170,318	(32,436)	137,882
<b>Statement of comprehensive income</b>			
Taxation	(221,819)	(32,436)	(254,255)
<b>Statement of changes in equity</b>			
Other reserve	170,318	(32,436)	137,882

25. Restatements (continued)

25.2. Restatement of company cash flow statement

Management reassessed the presentation of the Company's cash flow statement in respect of cash flows relating to the acquisition and disposal of investments, intercompany loans payable, intercompany loans receivable, fixed and intangible assets that are backing its core operations. These were previously classified as investing cash flows and created a disconnect between operating and investing cash flows, as these are funded by cash flows associated with the origination of insurance and investment contracts, which are respectively treated as operating cash flows. Management concluded that presenting acquisitions and disposals of investments, intercompany loans payable, intercompany loans receivable, fixed and intangible assets as part of operating cash flows more accurately reflects to the users of the financial statements, the link between the ability to generate cash from investment and insurance contracts and the utilisation of those cash flows on various investments, fixed and intangible assets.

Impact of restatement	2017		
	As previously reported R'000	Adjustments R'000	Restated R'000
Cash flows from operating activities	(306,722)	471,293	164,571
Cash flows from investing activities	471,293	(471,293)	-
Net acquisition of investments	449,366	(449,366)	-
Purchases of equipment	(2,969)	2,969	-
Disposal of equipment	101	(101)	-
Decrease in intercompany loans receivable	3,556	(3,556)	-
Increase / (decrease) in intercompany loans payable	21,239	(21,239)	-

The above restatement did not have any impact on the Company's statement of financial position, statement of comprehensive income and statement of changes in equity

## **Capital Management Report**

### **1. Objective**

Responsible capital management and allocation is an essential component of meeting the Company's strategic objective of shared value creation for all stakeholders, including maximising shareholder value. The capital value used by the Company as the primary performance measurement base is Group Equity Value (GEV). The management of the Company'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 our clients, regulators and broader society. The Company has an integrated capital and risk management approach. The amount of capital required by the various business is directly linked to their exposure to financial and operational risks. Accordingly, risk management is an important component of responsible capital management and allocation.

### **2. Capital allocation methodology**

The methodology used to determine the allocation of required capital to South African covered business is aligned with the new Prudential Standards, which replaced the Financial Soundness Valuation (FSV) regime from 1 July 2018.

At the end of 2018 the Company set an appropriate level of required capital for Channel Life Limited's covered business under the Prudential Standards, based on a Standard Formula Solvency Capital Requirement (SCR) targeted cover range of between 170% and 210% over a 10-year projection period. 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.

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

- The Company's internal dividend policy is based on the annual declaration of all discretionary capital to shareholders that is not required for normal operations or expansion; and
- Performance targets are set for company 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 shareholders.

### **3. Capital management**

#### **3.1. Covered business (life insurance operations)**

The Company's covered business requires significantly higher levels of allocated capital than the other operations. The optimisation of long term required capital is accordingly a primary focus area of the Company'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 company to interest rate risk, such as nonparticipating annuities.
- Due regard is given to liquidity risk management, particular where derivatives are utilised for matching purposes.
- The asset mix of the long-term required capital, as well as estate reserves in the policyholder portfolios also impact the overall capital requirement. The Company's balance sheet management function models the overall risk and expected return on assets, including the impact on required capital to determine the optimal asset mix in this regard.
- Utilisation of capital diversification benefits, when deemed necessary, whereby the capital requirements can be partly covered by investments in other company 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 optimal use of hedges, e.g. the interest rate derivatives currently in place.
- Efficient selection of reinsurance exposures.

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

#### **3.2. Other operations**

The performance measurement of other 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 units' 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 Company's main objective of optimising RoGEV.

**Capital Management Report (continued)**

**4. Sanlam Group Estate committee**

The Sanlam 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.

**5. 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.

**6. Capital adequacy**

For regulatory purposes, the Company's capital adequacy is assessed under the new Insurance Act and the relevant Prudential Standards, which gave effect to the Solvency Assessment and Management (SAM) regime from 1 July 2018. Capital adequacy is measured with reference to the standard formula as specified under the Prudential Standards, this is referred to as the Solvency Capital Requirement ("SCR").

The following table provides an analysis of the solvency of the Company and quality of Company's capital:

	2018 R'000	2017 R'000
Own Funds eligible to meet SCR	1,046,377	1,171,999
SCR	446,687	548,275
<b>Surplus</b>	<b>599,690</b>	<b>623,724</b>
<b>SCR cover</b>	<b>234%</b>	<b>214%</b>
Tier 1	1,046,377	1,171,999
Tier 2	-	-
Tier 3	-	-
<b>Total</b>	<b>1,046,377</b>	<b>1,171,999</b>

The valuation of assets and policy liabilities for prudential capital adequacy under the Prudential Standards is different to the methodology for the published IFRS results.

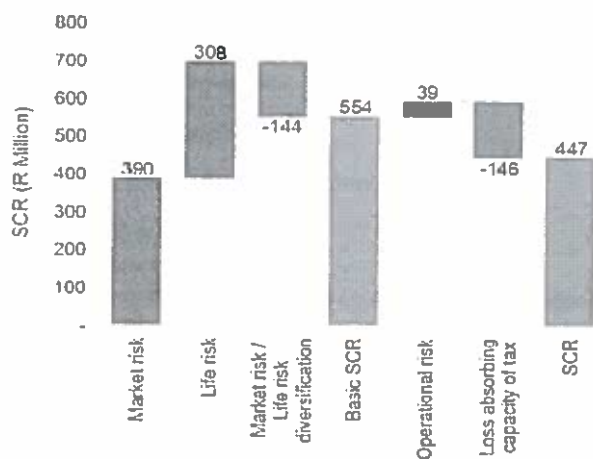
**Capital Management Report (continued)**

The following table provides a reconciliation between the IFRS shareholders' fund for the Company and its SAM Own Funds.

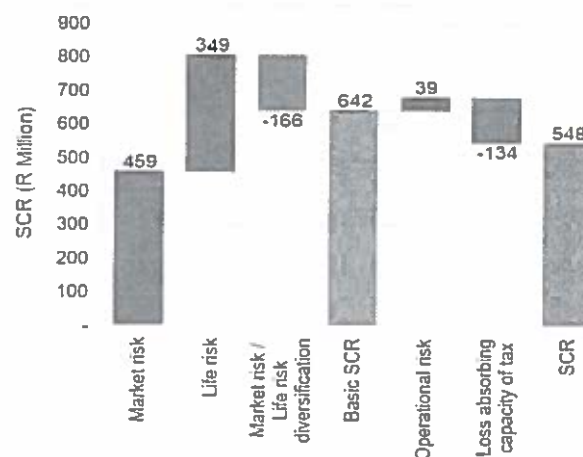
Reconciliation of IFRS Shareholders' Fund to SAM Own Funds	2018 R'000	2017 R'000
IFRS Shareholders' fund	695,684	905,259
Adjustments to IFRS carrying value	(69,237)	(87,196)
Reinsurance valuation differences	(69,237)	(87,196)
Adjustments to policyholder liabilities from move to solvency basis	445,143	491,818
Liability valuation differences	696,178	748,994
Impact of risk margin	(104,849)	(99,823)
Increase in net deferred tax liabilities resulting from liability valuation differences above	(146,186)	(157,353)
<b>SAM Basic Own Funds</b>	<b>1,071,590</b>	<b>1,309,881</b>
Write down of other reserves	(25,213)	(137,882)
<b>SAM Own Funds eligible to meet SCR</b>	<b>1,046,377</b>	<b>1,171,999</b>

The graph below shows the SCR for the Company under SAM. The main contributors to the SCR are market risk and life risk. The main drivers of market risk are exposure to financial instruments (especially resulting from future product fee income being linked to policyholder investment portfolios), interest rate movements and the value of investment guarantees. The main drivers of life risk include lapse assumptions, the level of interest rates as well as mortality/longevity assumptions.

