SANLAM DEVELOPING MARKETS LIMITED

(Registration no. 1911/003818/06)

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 Sanlam Developing Markets Limited (the "Board") takes responsibility for the integrity, objectivity and reliability of the annual financial statements of Sanlam Developing Markets 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 Sanlam Developing Markets 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 Sanlam Developing Markets 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 88 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 Ramatlhape
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

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Sandton
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Sandton
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Independent Auditor's Report to the Shareholder of Sanlam Developing Markets Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sanlam Developing Markets Limited set out on pages 13 to 67, 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 Sanlam Developing Markets 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 Sanlam Developing Markets 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 Sanlam Developing Markets 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 Sanlam Developing Markets Limited for 13 years.

Ernst & Young Inc.

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 9 on Page 46. No shares were issued subsequent to year end up to date of this report.

Dividends

A dividend of 668 cents per share (779 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:	1911/003818/06
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.

Board of directors and committee memberships

Name	Qualification	Age in 2019	Date Appointed	Date Resigned
Executive directors				
K Socikwa [1]	Bcom, LLB, MAP, AMP(Harvard Business School)	50	01-May-17	
J Grobler [2]	CA (SA)	49	12-Oct-11	
Non-executive chair				
I Visagie [3]	CA (SA)	48	01-Nov-16	
Non-executive directors				
P de V Rademeyer [4]	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 Mmati	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 [5]	CA (SA)	63	21-Feb-18	

(1) Chief Executive
(2) Chief Financial Officer
(3) Chairman effective June 2017
(4) Previous Lead Independent Director, resigned 17 April 2018
(5) 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 Mmatli	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 Sanlam Developing Markets Limited at 31 December 2018.

Group annual financial statements

The Company is a wholly owned subsidiary of Sanlam Life Insurance Limited. Sanlam Developing Markets 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 on page 65 - 66.

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 Sanlam Developing Markets 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.

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 pages 9 and 10 of the annual financial statements. Details of the director fees paid to individual directors can be found on pages 55 and 56 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

Sanlam Developing Markets 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. Sanlam Developing Markets 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 Sanlam Developing Markets 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 R82.5 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.

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 23 for further information on critical estimates and judgements.

Policyholders' and shareholders' activities

The Company's financial statements set out on pages 13 to 88 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 23.

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.

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 6: Investments;
- Note 10: Long-term policy liabilities;
- Note 23: Critical accounting estimates and judgements; and
- Page 71: 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.

2. Financial statements presentation (continued)

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 it's 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. Goodwill

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

Impairment of goodwill

For impairment testing purposes, goodwill is allocated to cash-generating units at the lowest level of operational activity to which it relates. The recoverable amount of the cash-generating unit has been determined based on the group equity value of the Sanlam Developing Markets Ltd (SDM) results.

2.3. Other Intangibles

Acquired intangible assets are recognised at cost on acquisition date. Subsequent to initial recognition, these assets are reflected at their amortised cost prices less accumulated impairment, where appropriate. Amortisation is provided for on a straight-line basis, taking into account the residual value and estimated useful lives of the assets. The residual values, estimated useful lives of the assets and amortisation methods are reviewed at each statement of financial position date and adjusted as appropriate. Intangible assets are tested for impairment on a bi-annual basis and written down for impairment where this is considered necessary.

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

2.4. Deferred acquisition cost

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

2.5. 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.

2.6. 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.

2.6.1. 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.

2.6. Financial instruments (continued)

2.6.2. Classification

2.6.2.1. 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.

2.6.2.2. 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.

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.

2.6.3. 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.

2.6. Financial instruments (continued)

2.6.4. *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.

2.6.5. *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.

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.

2.6.6. *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).

2.6.7. *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.

2.6.8. *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.

2.6. Financial Instruments (continued)

2.6.9. 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.

2.6.10. 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.

2.7. Investments

2.7.1. Subsidiaries and associates

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.

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

Investments in subsidiaries and associates 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.

2.7.2. Other investments

Other investments comprise:

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

These investments are either classified as subsequently measured at fair value through profit or loss (measured at fair value) or at amortised cost (measured at amortised cost), as described in the financial instruments accounting policy note. Structured transactions include derivatives, structured notes and collaterised securities.

2.7. Investments (continued)

2.7.2. *Other investments (continued)*

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.

2.7.3. *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.

2.8. 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.

2.9. 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.

2.10. 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.

2.11. 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.

2.11. Long-term policy liabilities (continued)

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

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

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

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

All investment contracts that fall within the scope of 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.

2.12. 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.

2.13. 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.

2.13.1. 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.

2.14. 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

2.14. Financial services income (continued)

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.

<u>IFRS 15 revenue disaggregation</u>

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.

<u>Recognition of different sources of revenue</u>

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.

Actuarial and risk management fees relates to actuarial billings to clients.

2.15. Investment return

2.15.1. 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.

2.15.2. 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.

2.16. Long-term insurance and investment contract benefits

<u>Underwriting benefits</u>

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.

2.16. Long-term insurance and investment contract benefits (continued)

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.

2.17. 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.

The portion of sales remuneration that is directly attributed to the acquisition of long-term single premiums investment policy contracts is capitalised to the deferred acquisition cost (DAC) asset where this exists, and is recognised over the period in which the related services are rendered and revenue recognised (refer to policy 2.4.).

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 for which a DAC asset has been created.

2.18. 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.

2.19. 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.

2.20. Taxation

2.20.1. 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.

2.20.2. 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 associates and 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.

2.21. 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.

2.22. Deferred share plan (DSP)

The DSP was introduced in 2007. In terms of the DSP, the Company undertakes to deliver a fixed number of Sanlam Limited shares to selected employees on pre-determined dates in the future, on condition that the employee is still in the employment of the Company on those dates. Vesting occurs in three tranches over a period starting three years from the grant date, subject to certain performance targets.

The award granted under the DSP is not subject to the satisfaction of company performance conditions but does require meeting individually contracted performance hurdles. Upon vesting, the Company will settle its liability by purchasing Sanlam Limited shares in the open market and delivering these to employees with vested awards.

To the extent that the face value of the awards granted under the DSP does not satisfy the specified multiple of total guaranteed package to be granted as long-term incentive awards, the individual will be granted an award under the performance deferred share plan (PDSP). Awards granted under the PDSP are conditional rights to acquire shares for no consideration subject to various vesting conditions being satisfied.

The fair value of the instruments granted takes into account the market price of Sanlam Limited shares on grant date, the fact that employees will not be entitled to the dividends until the shares vest, as well as an assumption on the actual percentage of shares that will be delivered. This plan is classified as a cash settled share based payment, and the fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in employee benefits expense.

2.23. Restricted share plan (RSP)

The RSP was introduced in 2006. Selected key employees are granted fully paid-up shares at no consideration in terms of retention and performance agreements. Unconditional vesting occurs on pre-determined dates subject to certain performance targets being met.

The RSP has, to date, been operated in conjunction with the short-term bonus scheme. Where an individual's performance justifies a bonus award which will be in excess of the calculated cash amount, that excess amount will be awarded as restricted shares under the RSP. Under this plan, executives receive fully paid-up shares in the Company. The executive owns the shares from the date of grant and is entitled to receive dividends. However, the shares are subject to vesting conditions and may be forfeited if these conditions are not met during the vesting period.

This plan is classified as a cash settled payment, and the fair value is expensed over the period until the vesting date with recognition of a corresponding liability. Liabilities are remeasured to fair value.

2.24. Retirement benefits

Retirement benefits for employees are provided by way of defined benefit and 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 and defined benefit funds are charged to the statement of comprehensive income in the year in which they are incurred. A valuation in accordance with IAS 19 Employee Benefits treatment regarding removal of the corridor method and other comprehensive income is performed on the statement of financial position date.

Retirement fund contributions are made on pensionable salary, which include medical contributions.

2.24. Retirement benefits (continued)

Therefore, active staff funds post-retirement medical contributions themselves from their increased contributions. The Company has provided in full for its medical contribution commitments in respect of pensioners, disabled and other members who are not covered under the current scheme.

2.24.1. Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The defined obligations of the schemes are valued using the valuation basis for projected unit credit method. Any deficits advised by the actuaries are funded either immediately or through increased contributions to ensure the on-going soundness of the schemes. The net surplus or deficit in the benefit obligation is the difference between the present value of the funded obligation and the fair value of plan assets. The Company recognises the estimated liability using the projected unit credit method. The present value of the overfunded portion of these schemes is recognised as an asset to the extent that there are material benefits available in the form of refunds and reductions in contributions. The amounts of actuarial gains or losses are recognised in other comprehensive income.

2.24.2. 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.

2.24.3. Post-retirement medical aid benefits

The Company provides post-retirement health care benefits to its retirees in respect of employees appointed prior to 31 May 1998. The present value of the post-retirement medical aid obligation is actuarially determined annually and any deficit or surplus is immediately recognised in the statement of comprehensive income. The Company recognises the estimated liability using the projected unit credit method. The Company has no significant exposure to any other post-retirement benefit obligation. Valuations of these obligations are carried out by independent actuaries annually.

2.25. Dividends

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

2.26. 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 Sanlam Developing Markets Limited 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). During the period reported on in these annual financial statements, the only in force investment contracts with DPF relates to the Sentry retirement annuity product. These contracts are disclosed under "liabilities under investment 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.

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

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

All investment contracts that fall within the scope of 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 result in a discretionary margin for insurance contracts of R5 723 million (2017: R5 176 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.

3.3.1. Individual insurance contracts (continued)

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.

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 retirement annuities and marginally negative for endowments at (0.7%).

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.

3.4.1. Investment contracts without discretionary participation features (continued)

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

3.4.2. Investment contracts with discretionary participation features

For the Sentry retirement annuity product which is deemed to be an investment contract with DPF, the liability is set equal to the estimated prospective liability using a set of long-term bonus rates.

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.

Sanlam Developing Markets Limited
Statement of financial position
at at 31 December 2018

	Notes	2018 R'000	2017 R'000
ASSETS			
Equipment	1	67,752	53,219
Goodwill	2	18,446	18,446
Intangible assets	3	13,525	18,625
Deferred acquisition costs	4	185,378	197,094
Long-term reinsurance assets	5	3,928	4,800
Investments		21,633,655	22,123,697
Investment in subsidiaries	6.1	14,514,438	16,365,629
Investments in associated companies	6.2	341,698	445,419
Equities and similar securities	6.3	1,024,750	1,127,460
Interest bearing investments	6.4	1,227,189	1,747,183
Structured transactions	6.4	79,226	6,040
Investment funds	6.4	2,971,642	1,857,789
Cash, deposits and similar securities	6.4	1,474,712	574,177
Intercompany loans receivable	7	53,766	49,995
Deferred tax asset	11	676,462	936,560
Working capital assets		1,675,343	1,284,003
Trade and other receivables	8	410,713	222,262
Cash, deposits and similar securities		1,088,729	1,061,741
Taxation		175,901	-
Total assets		24,328,255	24,686,439
EQUITY AND LIABILITIES			
Share capital and premium	9	853,563	853,563
Other reserve		578,780	636,551
Retained earnings		2,284,543	2,461,894
Total equity		3,716,886	3,952,008
Long-term policy liabilities		18,772,804	19,274,008
Investment contracts	10	15,162,291	15,782,069
Insurance contracts	10	3,610,513	3,491,939
Deferred tax liability	11	10,977	22,890
Intercompany loans payable	12	209,575	199,050
Working capital liabilities		1,618,013	1,238,483
Trade and other payables	13	1,496,480	1,005,395
Shareholders for dividend		10,261	10,261
Provisions	14	111,272	105,952
Taxation		-	116,875
Total liabilities		20,611,369	20,734,431
Total equity and liabilities		24,328,255	24,686,439

	Notes	2018 R'000	2017 R'000
Net Income		5,204,354	6,997,962
Financial services income	15.	5,484,631	4,697,069
Reinsurance premiums paid	16.	(11,824)	(8,969)
Investment income	17.1	1,183,638	1,008,657
Investment surpluses	17.2	(1,452,091)	1,301,205
Net insurance and investment contract benefits and claims		(1,387,398)	(3,398,335)
Insurance contract benefits	18.	(1,977,906)	(1,618,412)
Investment contract benefits	18.	577,378	(1,821,679)
Reinsurance claims received	16.	13,130	41,756
		3,816,956	3,599,627
Expenses		(2,455,344)	(2,102,759)
Sales remuneration		(1,240,446)	(1,086,820)
Administration costs	19.	(1,209,798)	(1,011,964)
Amortisation of intangibles		(5,100)	(3,975)
Profit before tax		**1,361,612**	**1,496,868**
Taxation	20.	(400,880)	(351,125)
Profit after tax		**960,732**	**1,145,743**
Other comprehensive income		-	-
Total comprehensive income for the year attributable to equity holders of the parent		**960,732**	**1,145,743**