**31 December 2018**



**31 December 2017**



## Risk Management Report

### 1. Introduction

Enterprise risk management is the undertaking of risk for reward. A thorough understanding of the risks accepted by a Company in the pursuit of its objectives, together with the strategies employed to manage those risks, is thus essential for a proper appreciation of the affairs of the Company.

The management of the Company is committed to sound enterprise risk management practices. Active risk awareness and optimal management of risk exposures are embedded throughout the business.

### 2. Definitions

#### Entities

Sanlam Group	Sanlam Limited.
Sanlam Life Ins Ltd	Sanlam Life Insurance Limited (registration number: 1998/021121/06)
Sanlam Life	Sanlam Life Insurance which includes only businesses and divisions over which its executive management and the Sanlam Life Insurance Board exercise management control in terms of a mandate from Sanlam Limited.
Sanlam Personal Finance (SPF)	Sanlam Personal Finance Cluster, a division of Sanlam Life. It includes all subsidiaries and divisions within its management control.
Channel	Channel Life Limited ("the Company")

#### Risk management terms

CRO	Chief Risk Officer.
ERM	Enterprise Risk Management, implying the high-level collation of risk management related information and co-ordination of risk management activities throughout an enterprise, taking into account the correlation and inter-dependence of different risks. The process should take into account the strategic goals of the organization as a whole, as well as the goals of the underlying subsidiaries. Where possible, all risk should be aggregated and compared with the overall risk appetite of the organization.
Inherent and residual risk	The net risk exposure can be quantified either inherently or on a residual basis. <ul style="list-style-type: none"> <li>Inherent valuation: The net exposure (likely impact), without any mitigation or controls in place.</li> <li>Residual valuation: the net exposure, allowing for the effectiveness of the existing controls, as well as additional risk mitigation actions defined.</li> </ul>
KRI's	Key Risk Indicators are indicators of the levels of risks within an organization or within sub-sets of the organization, at a specific time. Typically indicative of underlying trends of known or unknown risk experience.
Risk	Risk is inherent in the business of the Company and is defined as the threat that an event or action will adversely affect the Company's ability to achieve its business objectives, including strategic, operational, financial and compliance objectives. Business risk arises as much from the possibility that opportunities will not be realised as it does from the possibility that threats will materialise.  Three types of risk can be identified: <ul style="list-style-type: none"> <li><b>Opportunities:</b> upside risks, or the "offensive" aspects of risks (looking for opportunities to exploit specific risks)</li> <li><b>Hazards:</b> downside risks, or the "defensive" aspect of risks (focusing on prevention or mitigation of actions that can generate losses)</li> <li><b>Uncertainties:</b> the volatility aspect of risks (manage risk in order to achieve financial performance within defined ranges).</li> </ul>
Risk appetite	This is an overall indication of the level and type of risk that an organization is prepared to accept in the pursuit of its goals. The risk appetite can be defined overall for Channel or for the respective business divisions and subsidiaries. The risk appetite statement should remain strategic in nature.
Risk incident	The materialising (whether partially or completely) of a risk, whether the risk has already been identified or not. For existing risks, related incidents can assist in the quantification of the risk.



## 2. Definitions (continued)

### Risk management terms (continued)

Risk tolerance levels	<p>This is the more tactical interpretation of the strategic risk appetite and provides business with certain boundaries / ranges for different risk types. It can be defined either:</p> <ul style="list-style-type: none"> <li>• Qualitatively: On a relative scale (e.g. high, moderate or low); or</li> <li>• Quantitatively: In terms of a quantifiable metric (e.g. as a risk-adjusted shareholder value, like Return on Group Equity value or Risk Adjusted Performance Measurement (RAPM)).</li> </ul>
Emerging risks	<p>Emerging risks represent known or unknown risks with a significant potential impact on business, but for which the likely severity for Channel has not been or is difficult to quantify (either because the likelihood of such an event occurring is unknown or because the full impact of such an event, occurring, should it materialise, is unknown).</p>

## 3. Scope and application of the policy

This policy applies to the Company as defined in section 2 above.

The policy is aligned with the Sanlam Group Enterprise Risk Management Policy as well as the Sanlam Personal Finance Enterprise Risk Management Policy as amended from time to time.

Risk management of all subsidiaries and business units where the Company exercises management control, must adhere to this policy. In subsidiaries where the Company does not exert full management control, the subsidiary is responsible for maintaining appropriate risk management and control practices to meet the risk appetite as defined by the Company. Full and regular disclosure of the risk management activities and the results of the process should be done to the Channel : CRO.

## 4. Objectives of Enterprise Risk Management (ERM)

The primary objective of the Company's Enterprise Risk Management approach is to support the Sanlam Group in achieving its primary objective of optimising the return on group equity value and maximising shareholder value. An effective risk management process will support the achievement of the following secondary objectives:

- The realisation of the Company's strategic business goals;
- Safeguarding of the Company's assets and investments (including information);
- Compliance with applicable laws, regulations, and supervisory requirements;
- Supporting business sustainability under normal as well as under adverse operating conditions;
- Reliability of reporting; and
- Behaving responsibly towards all stakeholders with a legitimate interest in the Company.

## 5. Risk management philosophy and appetite

The Board determines the maximum acceptable level of risk that the Company may undertake - the Risk appetite. The Risk appetite is derived from the overall Risk appetite of the Sanlam Group (typically expressed as required risk-based rate of return). In order to monitor the adherence to this overall strategic appetite, additional Risk tolerance levels are defined and monitored on a regular basis. The Company's risk policy provides the current Risk tolerance levels. Material operating entities within the Company must define similar tolerance levels applicable to their level of operations.

The ultimate responsibility for the management of risk in the Company vests with management (first line of defence), assisted by the ERM structures (the second line of defence) and supported by the risk management culture set by the Company Executive Committee.

The Channel CRO determines the relevant risk management framework for the Company in accordance with the Group Guidelines and policies. The Channel CRO monitors the risk management process and profile of the Company at an enterprise level and as such will rely on various specialist risk management functions (such as the Risk & Capital Management team in Channel Actuarial).



#### 5. Risk management philosophy and appetite (continued)

In the execution of its ERM responsibilities, Channel must comply with all requirements set by the SPF and Sanlam Group. In particular, the escalation of risks to the attention of the Sanlam Group must be done in accordance with the Channel Risk Escalation Policy, which is aligned with the SPF and Sanlam Group requirements.