	Notes	Share capital R'000	Share premium R'000	Other reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 1 January 2017		**11,745**	**841,818**	**609,834**	**2,254,585**	**3,717,982**
Profit for the year		-	-	-	1,145,743	1,145,743
Dividends declared	22	-	-	-	(911,717)	(911,717)
Transfer to / (from) other reserve		-	-	26,717	(26,717)	-
Balance at 31 December 2017		**11,745**	**841,818**	**636,551**	**2,461,894**	**3,952,008**
Profit for the year		-	-	-	960,732	960,732
Dividends declared	22	-	-	-	(1,195,854)	(1,195,854)
Transfer to / (from) other reserve		-	-	(57,771)	57,771	-
Balance at 31 December 2018		**11,745**	**841,818**	**578,780**	**2,284,543**	**3,716,886**

	Notes	2018 R'000	Restated 2017 R'000
Cash flow generated from operating activities [1]		(210,865)	(100,576)
Cash generated by operations	26.1	246,821	320,739
Interest received	17.1	1,090,650	914,473
Dividends received	17.1	92,988	94,184
Dividends paid		(1,195,854)	(912,006)
Taxation paid	26.2	(445,470)	(517,966)
Cash flow from investing activities [1]		237,853	194,201
Disposal of subsidiaries and associates	6	237,853	194,201
Net increase/(decrease) in cash and cash equivalents		**26,988**	**93,625**
Cash, deposits and similar securities at beginning of year	26.3	1,061,741	968,116
Cash, deposits and similar securities at end of year		**1,088,729**	**1,061,741**

[1] Refer to note 31 for details on the restatement

1. Equipment	Computer equipment R'000	Motor vehicles R'000	Office furniture and equipment R'000	Total R'000
2018				
Balance at the beginning of the year	19,445	418	33,356	53,219
Cost	72,467	1,547	92,231	166,245
Accumulated depreciation	(53,022)	(1,129)	(58,875)	(113,026)
Additions and expenditure capitalised	25,355	873	10,140	36,368
Disposals	(296)	-	(48)	(344)
Cost	(1,018)	-	(545)	(1,563)
Accumulated depreciation	722	-	497	1,219
Depreciation	(14,271)	(288)	(6,932)	(21,491)
Balance at the end of the year	30,233	1,003	36,516	67,752
Cost	96,804	2,420	101,826	201,050
Accumulated depreciation	(66,571)	(1,417)	(65,310)	(133,298)
2017				
Balance at the beginning of the year	19,693	609	26,658	46,960
Cost	72,664	1,547	79,458	153,669
Accumulated depreciation	(52,971)	(938)	(52,800)	(106,709)
Additions and expenditure capitalised	12,459	-	14,083	26,542
Disposals	(713)	-	(1,309)	(2,022)
Cost	(12,656)	-	(1,310)	(13,966)
Accumulated depreciation	11,943	-	1	11,944
Depreciation	(11,994)	(191)	(6,076)	(18,261)
Balance at the end of the year	19,445	418	33,356	53,219
Cost	72,467	1,547	92,231	166,245
Accumulated depreciation	(53,022)	(1,129)	(58,875)	(113,026)

2. Goodwill	2018 R'000	2017 R'000
Balance at the beginning of the year	18,446	18,446
Cost	18,446	18,446
Accumulated amortisation	-	-
Additions during the year	-	-
Balance at end of year	18,446	18,446
Cost	18,446	18,446
Accumulated depreciation	-	-

The goodwill arose from the business combination of the Alfinanz business effective 1 October 2009.

The R18m goodwill balance relates to the Alfinanz business acquired in 2009 that forms a division within SDM. Therefore the cash generating unit is SDM as a whole.

The group equity value of SDM at the end of 31 December 2018 is R11 142 million which exceeds the net asset value of R3 717 million by R7 425 million. Therefore there is no indication of impairment.

3. Intangible Assets	2018 R'000	2017 R'000
Balance at the beginning of the year	18,625	12,600
Cost	121,622	111,622
Accumulated amortisation	(102,997)	(99,022)
Additions and expenditure capitalised	-	10,000
Amortisation	(5,100)	(3,975)
Balance at end of year	13,525	18,625
Cost	121,622	121,622
Accumulated amortisation	(108,097)	(102,997)

The additions in the 2017 financial year relate to the value of business acquired of Family Funeral Services.

4. Deferred Acquisition Cost	**2018 R'000**	**2017 R'000**
Balance at the beginning of the year	197,094	197,353
Movement during the year	(11,716)	(259)
Acquisition costs capitalised	75,427	91,694
Expensed for the year	(87,143)	(91,953)
Balance at end of year	185,378	197,094

The DAC relates to acquisition costs capitalised on the Cumulus product which was launched during 2011.

5. Long-term Reinsurance Assets		
Balance at the beginning of the year	4,800	32,650
Movement in reinsurers' share of insurance liabilities	(872)	(27,850)
Movement in policyholder liabilities	(864)	(27,895)
Movement in IBNR	(8)	45
Balance at end of year	3,928	4,800

The prior year movement in the policyholder liabilities was due to a recapture of the Sentry book from Swiss Re, effective 1 January 2017, for a consideration of R35m.

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	-	671	3,207	50	3,928
31 December 2017	-	1,296	3,446	58	4,800

6. Investments

6.1. Investment in subsidiaries	**2018 R'000**	**2017 R'000**
Balance at the beginning of the year	3,039,372	2,253,612
Disposal of investment in Sanlam Life Insurance Zambia Ltd (incorporated in Zambia)	-	(115,136)
Disposal of investment in African Life Assurance Company (Tanzania) Ltd (incorporated in Tanzania)	-	(79,065)
Fair value adjustment	(1,546,572)	979,961
Total Investment in subsidiaries	1,492,800	3,039,372

The reason for the negative fair value adjustment in the current financial year is due to poor investment market performance.

During 2017 the Company sold its investment in Sanlam Life Insurance Zambia Ltd (incorporated in Zambia) and African Life Assurance Company (Tanzania) Ltd (incorporated in Tanzania) to Sanlam Emerging Markets (Pty) Ltd at fair value.

Loans with subsidiaries:

SDM Investment Trust	13,021,638	13,326,257
Total loan balance with subsidiaries	13,021,638	13,326,257
Total net investment in subsidiaries	14,514,438	16,365,629

The loan with SDM Investment Trust is of a long-term nature and is held at fair value.

6. Investments (continued) ***6.2. Investment in associated companies***	**2018** **R'000**	**2017** **R'000**
Balance at the beginning of the year	445,240	380,788
Disposal of investment in FBN Insurance Ltd (incorporated in Nigeria)	(237,853)	-
Dividend received	(54,052)	(53,193)
Fair value adjustment	188,120	117,645
Total investment in associated companies	341,455	445,240

Loans with associated companies:

Nico Life Insurance Company Ltd (incorporated in Malawi)	243	179
Total loan balance with associated companies	243	179
Total net investment in associated companies	341,698	445,419

The above loans are unsecured, short term in nature and carry no interest. The repayments of these loans are done on a quarterly basis, unless the subsidiary is a loss making subsidiary

The Company has 49% interest in Nico Life Insurance Company Ltd, which is involved in life insurance activities in Malawi. The investment is measured as an investment at fair value through profit and loss. The following table illustrates the summarised financial information of the company's investment in Nico Life Insurance Company Ltd:

Details of investment in material associated companies:

		Nico Life Insurance Co Ltd (incorporated in Malawi)	
Number of shares held		15,925	15,925
Interest in issued share capital	%	49	49
Share of earnings after tax	R'000	177,088	172,552
Distributions received	R'000	34,614	23,502
Aggregate post-acquisition reserves attributable to shareholders	R'000	591,847	414,759
Financial information as at 31 December - total:			
Earnings attributable to shareholders	R'000	86,773	84,551
Current assets	R'000	54,658	58,844
Non-current assets	R'000	5,085,245	3,586,113
Current liabilities	R'000	64,102	36,627
Non-current liabilities	R'000	4,548,285	3,242,494
Equity	R'000	527,516	365,836
Fair value of interest in associate	R'000	341,454	250,085
Gross premiums	R'000	687,378	575,685
Other Comprehensive Income	R'000	-	-
Total comprehensive income	R'000	177,088	172,552

		2018	2017
6.	**Investments (continued)**		
6.2.	***Investment in associated companies (continued)***	**R'000**	**R'000**

The Company held an 35% interest in FBN Insurance Ltd, which is involved in life and general insurance activities in Nigeria. During 2018 the company sold its investment in FBN Insurance Ltd (incorporated in Nigeria) to Sanlam Emerging Markets (Pty) Ltd at fair value. The investment was measured as an investment at fair value through profit and loss. The following table illustrates the summarised financial information of the Company's investment in FBN Insurance Ltd.

Details of investment in material associated companies:

		FBN Insurance Ltd (Incorporated in Nigeria)	
Number of shares held		-	1,867,758
Interest in issued share capital	%	-	35
Share of earnings after tax	R'000	-	162,781
Distributions received	R'000	-	29,691
Aggregate post-acquisition reserves attributable to shareholders	R'000	-	261,500
Financial information as at 31 December - total:			
Earnings attributable to shareholders	R'000	-	56,973
Current assets	R'000	-	57,847
Non-current assets	R'000	-	1,691,107
Current liabilities	R'000	-	144,821
Non-current liabilities	R'000	-	1,223,594
Equity	R'000	-	380,538
Fair value of interest in associate	R'000	-	195,155
Gross premiums	R'000	-	930,213
Total comprehensive income	R'000	-	162,781

6.3. Equities and similar securities

Equities and similar securities - Listed	1,024,750	1,127,460
Total equities and similar securities	1,024,750	1,127,460

6. Investments (continued) 6.4. *Investments other than equities and similar securities*	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
31 December 2018							
Interest bearing investments	-	1,227,189	**1,227,189**	-	-	-	**1,227,189**
Government	-	365,418	**365,418**	-	-	-	**365,418**
Corporate	-	861,771	**861,771**	-	-	-	**861,771**
Structured transactions	71,162	8,064	**79,226**	-	-	-	**79,226**
Investment funds	2,971,642	-	**2,971,642**	-	-	-	**2,971,642**
Cash, deposits and similar securities	-	1,474,712	**1,474,712**	-	-	-	**1,474,712**
Total investments other than equities and similar securities	3,042,804	2,709,965	**5,752,769**	-	-	-	**5,752,769**

	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
31 December 2017				
Interest bearing investments	1,747,183	-	-	**1,747,183**
Government interest bearing investments	325,527	-	-	**325,527**
Corporate interest bearing investments	1,421,656	-	-	**1,421,656**
Structured transactions	6,040	-	-	**6,040**
Investment funds	1,857,789	-	-	**1,857,789**
Cash, deposits and similar securities	574,177	-	-	**574,177**
Total investments other than equities and similar securities	4,185,189	-	-	**4,185,189**

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.

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
31 December 2018					
Interest bearing investments	708,329	289,143	229,717	-	1,227,189
Government interest bearing investments	120,657	50,087	194,674	-	365,418
Corporate interest bearing investments	587,672	239,056	35,043	-	861,771
Structured transactions	71,162	8,064	-	-	79,226
Investment funds [1]	-	-	-	2,971,642	2,971,642
Cash, deposits and similar securities	310,376	1,164,336	-	-	1,474,712
Total investments other than equities and similar securities	1,089,867	1,461,543	229,717	2,971,642	5,752,769

[1] 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.

6. Investments (continued)

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

Maturity analysis of investments other than equities and similar securities (continued)	**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 2017					
Interest bearing investments	577,165	967,564	202,454	-	1,747,183
Government interest bearing investments	50,070	81,056	194,401	-	325,527
Corporate interest bearing investments	527,095	886,508	8,053	-	1,421,656
Structured transactions	(55,450)	61,490	-	-	6,040
Investment funds [1]	-	-	-	1,857,789	1,857,789
Cash, deposits and similar securities	342,953	231,224	-	-	574,177
Total investments other than equities and similar securities	864,668	1,260,278	202,454	1,857,789	4,185,189

[1] 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%**
31 December 2018			
Equities and similar securities	987,937	9,879	(9,879)
Investment funds	1,455,854	14,559	(14,559)
Structured transactions	71,162	712	(712)
Total	2,514,953	25,150	(25,150)
31 December 2017			
Equities and similar securities	1,085,122	10,851	(10,851)
Investment funds	1,491,417	14,914	(14,914)
Structured transactions	(59,711)	(597)	597
Total	2,516,828	25,168	(25,168)

6. Investments (continued)

6.5. 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
31 December 2018				
Investment in subsidiaries and associated companies	-	14,443,862	412,031	14,855,893
Equities and similar securities	1,024,750	-	-	1,024,750
Interest bearing investments	280,330	946,859	-	1,227,189
Structured transactions	8,064	71,162	-	79,226
Investment funds	2,895,813	75,829	-	2,971,642
Cash deposits and similar securities	-	1,474,712	-	1,474,712
Total investments at fair value	4,208,957	17,012,424	412,031	21,633,412
Investment contract liabilities	-	15,162,291	-	15,162,291
Total liabilities at fair value	-	15,162,291	-	15,162,291