The Sanlam Group CRO has the responsibility to consider risk management related decisions, risk mitigation actions, and risk taken by Channel, and has the right to veto risk responses if deemed detrimental to the Sanlam Group, or to insist on measures to reduce or restrict the detrimental effect. Such vetos must be reported to the Sanlam Limited Board and Channel may appeal such intervention to the Sanlam Limited Board.

#### 6. Significant risk categories

The identification of risks and the reporting there-on are directed by the Risk classification matrix which may be adjusted from time to time to accommodate the reporting requirements of the Sanlam Group.

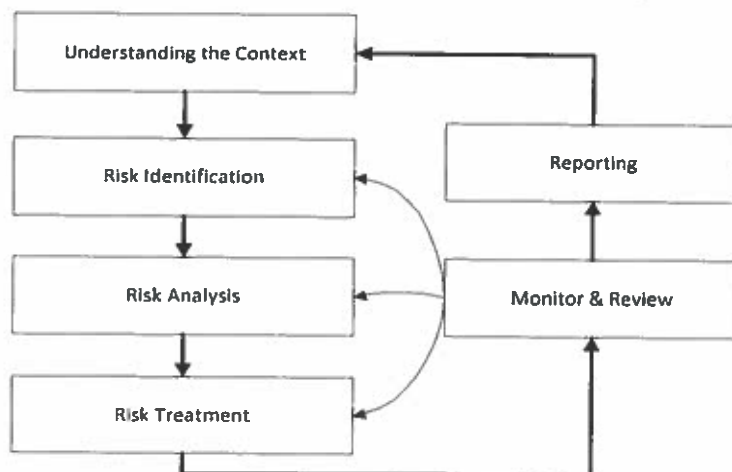
The major risk categories for Channel are:

- Insurance risk
- Market risk
- Credit risk
- Strategic risk
- Operational risk
- Liquidity risk

#### 7. Risk management process

The Company must establish and maintain an effective and documented risk management process. The process covers the planning, arranging and controlling of activities and resources to minimise the potential impact of risks to levels within the risk appetite. Although the risk management process is considered a separate management discipline, it should be integrated and aligned with the regular management processes of the organisation. The Sanlam Group-wide ERM software, CURA, will be utilised for the capture and monitoring of all operational and business risks and significant incidents of risk materialising (where practical).

The risk management process is iterative and can be summarised as follows:



### 7.1. Understanding the context

For the risk management processes to be effective, it is important that the Channel Board, management and individuals assigned responsibility for risk management clearly understand the following:

- The relationship between the business and its operating environment;
- The business's strengths, weaknesses, opportunities and threats;
- The crucial elements that might support or impair its ability to manage the risks it faces;
- The business capabilities and its goals, objectives, strategies and values and the drivers of these;
- The financial planning cycle of the business.

The understanding and on-going monitoring of these aspects will assist in the pro-active identification of emerging and existing risks. The Channel CRO should maintain risk evaluation criteria and a logical, practical framework for the identification and analysis of risk and its root causes. The Channel CRO should also assist business to set the goals, objectives and boundaries of the risk management process.

### 7.2. Risk Identification

During this qualitative step, the following should be determined:

- What is the risk? (Clear definition, highlighting the impact that the risk pose to the business).
- What is the type and category of the risk?
- What is the root causes of the risk? (What will determine whether the risk will materialise or the severity of the impact).
- What are the potential consequences, should the risk materialise?
- Which objectives of the business may be impacted by the risk?

Various techniques may be used by the respective levels of management to identify risk. Examples include risk self-assessment workshops, strategy sessions, analysis of write-offs, key risk indicators or losses, monitoring of controls in operations, analysis of key business drivers, analysis of key processes and analysis of root causes of major external risk events.

Risk managers should work closely with other assurance providers (e.g. Internal and External Audit, Compliance and Forensic Investigations) to ensure that all significant risks are identified (either individually or cumulatively). Regular assessments of emerging risks (at least annually) must be conducted to ensure that all relevant risks are included in the Channel risk profile. To this end, the Channel CRO must ensure that global studies of emerging risks are analysed and the potential impact on Channel's goals reviewed with the business risk managers, to determine whether new risks should be included in the Channel risk inventory.

### 7.3. Risk Analysis

This quantitative step includes an analysis and assessment of:

- The total inherent financial impact should the risk materialises: This assessment is done on the basis that all existing controls and mitigation actions will fail. The time horizon of the quantification of all risks is one year in future (forward-looking).
- The residual financial impact if the risk materialises within the next year: This is done on a residual basis, assessing the residual likelihood and residual impact, i.e. assuming that the existing controls and additional mitigating actions will be effective. Pre-determined rating scales, must be applied but actual monetary values within the identified impact range are allowed to be specified where deemed more appropriate.
- It is not always easy to determine the likely impact (e.g. for reputational risks), but Impact matrixes can be used, where different levels of consequence risks are aligned with the different impact scales (e.g. for reputational risk, different levels of exposure or media coverage can be used to indicate the likely impact). It is important to quantify the residual impact as closely as possible, since the aggregated residual impacts will be used in the quantification of the risk-based capital requirements of the business.
- The CURA solution will calculate the residual combined rating: This can be expressed as a monetary amount (impact x probability) and will be used to determine exposure to significant risks (in order to optimise resources).
- Determine the Risk Control Effectiveness: This assessment indicates the level of effectiveness of existing risk management activities.
- Identify related controls: In order to assist Internal Audit in their Risk-based audit approach, the significant controls impacting the risk (mitigation) should be identified and linked to the risk. A standard classification of controls should be defined and deployed on CURA.

### 7.3. Risk Analysis (continued)

The assessed level of residual risk, compared with the risk appetite and tolerance levels of Channel, will determine the prioritised list of key risks for further detailed action and monitoring. Risks currently rated as Low or Medium must still be reviewed regularly to ensure that the levels of threat remain acceptable. Particular attention must be given to risk with a low likelihood, but extremely high impact, to ensure that controls managing the likelihood are still effective.

### 7.4. Risk Treatment

The following management strategies can be followed once a risk has been quantified:

- Treatment of the risk (reducing the likelihood or impact, should it materialise).
- Transfer of the risk (e.g. reinsurance or outsourcing to specialist risk managers).
- Termination of the risk (termination of activities, products or services at the source of the risk).
- Tolerance of the risk (risk with low probability of materialising or where no additional mitigation actions can be identified for risks within the Channel Risk Appetite).

The relevant response strategy and supporting actions must be documented and monitored continuously. For each action, the responsible person(s), the due date and any progress should also be recorded.

### 7.5. Ongoing monitoring and reporting

#### 7.5.1. Monitoring

Channel should review and report to the Channel Audit, Actuarial and Risk Committee, Channel Board and to the Sanlam Group on its risk management framework and processes at least annually. The aim of such reviews should be to provide assurance to the Audit, Actuarial and Risk Committee and to improve the process over time.

Residual risk profiles must be reviewed regularly to determine the effectiveness and progress with mitigation actions.

The current status of key risk indicators, risk tolerance levels and all major incidents must also be quantified and monitored regularly (at least quarterly).

#### 7.5.2. Key Risk Indicators (KRI)

Key risk indicators for all categories of risks must be identified and measured regularly. Ideally target levels must be specified (aligned with the Channel Risk Appetite) and progress must be measured against these targets.

#### 7.5.3. Reporting

Detailed guidelines on the reporting process will be subject to change as the risk management practices of the Sanlam Group and Channel evolve.