[1] Structured transactions includes net derivative liabilities

Fair value hierarchy	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
31 December 2017				
Investment in subsidiaries and associated companies	-	16,293,891	516,978	16,810,869
Equities and similar securities	1,127,460	-	-	1,127,460
Interest bearing investments	308,819	1,438,364	-	1,747,183
Structured transactions	65,751	(59,711)	-	6,040
Investment funds	1,787,710	70,079	-	1,857,789
Cash deposits and similar securities	159,648	414,529	-	574,177
Total investments at fair value	3,449,388	18,157,152	516,978	22,123,518
Investment contract liabilities	-	15,782,069	-	15,782,069
Total liabilities at fair value	-	15,782,069	-	15,782,069

6. Investments (continued) *6.5. Fair value disclosures (continued)*	**2018 R'000**	**2017 R'000**
Reconciliation of movement in Level 3 financial instruments measured at fair value.		
	Investment in subsidiaries and associated companies	
Financial assets		
Balance at the beginning of the year	516,978	681,679
Total gain in statement of comprehensive income - Investment surplus	132,911	50,157
Disposals	(237,853)	(194,201)
Movement in working capital	(5)	(20,657)
Balance at end of year	412,031	516,978

Gains and losses (realised and unrealised) included in profit or loss		
Total unrealised gains included in profit or loss for the period for assets held at the end of the reporting period	132,911	50,157

Transfers between categories	**Interest-bearing investments R'000**
Financial assets	
31 December 2018	
Transfer from Level 1 to Level 2	(10,095)
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.

Sensitivity of Level 3 financial assets measured at fair value to changes in key assumptions	**Range of risk discount rate %**	**Carrying amount R'000**	**Effect of a 1% increase in risk discount rate R'000**	**Effect of a 1% decrease in risk discount rate R'000**
Financial assets				
31 December 2018				
Investment in subsidiaries and associated companies	27%	412,031	(2,987)	2,838
31 December 2017				
Investment in subsidiaries and associated companies	21% - 27%	516,978	(6,792)	7,279

6. 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
31 December 2018 [1]								
Policyholder portfolio								
Government interest bearing investments	-	-	-	187,450	69,224	5,446	-	262,120
Corporate interest bearing investments	-	-	-	341,447	375,362	31,411	17,966	766,186
Cash deposits and similar securities	-	151,164	-	940,116	329,341	-	-	1,420,621
Structured transactions	-	-	-	8,052	-	-	-	8,052
SDM Investment Trust Assets (Note 25) [2]	-	9,946	12,771	1,649,555	909,174	-	10,967,229	13,548,675
Working capital assets	-	-	-	-	-	-	18,854	18,854
Linked business	-	496	-	30,844	11,596	761	40	43,737
Total	-	161,606	12,771	3,157,464	1,694,697	37,618	11,004,089	16,068,245
Shareholder Portfolio								
Government interest bearing investments	-	-	-	71,861	-	1,582	-	73,443
Corporate interest bearing investments	-	-	500	35,573	46,631	750	-	83,454
Cash, deposits and similar securities	-	-	-	41,362	10,990	-	-	52,352
Intercompany loans receivable	-	-	-	-	-	-	53,766	53,766
Structured transactions	-	-	5,547	-	65,615	-	-	71,162
Working capital assets	-	-	-	588,181	487,306	14,688	566,314	1,656,489
Total	-	-	6,047	736,977	610,542	17,020	620,080	1,990,666

[1] 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.

[2] In respect of the SDM Investment Trust maximum exposure to credit risk is the loan amout of R13 billion

6. Investments (continued)

The table below shows credit risk concentration by credit rating for the Company using international rating scales [3]:

	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
31 December 2017 [1] [3]								
Policyholder portfolio								
Government interest bearing investments	-	-	-	260,734	16,732	13,920	-	291,386
Corporate interest bearing investments	-	5,592	-	949,727	340,756	13,975	-	1,310,050
Cash deposits and similar securities	-	-	119,798	416,817	-	-	-	536,615
Structured transactions	-	-	-	63,560	-	-	-	63,560
SDM Investment Trust Assets (Note 25) [2]	-	-	26,368	24,283	137,229	1,051,606	14,304,419	15,543,905
Working capital assets	-	-	-	-	-	-	28,030	28,030
Linked business	-	105	524	40,294	8,268	58	-	49,249
Total	-	5,697	146,690	1,755,415	502,985	1,079,559	14,332,449	17,822,795
Shareholder Portfolio								
Government interest bearing investments	-	-	-	6,866	-	-	-	6,866
Corporate interest bearing investments	-	2,567	-	35,399	54,312	-	-	92,278
Cash, deposits and similar securities	-	-	2,852	31,738	-	-	471	35,061
Intercompany loans receivable	-	-	-	-	-	-	49,995	49,995
Structured transactions	-	-	-	(25,085)	(32,580)	-	-	(57,665)
Working capital assets	-	9,736	10,818	852,441	187,240	-	195,738	1,255,973
Total	-	12,303	13,670	901,359	208,972	-	246,204	1,382,508

[1] 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.

[2] In respect of the SDM Investment Trust maximum exposure to credit risk is the loan amout of R13.3 billion

[3] Prior year figures were restated to align to international rating scales

7. Intercompany loans receivable		**2018 R'000**	**2017 R'000**
Sanlam Share Trust	Subsidiary of holding company	51,515	48,106
African Life Properties (Pty) Ltd	Subsidiary	1,629	974
Santam Limited	Joint venture with subsidiary of holding company	622	627
Channel Life Limited	Subsidiary of holding company	-	288
Total intercompany loans		53,766	49,995

Analysis of intercompany loans:

Current	53,766	49,995
Total intercompany loans	53,766	49,995

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.

8. Trade and other receivables	**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 [2] R'000**	**Total R'000**
31 December 2018						
Premiums receivable	-	185,255	-	185,255	-	185,255
Accrued investment income	24,404	-	-	-	-	24,404
Accounts receivable	136	84,626	(12,316)	72,310	128,608	201,054
Total trade and other receivables	24,540	269,881	(12,316)	257,565	128,608	410,713
31 December 2017						
Premiums receivable						43,858
Accrued investment income						34,866
Accounts receivable						143,538
Total trade and other receivables						222,262

Classification of trade and other receivables:	**2018 R'000**	**2017 R'000**
Designated at fair value through profit or loss [1]	24,540	-
Amortised cost	257,565	222,262
Non-financial instrument [2]	128,608	-
Total trade and other receivables	410,713	222,262

[1] 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

[2] Non-financial instruments refer to prepaid expenses, broker and agent commission debtors.

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.

8. Trade and other receivables (continued)

Reconciliation of expected credit losses	2018 R'000
Accounts receivable	
Balance at the beginning of the year	-
IFRS transitional adjustments	(50,790)
Net measurement of loss allowance	(12,316)
Balance at the end of the year	(63,106)

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

9. Share capital and premium

	2018 R'000	2017 R'000
Share capital		
Authorised		
150 million ordinary shares of 10 cents each	15,000	15,000
Issued		
117 457 028 ordinary shares issued of 10 cents each	11,745	11,745
Share premium	841,818	841,818
Total issued share capital and share premium	853,563	853,563

10. Long-term policy liabilities

10.1. Analysis of movement in policy liabilities

	Insurance contracts R'000	Investment contracts R'000	Total R'000
31 December 2018			
Income	5,863,592	3,191,069	9,054,661
Premium income (note 10.2.)	5,751,896	3,768,447	9,520,343
Investment return	111,696	(577,378)	(465,682)
Outflow	(5,744,154)	(3,767,369)	(9,511,523)
Policy benefits (note 10.3.)	(661,416)	(3,489,653)	(4,151,069)
Fees, risk premiums and other payments to shareholders' fund (note 15)	(5,082,738)	(277,716)	(5,360,454)
Movement in reinsurance assets	(864)	-	(864)
Movement in partial surrenders	-	(43,478)	(43,478)
Net movement for the year	118,574	(619,778)	(501,204)
Balance at beginning of year	3,491,939	15,782,069	19,274,008
Balance at end of year	3,610,513	15,162,291	18,772,804

10. Long-term policy liabilities (continued) *10.1. Analysis of movement in policy liabilities (continued)*	Insurance contracts R'000	Investment contracts R'000	Total R'000
31 December 2017			
Income	4,936,025	5,013,008	9,949,033
Premium income (note 10.2.)	4,673,082	3,191,329	7,864,411
Investment return	262,943	1,821,679	2,084,622
Outflow	(4,701,755)	(3,895,555)	(8,597,310)
Policy benefits (note 10.3.)	(607,781)	(3,379,205)	(3,986,986)
Fees, risk premiums and other payments to shareholders' fund (note 15.)	(4,093,974)	(516,350)	(4,610,324)
Movement in reinsurance assets	(5,920)	(21,975)	(27,895)
Movement in partial surrenders	-	(84,271)	(84,271)
Net movement for the year	228,350	1,011,207	1,239,557
Balance at beginning of year (Restated)	3,263,589	14,770,862	18,034,451
Balance at end of year	3,491,939	15,782,069	19,274,008

10.2. Analysis of premium income	2018 R'000	2017 R'000
Individual business	9,445,139	7,794,443
Recurring	5,777,195	4,723,881
Single	3,552,053	2,938,656
Continuations	115,891	131,906
Employee benefits business	75,204	69,968
Recurring	75,204	69,968
Total premium income	9,520,343	7,864,411

10.3. Analysis of long-term policy benefits

Individual business	(4,129,351)	(3,952,220)
Maturity benefits	(2,593,921)	(2,528,215)
Surrenders	(1,089,787)	(977,536)
Life and term annuities	(144,042)	(126,002)
Death and disability benefits	(218,307)	(257,917)
Cash bonuses	(83,294)	(62,550)
Employee benefits business	(21,718)	(34,766)
Pensions	(21,718)	(34,766)
Total policy benefits	(4,151,069)	(3,986,986)

10. Long-term policy liabilities (continued) ***10.4. Composition of policy liabilities***	**2018** **R'000**	**2017** **R'000**
Individual business	18,524,303	19,004,536
Risk business (including inwards reinsurance)	692,222	578,764
Investments	17,825,605	18,418,866
Business with no investment guarantees	7,192,223	6,702,502
Business with minimum investment guarantees	8,078,657	10,224,277
Smoothed bonus	1,339,728	1,415,692
Market related and smoothed bonus	10,274	10,058
Fully guaranteed business	1,204,723	66,337
Combined policies	6,476	6,906
Employee benefits business	248,501	269,472
Risk business (including inwards reinsurance)	18,062	22,210
Investments	146,770	166,553
Linked business	100,197	112,874
Non guaranteed investments	46,573	53,679
Life Annuities	83,669	80,709
Total policy liabilities	18,772,804	19,274,008

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

10.5. 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**
31 December 2018					
Investments	2,434,391	10,643,686	114,728	1,969,486	15,162,291
Linked business	-	-	-	100,197	100,197
Business with no investment guarantees	616,230	4,413,164	111,631	571,501	5,712,526
Business with minimum investment guarantees	1,764,593	5,072,133	2,872	1,239,057	8,078,655
Smoothed bonus	7,347	1,770	225	-	9,342
Market related and smoothed bonus	-	-	-	10,274	10,274
Non guaranteed investments	-	-	-	46,573	46,573
Fully guaranteed business	46,221	1,156,619	-	1,884	1,204,724
Total investment policy contracts	2,434,391	10,643,686	114,728	1,969,486	15,162,291
31 December 2017					
Investments	3,242,707	10,917,365	133,416	1,488,581	15,782,069
Linked business	-	-	-	112,874	112,874
Business with no investment guarantees	744,569	3,927,212	129,323	503,251	5,304,355
Business with minimum investment guarantees	2,441,033	6,970,983	3,542	808,719	10,224,277
Smoothed bonus	7,459	2,479	551	-	10,489
Market related and smoothed bonus	-	-	-	10,058	10,058
Non guaranteed investments	-	-	-	53,679	53,679
Fully guaranteed business	49,646	16,691	-	-	66,337
Total investment policy contracts	3,242,707	10,917,365	133,416	1,488,581	15,782,069

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

10. Long-term policy liabilities (continued)

10.6. 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**
31 December 2018					
Risk business (including inwards reinsurance)	16,814	4,726	58,431	630,313	710,284
Investments	84,065	567,109	2,140,310	18,600	2,810,084
Business with no investment guarantees	44,507	339,899	1,079,950	15,341	1,479,697
Smoothed bonus	39,558	227,210	1,060,360	3,259	1,330,387
Life Annuities	-	-	-	83,669	83,669
Combined policies	-	4,491	1,985	-	6,476
Total insurance policy contracts	100,879	576,326	2,200,726	732,582	3,610,513
31 December 2017					
Risk business (including inwards reinsurance)	18,077	12,345	53,026	517,527	600,975
Investments	89,022	514,484	2,181,962	17,881	2,803,349
Business with no investment guarantees	44,914	282,723	1,055,886	14,622	1,398,145
Smoothed bonus	44,108	231,761	1,126,076	3,259	1,405,204
Life Annuities	-	-	-	80,709	80,709
Combined policies	-	4,198	2,708	-	6,906
Total insurance policy contracts	107,099	531,027	2,237,696	616,117	3,491,939

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.