Basic protocols will include:

- Quarterly reporting of significant risks and progress with action plans via the Exco, to the Channel CRO, to ensure reporting to the Channel Audit, Actuarial and Risk Committee Monthly reporting of significant new risks and incidents or progress on existing risk events to Channel CRO, for consolidated reporting to the Channel Exco or Management as required; and
- Immediate escalation of risks to appropriate levels of oversight as per the Channel Escalation matrix.

### 7.5. Ongoing monitoring and reporting (continued)

The following diagram explains the interaction among the different components of the overall risk management process:



- Looking back:
  - > Review significant incidents and monitor management actions that were implemented to prevent the incident from recurring.
  - > Review progress with risk mitigation actions defined for significant risks.
- Current Status:
  - > Use incidents as input in reviewing current risk profile of business.
  - > Review current levels of risk tolerance limits and the impact on our Risk Appetite.
  - > Review current levels of KRI's.
  - > Review current environment (internal and external).
- Looking forward:
  - > Use current status review to review developing status of risk profile.
  - > Assess ratings of existing risks.
  - > Identify and analyse emerging or new risks.

### 8. Incident treatment

The incident management process follows a similar iterative process as for Risk management. An important component of incident management is to ensure a link between the particular incident to the underlying risk and a relevant risk category in order to enhance the quantification of risks within these categories. The CURA software provides for the recording and monitoring of incidents.

The risk manager must take cognisance of all material losses suffered in the business, as well as near-misses (where actual losses were either avoided by chance or prevented through the effectiveness of controls). Incidents and loss trends must be analysed to ensure completeness of risk profiles and associated Key Risk Indicator's.

### 9. Risk management roles and responsibilities

Specialist risk management roles exist within Channel. A decentralised risk management philosophy is followed whereby each role has a specific mandate to manage particular risks or to provide assurance on the management of such risk.

Specific metrics and management actions must be reported to the Channel CRO, to ensure that an overall portfolio view of risk is maintained for Channel.

Risk Management forms part of the Combined Assurance Model (framework) that provides assurance on oversight to the Audit, Actuarial and Risk Committee and Board.

## 10. Risk types

The major risk categories for Channel are:

General Risks	1. Operational Risk	<p>Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. It includes:</p> <ul style="list-style-type: none"> <li>• <b>Information and technology risk:</b> Risk of losses stemming from IT systems, infrastructure or processes. Examples include deficiency of integration, inadequacies in systems or networks, loss of data or availability, lack of credible data, obsolescence of infrastructure or applications.</li> <li>• <b>Business continuity risk:</b> Risk of business disruption, system failures and recoverability, damage to physical assets or security breaches of systems and facilities.</li> <li>• <b>Legal risk:</b> Risk that Channel operations are disrupted or adversely affected by legal proceedings against the organisation, adverse judgments from courts, contracts that turn out to be unenforceable or contractual obligations which have not been provided for.</li> <li>• <b>Policyholders' reasonable expectation (PRE) risk:</b> client facing documentation / mis-selling</li> <li>• <b>Compliance risk:</b> Risk of not complying with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct, investment management mandates, as well as the failure to uphold the Sanlam Group's core values and code of ethical conduct. Market conduct involves the behaviour of an organisation and of those that act on its behalf towards various stakeholders (including potential and current customers, regulators or supervisors; investors; and other market participants). Market conduct comprises market discipline (including transparency and corporate governance) and consumer protection (including treating customers fairly).</li> <li>• <b>Business continuity/Going concern risk:</b> Risk of business disruption, system failures and recovery, damage to physical assets or security breaches of our systems / facilities.</li> <li>• <b>Fraud risk:</b> Any form of unlawful conduct, from internal sources (initiated by own employees or intermediaries) or all external sources.</li> <li>• <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 corresponding reduction in return on Group Equity Value (GEV); or the actual policyholder tax being higher than that assumed in the determination of premium rates and guaranteed rates policy benefits.</li> <li>• <b>HR risks:</b> Risks include employment practices and workplace safety, excessive staff turnover, remuneration structure risks and/or inadequate access to appropriate skills and capacity to operate effectively.</li> <li>• <b>Regulatory risk:</b> Risk of regulatory changes impacting business (FAIS, FICA, Ombud, TCF, RE exams, political risk)</li> <li>• <b>Process management risk:</b> Risk of financial losses due to inefficient administrative processes, e.g. data capture errors, incomplete documentation, mis-selling or poor advice.</li> <li>• <b>Project risk:</b> Risk in major projects, whether IT or non-IT, inability to deliver project efficiently (time, budget, scope, business handover and control).</li> <li>• <b>Financial statement risk:</b> Risk of financial misstatement, regulatory or reputational risk of non-conformance with accounting and regulatory standards or restatement of financial statements.</li> <li>• <b>Outsourcing provider risk:</b> The risk arising from the inability or unwillingness of an outsourcing service provider to discharge its contractual obligations.</li> </ul>
	2. Reputational Risk	<p>Risk that adverse public perceptions (irrespective whether accurate/valid or not) regarding the organisation's business practices, business associations and market conduct will cause loss of stakeholder confidence in the integrity of the organisation, ultimately resulting in financial losses. Stakeholders include current and potential clients, business associates, investors, suppliers and supervisors.</p>

10. Risk types (continued)

Financial and business-specific risks	3. Strategic Risk	<p>Risks that impact the ability to effectively implement business plans and achieve strategic goals, including the risk of inappropriate strategies chosen and the risk of incorrect assessments of strategies. Also includes risks impacting the going-concern of the business. It includes:</p> <ul style="list-style-type: none"> <li>• Strategic risk (risk of inefficient strategy, or inefficient implementation of strategies)</li> <li>• Key risk that may impact the achievement of goals</li> <li>• Risks of mergers, acquisitions, joint ventures</li> <li>• Risks from competitors' strategies</li> <li>• BEE / FSC risks</li> </ul>
	4. Market Risk	<p>The risk that the economic position of the business is negatively affected by adverse changes in market prices and/or interest rates. Also consider the impact of inflation on assets and liabilities. Types of risks includes:</p> <ul style="list-style-type: none"> <li>• <b>Equity risk:</b> The risk resulting from the sensitivity of the values of assets, liabilities and/or financial instruments to changes in the level or in the volatility of market prices of equities.</li> <li>• <b>Interest rate risk:</b> The risk of loss or adverse change in the value of assets and liabilities due to changes in the level or volatility of interest rates. This includes fluctuations in unmatched or matched positions.</li> <li>• <b>Currency risk:</b> The risk of loss or adverse change in the value of assets and/or liabilities due to changes in the level or volatility of currency exchange rates.</li> <li>• <b>Property risk:</b> The risk that the properties investment value 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 and volatility of market prices of property). e.g. as a result of changes in the macro-economic environment.</li> <li>• <b>Asset liability mismatching 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. These include Asset/Liability modelling (ALM) for guaranteed or with-profit portfolios. It includes matching by term, currency, amount, and type of liability.</li> <li>• <b>Asset concentration risk:</b> The risk of losses due to inadequately diversified portfolios. This is usually treated as a cause for general market risk.</li> <li>• <b>Credit spread risk:</b> 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.</li> </ul>
	5. Credit Risk	<p>The risk that a third party defaults, in either payment or delivery of services. Parties include reinsurers, counterparties for investments, intermediaries, JV partners, suppliers or issuers of security and banks. Types of risks include:</p> <ul style="list-style-type: none"> <li>• <b>Default risk:</b> Credit risk arising from the inability or unwillingness of a credit counterparty to discharge its contractual obligations.</li> <li>• <b>Downgrade or migration risk:</b> Risk that changes in the possible future default by an obligator will adversely impact current portfolio value.</li> <li>• <b>Reinsurance counterparty risk:</b> Concentration risk in terms of exposure to a limited range of reinsurers or types of products.</li> <li>• <b>Settlement risk:</b> Risk arising from lag between value and settlement dates of security transactions.</li> </ul>