10.7. Policy liabilities include:	**2018 R'000**	**2017 R'000**
Provision for HIV / Aids and other pandemics	955,487	951,074

11. Deferred Tax asset / (liability)	**Income Tax R'000**	**Capital Gains Tax R'000**	**Total R'000**
2018			
Balance at the beginning of the year	1,240,292	(326,622)	913,670
Temporary differences (charged) / credited to statement of comprehensive income	(472,642)	224,457	(248,185)
Tax losses and credits	(472,642)	-	(472,642)
Net unrealised investment surpluses on policyholders' fund	-	212,544	212,544
Net unrealised investment surpluses on on shareholders' fund	-	11,913	11,913
Balance at the end of the year	767,650	(102,165)	665,485
2017			
Balance at the beginning of the year	931,586	(214,402)	717,184
Temporary differences (charged) / credited to statement of comprehensive income	308,706	(112,220)	196,486
Accruals and provisions	(169)	-	(169)
Tax losses and credits	308,875	-	308,875
Net unrealised investment surpluses on policyholders' fund	-	(105,342)	(105,342)
Net unrealised investment surpluses on on shareholders' fund	-	(6,878)	(6,878)
Balance at the end of the year	1,240,292	(326,622)	913,670

11. Deferred Tax asset / (liability) (continued) *Analysis of deferred tax balances*	**Income Tax R'000**	**Capital Gains Tax R'000**	**Total R'000**
2018			
Deferred tax asset	767,649	(91,187)	676,462
Tax losses and credits	767,649	-	767,649
Net unrealised investment surpluses on policyholders' fund	-	(91,187)	(91,187)
Deferred tax liability	-	(10,977)	(10,977)
Net unrealised investment surpluses on on shareholders' fund	-	(10,977)	(10,977)
Balance at the end of the year	767,649	(102,164)	665,485
2017			
Deferred tax asset	1,240,291	(303,731)	936,560
Tax losses and credits	1,240,291	-	1,240,291
Net unrealised investment surpluses on policyholders' fund	-	(303,731)	(303,731)
Deferred tax liability	-	(22,890)	(22,890)
Net unrealised investment surpluses on on shareholders' fund	-	(22,890)	(22,890)
Balance at the end of the year	1,240,291	(326,621)	913,670

11.1. 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 R-58 million recognised (2017: R27 million). 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.

12. Intercompany payable		**2018 R'000**	**2017 R'000**
Sanlam Life Insurance Limited	Holding company	208,913	199,050
Channel Life Limited	Fellow subsidiary	662	-
Total intercompany loans		209,575	199,050

Analysis of intercompany loans:

Current	209,575	199,050
Total intercompany loans	209,575	199,050

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.

13. Trade and other payables	2018 R'000	2017 R'000
Accounts payable	890,155	641,079
Liability for share based payments	29,628	32,559
Policy benefits payable	296,673	230,970
Amounts due to reinsurers	157	35
Operating lease creditor	5,003	5,497
Claims incurred but not reported	274,864	95,255
Total trade and other payables	1,496,480	1,005,395

Classification of trade and other payables:

Amortised cost	1,186,985	1,005,395
Non-financial instrument [1]	309,495	-
Total trade and other payables	1,496,480	1,005,395

[1] 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.

14. Provisions	Bonus provision R'000	Post-retirement medical aid R'000	Other R'000	Total R'000
2018				
Balance at the beginning of the year	87,406	18,447	99	105,952
Charged to statement of comprehensive income	770	2,669	1,881	5,320
Additional provisions	145,534	5,000	1,881	152,415
Unused amounts reversed	-	-	-	-
Utilised during the year	(144,764)	(2,331)	-	(2,331)
Balance at the end of the year	88,176	21,116	1,980	111,272
2017				
Balance at the beginning of the year	75,229	18,855	2,934	97,018
Charged to statement of comprehensive income	12,177	(408)	(2,835)	8,934
Additional provisions	130,597	2,000	671	133,268
Unused amounts reversed	-	-	(700)	(700)
Utilised during the year	(118,420)	(2,408)	(2,806)	(123,634)
Balance at the end of the year	87,406	18,447	99	105,952

Analysis of provisions:	2018 R'000	2017 R'000
Current	90,157	87,506
Non-current	21,115	18,446
Total provisions	111,272	105,952

14. Provisions (continued)

Post-retirement medical aid

This provision relates to medical aid contributions for certain pensioners.

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.

15. Financial services income

	2018 R'000	2017 R'000
Long term insurance gross of reinsurance (note 10.1)	5,360,454	4,610,324
Long term insurance (net of reinsurance)	5,348,630	4,601,355
Reinsurance premiums	11,824	8,969
Other financial services income	124,177	86,745
Total financial services income	5,484,631	4,697,069

Analysis per revenue category

	2018 R'000	2017 R'000
Long-term insurance fee income	5,360,454	4,610,324
Other financial services income	124,177	86,745
Working capital	65,094	86,862
Other	59,083	(117)
Total financial services income	5,484,631	4,697,069

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	223,999	-	-	223,999
Administration fees	223,999	-	-	223,999
Revenue not within the scope of IFRS 15	5,260,632	-	-	-
Total financial services income	5,484,631	-	-	5,484,631

15. Financial services income (continued)

Disaggregation of revenue

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	-	223,999	-	223,999
Administration fees	-	223,999	-	223,999
Revenue not within the scope of IFRS 15	-	-	5,260,632	5,260,632
Total financial services income	-	223,999	5,260,632	5,484,631

16. Reinsurance	**2018 R'000**	**2017 R'000**
Reinsurance premium paid		
Long-term insurance	(11,824)	(8,969)
Total reinsurance premium paid	(11,824)	(8,969)
Reinsurance claims received		
Long-term insurance	13,130	41,756
Total reinsurance claims received	13,130	41,756

17. Investment return

17.1. Investment income

Equities and similar securities	92,988	94,184
Interest-bearing preference shares and similar securities	1,090,650	914,473
Total investment income	1,183,638	1,008,657