10. Risk types (continued)

Financial and business-specific risks	6. Liquidity Risk	<p>This is the risk resulting from the enterprise's failure to pay its debts and obligations (including claims and other liabilities) when it becomes due; as a result of:</p> <ul style="list-style-type: none"> <li>• Its inability to convert assets into cash;</li> <li>• Its failure to procure enough funds; or</li> <li>• funds can only be procured at such high rates, that the income and capital position of or market confidence in Channel can be affected,</li> <li>• or Investment strategy may include inadequate liquid assets to meet outflows from policyholder portfolios.</li> </ul> <p>The risk can stem from external sources (competition, volatile markets, regulatory intervention, etc.) or internal sources (operating systems, investment decisions).</p> <p>Secondary types include:</p> <ul style="list-style-type: none"> <li>• <b>Market liquidity risk</b> (also known as trading liquidity risk or asset liquidity risk): risk stemming from the lack of marketability of a financial instrument that cannot be bought or sold quickly enough to prevent or minimize a loss (or make the required profit).</li> <li>• <b>Funding liquidity risk</b> is the risk relating to the difficulty or inability to access or raise funds to meet commitments associated with financial instruments or policy contracts.</li> </ul>
	7. Insurance Risk	<p>The uncertainty underlying the frequency, severity and timing of future claims or expenses in our long-term insurance book. It includes:</p> <ul style="list-style-type: none"> <li>• <b>Underwriting risk: Risk products:</b> risk that actual experience relating to mortality, morbidity, disability deviates from expected experience in pricing and valuation of liabilities.</li> <li>• <b>Underwriting risk: Annuity products:</b> risk that actual mortality and longevity experience differs from expected and valuation assumptions.</li> <li>• <b>Persistency risk:</b> Risk of financial loss due to unfavourable experience on expected lapses, transfers-out, surrenders, and paid-up transactions. 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.</li> <li>• <b>Risk of inefficient capital allocation:</b> Parameter risk, model risk, insufficient data, etc.</li> <li>• <b>New product risk:</b> Impact of new products and options on risk profile of Channel, including future reputational risk.</li> <li>• <b>Expense risk:</b> Risk of adverse expense experience compared to the pricing and valuation basis. It covers the risk of loss or negative change in insurance liabilities due to unfavourable variation in the expenses incurred in servicing insurance and reinsurance contracts.</li> <li>• <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).</li> </ul>

11. Risk mitigation

11.1. Operational risk

The Company mitigates this risk through its culture and values, a comprehensive system of internal controls, internal audit, forensic and compliance functions and 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.

The following functionaries assist in mitigating operational risk:

• Internal audit

A Sanlam Group Board-approved internal audit charter governs internal audit activity within the Sanlam Group. Regular risk-focused reviews of internal control and risk management systems are carried out. The authority, resources, scope of work and effectiveness of the functions are reviewed regularly.



## 11. Risk mitigation (continued)

### • External audit

The Company's external auditors are Ernst & Young Inc. The report of the independent auditors for the year under review is contained on pages 6 to 8 of the annual financial statements.

The external auditors provide an independent assessment of certain systems of internal financial control which they may rely on to express an independent opinion on the annual financial statements. Non-audit services rendered by the external auditors are strictly governed by a Company policy in this regard. The Company applies a policy of compulsory rotation of audit partners after every 5 years as defined in section 92 of the Companies Act No 71 of 2008.

#### 11.1.1. Information and technology risk

IT risks are managed across the Sanlam Group in an integrated manner following the Enterprise Risk Management framework. Sanlam Group IT is the custodian of the Sanlam Group's IT Policy framework and ensures explicit focus on and integration with the Sanlam Group's IT Governance framework, which includes the governance of information security.

The Company's Chief Information Officer facilitates the process of identifying emerging IT risks as well as unpacking significant IT risks with company-wide strategic or operational impact. The Company's Audit, Actuarial and Risk Committee provides guidance to the Chief Information Officer regarding his duties, such as the establishment of policy.

A quarterly IT Governance report, summarising the company-wide position is delivered to the Company's Audit, Actuarial and Risk Committee.

#### 11.1.2. Going concern/business continuity risk

The Board regularly considers and records the facts and assumptions on which it relies to conclude that the Company 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 the Company 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.

#### 11.1.3. Legal risk

During the development stage of any new product and for material transactions entered into by the Company, the legal resources of the Company monitor the drafting of the contract documents to ensure that rights and obligations of all parties are clearly set out. The Company 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 appropriately structured and documented.

#### 11.1.4. Compliance risk

##### *Laws and regulations:*

The Company considers compliance with applicable laws, industry regulations and codes an integral part of doing business. The Compliance Office, facilitates the management of compliance through the analysis of statutory and regulatory requirements, and monitors the implementation and execution thereof.

#### 11.1.5. Fraud risk

The Company recognises that financial crime and unlawful conduct are in conflict with the principles of ethical behaviour, as set out in the Company's code of ethics, and undermines the organisational integrity of the Company. The financial crime combating policy for the company 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 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 Company. Forensic services is also responsible for the formulation of Company standards in respect of the combating of unlawful conduct and the implementation of measures to monitor compliance with these standards.



## 11. Risk mitigation (continued)

### 11.1.6. Taxation risk

The risk is addressed through clear contracting to ensure that policy contracts entitle policyholders to after-tax returns, where applicable. The Sanlam 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. Taxation risk is not a significant risk for the Company.

### 11.1.7. Regulatory risk

Regulatory risk is mitigated by ensuring that the Company has dedicated personnel that are involved in and therefore informed of relevant developments in legislation. The Company 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 Company monitors and influences events to the extent possible by participation in discussions with legislators, directly and through industry organisations.

### 11.1.8. 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.

### 11.1.9. 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.

### 11.1.10. Outsourcing provider risk

A Sanlam 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 on-going management of and reporting on outsourcing) of all outsourcing arrangements, whether external or internal within the Sanlam Group.

## 11.2. Reputational risk

Reputation risk is the risk that the Company is prevented from applying mitigating risk management policies due to the potential reputation impact on the Company. Actions with a potential reputation impact are escalated to the appropriate level of senior management. The Audit, Actuarial and Risk Committee and Board of Directors are involved as required. Events with an industry-wide reputation impact are addressed through industry representative groups.

## 11.3. Strategic risk

Strategic risk is the risk that the Company's strategy is inappropriate or that the Company is unable to implement its strategy. The Company's strategy is addressed on a regular basis at various forums within the Company. Any significant events that potentially threaten the achievement of the Company's strategy are escalated and addressed at the earliest opportunity.

#### 11.4. Market risk

The Company is exposed to various financial risks in connection with its current operating activities, such as foreign currency risk, interest rate risk, credit risk, market risk and liquidity risk. These risks contribute to the key financial risk that the proceeds from the Company's financial assets are insufficient to fund the obligations arising from insurance and investment policy contracts.

Derivative financial instruments are used only to economically hedge capital assets within a portfolio. The purchase of call options, futures or writing of put options is only allowed if fully covered by the portfolio cash or money market instruments for the full duration of the instruments. The sale of these derivatives is only allowed if the assets underlying the instruments are held for the full duration of the instrument. Speculating in derivative instruments is not permitted.

The Company manages these risks through the activities of the Audit, Actuarial and Risk Committee, the Estate Committee, the Asset Liability Committee and the SPF Investment Committee (The Company does not have its own Investment Committee. This Committee has been consolidated into the SPF Investment Committee). Each committee meets at least four times per annum to discuss financial risk issues. Management is responsible for implementing recommendations that have been agreed upon and reporting these recommendations back to the relevant committee.

The Audit, Actuarial and Risk Committee is a committee of the Board of Channel Life Limited and is responsible for the implementation and monitoring of overall risk management, internal financial controls and financial and actuarial reporting within the Company. The main responsibilities of this committee are:

- Setting and overseeing the overall standard for financial and actuarial reporting, risk management and internal controls within the Company;
- Monitoring the effectiveness of business risk management processes in the Company;
- Reviewing and assessing the quality of the work done by professionals responsible for financial and actuarial reporting, risk management and internal control;
- Engaging in discussions with external and internal auditors on the quality and acceptability of the control environment and reporting structures.

The SPF Investment Committee is a management committee and its main responsibilities are:

- Provide oversight of the relevant underlying investment portfolios where policyholders bear the full investment risk;
- Oversee the SPF businesses' approach to investments and their respective offerings relating to linked investment funds without guarantees; and
- Ensure that SPF adheres to TCF outcomes 2 and 5 for clients invested in these funds.

The Estate Committee and the Asset Liability Committee are Sanlam Group committees. The Estate Committee reviews and oversees the management of the Company's estate portfolios, which are defined as all portfolios where the shareholder carries all the investment risk. The Asset Liability Committee provides for the management of the Smoothed Bonus business, Market-related business (with underlying investment guarantees) and other products with investment guarantees of the Company. This entails appropriate asset-liability management to ensure a balanced protection of shareholder and policyholder interests and delivery of relevant Treating Customer Fairly outcomes.

Separate asset funds are maintained for the different products and categories of long-term policy liabilities. The Company does conduct securities lending activities in respect of its listed equities and bonds.

## 11. Risk mitigation (continued)

### 11.4.1. Market risk - interest and equities

The Company's business operations are exposed to market risk. Market risk arises from the uncertain movement in fair value or net asset value of the investments that stems principally from potential changes in sentiment towards the investment, the variability of future earnings that is reflected in the current perceived value of the investment and the fluctuations in interest rates and foreign currency exchange rates. Policyholders' and shareholders' investments in equities are valued at fair value and are therefore susceptible to market fluctuations.

The acquisition of policyholders' assets is based on the design of the product and marketing descriptions. Within these parameters, investments are managed with the aim of maximising policyholder returns while limiting risk to acceptable levels within the framework of statutory requirements. The focus of risk measurement and management is to ensure that the potential risks inherent in an investment are reasonable for the future potential reward, exposure to investment risk is limited to acceptable levels, premium rates are adequate to compensate for investment risk and an adequate reserving policy is applied for long-term policy liabilities.

The diverse product range requires a variety of approaches to the management of risk; these range from portfolio management practices and techniques such as optimisation of expected risks and rewards based on investment objectives, to asset-liability matching in support of statement of financial position obligations.

The SPF Investment Committee meets quarterly to set investment policy guidelines and to govern compliance to risk policies and limits. Comprehensive measures and limits are in place to control the exposure to market risk of the investments of the Company. The aim is to ensure that appropriate assets are held where the liabilities are dependent upon the performance of specific portfolios of assets and that a suitable match of assets exists for all non-linked liabilities. Limits are applied in respect of the exposure to asset classes and individual counters. Where applicable, advice is sought from the asset manager on suitable amendments to the mandates. Senior management experience and judgment is applied to monitoring and controlling market risk.

Shareholders are exposed to interest rate risk in respect of interest bearing investments and cash, deposits and similar securities that have varying interest rates. They also have a potential exposure to interest rate risks on the guaranteed products, should the actual return be lower than the guaranteed amount.

### 11.4.2. Terms and conditions of policy contracts

#### Insurance contracts

The Company derives the bulk of its operating profit from individual policies that provide death benefits for the policyholder and their immediate and extended family members. Immediate family members may include: the spouse; children younger than 21 and parents. Extended family members may include: aunts; uncles; cousins; nieces; nephews; children older than 21 and grandparents of the policyholder. The death sum assured is designed to meet the cost of funeral expenses. Funeral policies sold subsequent to August 2001 only provide death and waiver of premium benefits but older policies also include surrender benefits.

#### Investment contracts

Single premium guaranteed business comprises around 97.3% of the Company's investment policy liabilities. Benefits under these policies include a guaranteed maturity value.

11. Risk mitigation (continued)

11.4. Market risk (continued)

The Company also writes individual policies that provide for retirement funding and other savings. Both the retirement savings product and recent savings product include a return-of-premium guarantee on maturity. This guarantee is also included on death for the retirement savings product and the 2010 and later versions of the savings products.

Group policies provide lump sum death and disability benefits to groups of individuals such as: employees of a Company; members of funeral parlour schemes and members of church organisations. Group policies are generally sold with annually renewable premium and policy terms.

11.4.3. Linked liabilities

The Company is not exposed to market risk in respect of linked liabilities without guaranteed minimum benefits, as the benefits under the contracts are linked to the fair value of the supporting assets. Market risk is assumed by the policyholder. However, the existence of fund-based fees and charges means that the Company is exposed to indirect market risk.

The Company is exposed to some market risk where the policy contract provides for guaranteed minimum benefits at death or maturity. The risk is managed by matching the liability with appropriate assets in terms of the Company's investment policies and by adjusting the level of guarantees for new policies based on changes in the expected future investment return of the different asset classes. The Company's long-term policy liabilities include a specific provision for the additional benefits potentially payable in respect of these policies. The current provision is calculated according to the requirements of APN 110 issued by the Actuarial Society of South Africa, and is sufficient to cover the expected additional benefits. For this purpose a large number of simulations were performed using the standard Barrie & Hibbert economic scenario generator calibrated to South African market conditions at 31 December 2018.

11.4.4. Bonus stabilisation reserves

If the fair value of the assets in the smooth bonus portfolio is greater than the policyholders' net premiums invested plus declared bonuses, a positive bonus stabilisation reserve is created which will be used to enhance future bonuses. Conversely, a negative bonus stabilisation reserve would be created if bonuses declared exceed return earned. A negative bonus stabilisation reserve will be limited to the amount that the Head of Actuarial Control Function 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. Bonus stabilisation reserves are included in long-term policy liabilities. The bonus stabilisation reserve is currently positive for both endowments and retirement annuities.

The declaration of bonuses is managed in terms of the Principles and Practices of Financial Management adopted by the Channel Life Limited Board during 2008.

The Company is exposed to market risk to the extent that declared bonuses have vested. The risk is managed by matching the liabilities with appropriate supporting investments and making part of the bonus declaration non-vesting.

11.4.5. Non-participating annuities and guarantee plans

Interest rate risk is the principal financial risk in respect of non-participating annuities, given the long-term profile of these liabilities. Liabilities are matched with assets, mostly interest-bearing, to ensure that cash flows and the duration of assets and liabilities are closely matched. The asset manager tests the impact of changes in interest rates and formally reports the results to management on a quarterly basis. This is done by testing the sensitivity of the assets and liabilities to various scenarios for changes in the interest rates.

Guarantee plans provide for guaranteed maturity amounts. Market risk is managed by matching the liabilities with assets that have similar return and maturity profiles as the liabilities.

Management is comfortable with the Company's exposure.

11. Risk mitigation (continued)

11.4. Market risk (continued)

11.4.6. Currency risk

Currency risk is the risk that the fair value and/or cash flow of a financial instrument will fluctuate owing to changes in foreign exchange rates. The business's exposure to currency risk is mainly in respect of foreign investments made on behalf of policyholders and shareholders for the purpose of seeking desirable international diversification of investments.

11.4.7. Policyholders' fund

Policyholder portfolios with exposure to foreign currencies are predominantly in respect of linked liabilities where the holder of the contract is exposed to the currency risk.

11.4.8. Shareholders' funds – currency risk

There are no foreign denominated assets in the shareholders' fund for 2018 and 2017.

11.5. Credit risk

Credit risk arises from the inability or unwillingness of a counter party to a financial instrument to discharge its contractual obligations. The Company determines counter-party credit quality by reference to ratings from independent ratings agencies or, where such ratings are not available, by internal analysis. The Company seeks to avoid unacceptable concentration of credit risk to groups of counter-parties, to business sectors, product types, etc.

The Company's financial instruments do not represent a concentration of credit risk because the business deals with a variety of reinsurers and its premiums receivable and loans are spread among a number of major industries, customers and geographic areas. Amounts receivable in terms of long-term insurance business are secured by the underlying value of the unpaid policy benefits in terms of the policy contract. Premiums outstanding for more than 45 days are fully provided for. An appropriate level of provisioning is maintained. Exposure to outside financial institutions concerning deposits and similar transactions is monitored against approved limits. There are no material financial assets that are past due but not impaired.

Broker loans and advances are provided where the Company has adequate retention balance held for the broker and an assessment of the broker's financial position is performed before granting the loan or advance. In addition to managing the credit risk, it should be noted that the Company's current exposure to broker debt is immaterial because precautionary provisions have been made against the bulk of the debt.

The Company, reviews reinsurance companies that it conducts business with, to ensure that the reinsurer is a company with high international or similar credit ratings.

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 Company, nor are there any 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.

## 11. Risk mitigation (continued)

### 11.6. Liquidity risk

Liquidity risk is the risk that the business will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk arises when there is a mismatch between the maturities of liabilities and assets.

All policyholder funds are invested in appropriate assets to meet the reasonable benefit expectations of policyholders, which include the expectation that funds will be available to pay out benefits as required by the policy contract.

The value for policy liabilities and the assets backing them are as per the carrying amount in the statement of the financial position. Refer to the Policyholder assets backing policyholder liabilities note on page 39.

Life insurance businesses exposed to risk via:	Exposure to Liquidity risk
Policyholder solutions <sup>5</sup>	
Linked and market-related <sup>4</sup>	✓
Smoothed-bonus business	
Stable bonus <sup>1</sup>	✓
Participating annuities <sup>4</sup>	✓
Non-participating annuities <sup>2</sup>	✓
Other non-participating liabilities	
Guarantee plans <sup>3</sup>	✓
Other <sup>2</sup>	✓

<sup>1</sup> These policyholder solutions do not expose the Company 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.

<sup>2</sup> The liabilities are matched as far as possible with assets, mostly interest-bearing, to ensure that the duration of assets and liabilities are closely aligned.

<sup>3</sup> Liquidity risk is managed by matching the liabilities with assets that have similar maturity profiles as the liabilities.

<sup>4</sup> Policyholder portfolios supporting linked and market-related business, participating annuities and other non-participating life business are invested in appropriate assets, taking into account expected cash outflows.

<sup>5</sup> The table below summarises the overall maturity profile of the policyholder business.

Overall maturity profile of the policyholder business	0 to 1 year R'000	1 to 5 years R'000	> 5 years R'000	Open ended R'000	Total R'000
<b>2018</b>					
Insurance contracts	50,215	119,511	142,812	108,088	420,626
Investment contracts	-	4,570,194	64,388	55,362	4,689,944
<b>Total policy liabilities <sup>1</sup></b>	<b>50,215</b>	<b>4,689,705</b>	<b>207,200</b>	<b>163,450</b>	<b>5,110,570</b>
Equities and similar securities	-	-	-	63,335	63,335
Government interest bearing investments	17,063	196,481	10,074	-	223,618
Corporate interest bearing investments	27,594	569,514	558	-	597,666
Structured transactions	-	536,396	-	-	536,396
Investment funds	-	-	-	251,195	251,195
Cash deposits and similar securities	1,667,222	1,653,690	-	-	3,320,912
Long-term reinsurance assets	16,941	30,604	66,676	2,408	116,629
Net working capital	819	-	-	-	819
<b>Total policyholder assets</b>	<b>1,729,639</b>	<b>2,986,685</b>	<b>77,308</b>	<b>316,938</b>	<b>5,110,570</b>

<sup>1</sup> The amounts are contractually repayable on the occurrence of the underlying risk event and therefore they could be classified as repayable on demand. However, in order to provide additional information, the table has been prepared based on the expected timing of the outflows.



11. Risk mitigation (continued)

11.6. Liquidity risk (continued)

Overall maturity profile of the policyholder business (continued)	0 to 1 year R'000	1 to 5 years R'000	> 5 years R'000	Open ended R'000	Total R'000
<b>2017</b>					
Insurance contracts	58,567	126,817	166,559	123,436	475,379
Investment contracts	39,340	5,053,286	22,983	64,187	5,179,796
<b>Total policy liabilities<sup>1</sup></b>	<b>97,907</b>	<b>5,180,103</b>	<b>189,542</b>	<b>187,623</b>	<b>5,655,175</b>
Equities and similar securities	-	-	-	73,837	73,837
Government interest bearing investments	2,378	190,890	10,503	-	203,771
Corporate interest bearing investments	119,193	585,686	73,353	-	778,232
Structured transactions	185,359	455,405	-	-	640,764
Investment funds	-	-	-	171,183	171,183
Cash deposits and similar securities	566,876	3,099,089	-	-	3,665,965
Long-term reinsurance assets	19,094	29,490	73,248	2,476	124,308
Net working capital	(2,885)	-	-	-	(2,885)
<b>Total policyholder assets</b>	<b>890,015</b>	<b>4,360,560</b>	<b>157,104</b>	<b>247,496</b>	<b>5,655,175</b>

<sup>1</sup> The amounts are contractually repayable on the occurrence of the underlying risk event and therefore they could be classified as repayable on demand. However, in order to provide additional information, the table has been prepared based on the expected timing of the outflows.

11.7. Insurance risk

Insurance risk arises from the Company exposure to risk if actual experience differs from that which is assumed. The Company is however also exposed to persistency risk in respect of other policyholder solutions and insurance risk in respect of universal life solutions.

11.7.1. Persistency risk

Persistency risk relates to the risk of financial loss due to higher than expected lapse, surrender and paid-up experience. The design of insurance products excludes surrender guarantees to limit financial loss at surrender.

Lapse experience is monitored at least twice per annum to ensure poor experience is identified timeously and corrective action taken as required. Such corrective action includes inter alia:

- Identification and prevention of fraudulent new business;
- Follow ups with agents and brokers who are selling business with low persistency;
- Performance management of staff who fail to apply controls at new business stage that are designed to filter out business with expected low persistency.

The Company's reserving policy is based on actual experience to ensure that adequate provision is made for lapses in the valuation of insurance contract liabilities.

The Company's valuation methodology is that no policy should be treated as an asset. Therefore, the immediate impact of higher lapses will be relatively small, although the profit expected in future years will be reduced.

The Company aims to achieve higher persistency by offering policyholders relevant products at reasonable cost. Many lapses are prevented by obtaining details of the policyholder's net income at new business stage and thereby confirming the affordability of the premium to the policyholder.

Persistency may also be adversely affected by macro-economic conditions that affect the affordability of the premium (e.g. employment levels).

## 11. Risk mitigation (continued)

### 11.7. Insurance risk (continued)

Competition may encourage policyholders to lapse policies and move their business to other insurance providers. Unscrupulous advisers may also encourage policyholders to lapse and hence replace their policies.

#### 11.7.2. Underwriting risk

Underwriting risk relates mainly to the uncertainty that the insured event will occur. The nature of an insurance contract is that the timing and size of claims are uncertain and therefore unpredictable. The principal underwriting risk is the risk that the actual outcome of mortality, morbidity and medical claims will result in volatile profits from one year to the next. Such volatility may result from large concentrations of risk or from charging inadequate premiums relative to the severity or incidence of the risk accepted. Inadequate policy wording may fail to protect the insurer from claims that were not envisaged when the product was priced.

Insurance events are random and the actual number and amount of underwriting benefits will vary from the best estimates established from statistical techniques and taking cognisance of past experience. The Company manages these risks through its underwriting strategy, reinsurance arrangements and claims handling processes.

The following policies and practices are used by the Company as part of its underwriting strategy to mitigate underwriting risk:

- All long-term insurance product additions and alterations, both within and outside of agreed business definitions, are required to pass through the approvals framework that forms part of the governance process. The Head of Actuarial Control Function approves the financial soundness of new and revised products.
- The Company's underwriting strategy aims to ensure that the underwriting risks are well diversified in terms of type (medical, occupational, financial) and amount of risk covered. Whilst this is difficult to measure at underwriting stage, the success or failure of the strategy may be measured by the historical stability of profits emerging from the book of business.
- Product pricing and reserving policies also include specific allowance for the risk of HIV/AIDS.
- The Head of Actuarial Control Function reports annually on the profitability of the business taking into consideration the reasonable benefit expectation of policyholders. All new rate tables are approved and authorised by the Head of Actuarial Control Function prior to being issued.
- The right to re-rate premiums is retained as far as possible, although this is limited by competitive pressure.
- Investigations into mortality and morbidity experience are conducted at least half yearly to ensure that corrective action is taken where necessary.

The Company's core funeral product offering is characterised by low sums assured which negates the need for underwriting at policy inception. The policy conditions enable the Company to repudiate death claims arising from non-accidental causes during an initial waiting period after policy inception.

The Company's reinsurance arrangements mainly comprise of proportional treaties a risk premium basis. The decision on the proportion of risk to be ceded follows mainly from the Company's desire to maintain its relationship with the reinsurers and is based on the level of assistance received from the reinsurers. Exceptions to this are reinsurance cessions that are intended to limit the Company's exposure to large sums assured.

Claims risk is represented by the fact that the Company may incur unexpectedly high mortality and morbidity losses on any group of policies. Client service staff are trained to identify and investigate fraudulent claims timeously. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risk. The forensic investigation team also investigates and advises on improvements to internal control systems. In addition, the company has catastrophe reinsurance to allow for multiple claims arising from a single event to limit the overall claim amount that would be paid.

#### 11.7.3. Expense risk

Expense risk is the risk of loss in future periods due to actual expense experience being worse than assumed in the valuation of insurance contract liabilities. Expense investigations are performed at least quarterly and expenses are monitored and managed through the Company's budgeting process. The risk of financial loss is further reduced by product design that allows for flexible charges, although this is limited by competitive pressure.

Fixed costs are distributed over a variable number of contracts and so a decrease in business volumes may negatively influence the business. Fluctuations in variable acquisition costs are monitored to ensure consistency with new business volumes.



# 11. Risk mitigation (continued)

## 11.7. Insurance risk (continued)

Unexpected once-off costs will reduce profit during the year. Experience has demonstrated that it is impossible to anticipate all expenses during the budget process. Therefore, negative impacts on future profit are reduced by making allowance for once-off costs in the projection of future expenses.

Staff bonus incentives are dependent on achieving profit targets and so this ensures that staff are aware of the need to manage expenses.

### 11.7.4. Sensitivity to market and insurance risks

Group Equity Value is a critical element of the management information used by management in managing the Company and its operations. As such, insurance and market risk sensitivities are presented below as changes in the net value of in-force business (net VIF) of the Company for each reasonable possible change in the relevant parameters. The total VIF of the Company as at December 2018 was R521 million.

Percentage change in net VIF from base value	2018	2017
<b>Interest rate and assets</b>		
Increase risk discount rate by 1%	-5.08%	-5.83%
Decrease risk discount rate by 1%	5.58%	6.39%
Investment return (and inflation) decreased by 1% and with bonus rates and discount rates changing commensurately	4.05%	4.54%
Increase expected return on equities/property assets by 1% p.a. due to a change in the equity/property risk premium with no consequential changes to discount rates	0.59%	0.22%
Shock scenario	-7.79%	-8.19%
<b>Expenses and persistency</b>		
Non-commission maintenance expenses (excluding investment expenses) decrease by 10%	2.65%	3.06%
Discontinuance rates decrease by 10%	3.39%	3.25%
<b>Insurance risk</b>		
Base mortality and morbidity rates decreased by 5% for life assurance non-annuity business	5.85%	6.49%

### 11.7.5. Concentration of insurance risk

Concentration risk is the risk of financial loss owing to having written large proportions of business with policyholders of the same or similar risk profile. The main concentration risk for the Company relates to geographic concentration. The geographical exposure of the Company's life insurance operations is based on the value of policy liabilities in each region. All of life insurance exposure is to the South African market.

Long-term insurance risks for individual business do not vary significantly in relation to the location of the risk insured. The Company is not exposed to a concentration by amounts insured because its funeral product range has relatively low sums assured.

The Company's group risk schemes do present a concentration risk. This is because employees working in close proximity to each other may be affected by the same claim event or risks specific to an industry. The Company has a catastrophe excess of loss reinsurance treaty to mitigate the risk arising from this concentration.