17.2. Investment surpluses / (losses)

Financial instruments designated as at fair value through profit or loss	-	1,301,205
Financial assets designated as at fair value through profit or loss	(1,405,286)	-
Financial assets mandatorily measured at fair value through profit or loss	(46,805)	-
Total investment surpluses	(1,452,091)	1,301,205

Investment surpluses includes:

Foreign exchange losses	(197,090)	(197,375)

18. Long-term investment and insurance contract benefits	2018 R'000	2017 R'000
Insurance contracts	(1,977,906)	(1,618,412)
Net underwriting policy benefits	(1,853,080)	(1,313,713)
After tax investment return attributable to insurance contract liabilities (note 10.1.)	(111,696)	(262,943)
Reinsurance claims received	(13,130)	(41,756)
Investment contracts	577,378	(1,821,679)
After tax investment return attributable to investment contract liabilities (note 10.1.)	577,378	(1,821,679)
Total gross underwriting policy benefits	(1,400,528)	(3,440,091)

Analysis of gross underwriting policy benefits:

Individual life	(1,818,541)	(1,310,640)
Employee benefits	(47,669)	(44,829)
Total gross underwriting policy benefits	(1,866,210)	(1,355,469)

19. Administration costs

Administration costs include:		
Auditors' remuneration	10,705	10,315
Audit fees: statutory audit	10,705	10,315
Other services provided	-	-
Depreciation property and equipment (note 1.)	21,491	18,261
Operating leases - Properties	64,634	55,446
Consultancy fees	46,971	37,050
Employee benefits	482,981	413,828
Salaries and other short-term benefits	445,580	382,457
Pension costs - defined contribution plans	24,358	20,688
Share based payment expense	13,043	10,683

19. Administration costs (continued)

19.1. Directors' and prescribed officers' remuneration [1]

31 December 2018	Salary	Company contributions	Bonus	Attributable value of LTIs [2]	OPP payment	Directors' fees	Allowance	Attendance and committees	Included in Total paid by the Company	Total
K Socikwa [3]	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 [4]	2,715	178	2,318	1,170	-	-	-	-	-	6,381
P de V Rademeyer [5]	-	-	-	-	-	-	-	83	**83**	83
K Nondumo	-	-	-	-	-	622		1,754	**199**	2,376
CG Swanepoel	-	-	-	-	-	614	-	3,078	**313**	3,692
N Mmatli [6]	2,480	239	1,051	345	-	-	-	-	-	4,115
P Burton [7]	-	-	-	-	-	-	-	43	**43**	43
PE Speckmann [8]	-	-	-	-	-	303	561	162	**162**	1,026
Non-executive directors	5,195	417	3,369	1,515	-	1,539	561	5,120	**800**	17,716

[1] The remuneration disclosed reflects the total remuneration paid to Sanlam Developing Markets Limited directors for services rendered to the broader Sanlam Limited Group for the full yea
[2] Fair value of LTIs granted during the year, assuming 100% vesting
[3] New Chief Executive appointed 01 May 2017
[4] Chairman effective June 2017, Non-Executive director before that dat
[5] Resigned as at 17 April 2018
[6] Resigned as at 14 February 2019
[7] Resigned 21 February 2018
[8] 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

19. Administration costs (continued)

19.1. Directors' and prescribed officers' remuneration [1] (continued)

31 December 2017	Salary	Company contributions	Bonus	Attributable value of LTIs [2]	OPP payment	Directors' fees	Allowance	Attendance and committees	Included in Total paid by the Company	Total
K Socikwa [3]	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 [4]	4,027	209	4,000	3,325	7,125	-	-	-	-	18,686
H Brody [5]	2,202	84	-	2,500	-	-	-	-	-	4,786
I Visagie [6]	2,483	205	1,884	1,073	-	-	-	-	-	5,645
P de V Rademeyer	-	-	-	-	-	564	46	1,378	**323**	1,988
D Ladds [7]	-	-	-	-	-	889	12	477	**53**	1,378
K Nondumo	-	-	-	-	-	400	46	758	**207**	1,204
CG Swanepoel	-	-	-	-	-	736	46	2,440	**222**	3,222
N Mmatli	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

[1] The remuneration disclosed reflects the total remuneration paid to Sanlam Developing Markets Limited directors for services rendered to the broader Sanlam Limited Group for the full year.
[2] Fair value of LTIs granted during the year, assuming 100% vesting
[3] New Chief Executive appointed 01 May 2017
[4] Acting Chief Executive from 19 February 2016 to 1 May 2017
[5] Resigned as at 31 May 2017
[6] Chairman effective June 2017; Non-Executive director before that date
[7] Resigned 22 May 2017
[8] 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 RS shares that will vest in April 2019.

Refer to page 9 for dates of appointment of directors

20. Taxation	**2018 R'000**	**2017 R'000**
Analysis of income tax per category:		
Normal income tax	(152,694)	(547,612)
RSA normal income taxation	(140,522)	(537,418)
Foreign	(3,383)	(5,007)
Capital gains tax	(8,789)	(5,187)
Deferred tax	(248,186)	196,487
Normal tax	(472,643)	308,707
Capital gains tax	224,457	(112,220)
Tax income / (expense)	(400,880)	(351,125)

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 R4.1 billion (2017: 4.4 billion) in the policyholders' fund, of which R2.1 billion (2017: R2.3 billion) has not been recognised. 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	1,361,612	1,496,868
Standard tax rate	28%	28%
Standard rate of taxation	(381,251)	(419,123)
Adjusted for:		
Non-taxable income	5,108	12,187
Disallowable expenses	(3,695)	(768)
Foreign tax rate differential	(3,383)	(5,007)
Investment surpluses	44,606	35,819
Fund transfer (movement in deferred tax assets not previously recognised)	(57,771)	26,717
Withholding tax	(4,494)	(950)
Effective tax	(400,880)	(351,125)

21. Commitments

Operating lease commitments

The business has the following future operating lease commitments:		
Lease rentals due within one year	37,961	36,865
Lease rentals due within two to five years	44,557	51,452
Total operating lease commitments	82,518	88,317

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

22. Dividends

In 2018 a dividend of R1,196 million (2017: R912 million) was declared and paid. Subsequent to 31 December 2018 a dividend of R785m was declared on 21 February 2019.

23. 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 6;
- The valuation of policy liabilities – note 10, 23.1.

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.

23.1. 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 26 to 28.

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%)

23. Critical accounting estimates and judgements (continued)

23.1. 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. The SDM Cumulus product range is currently valued on a retrospective basis which is based on the value of the unit funds less a fair value adjustment, which introduces a discretionary margin when compared to a prospective (FSV) valuation. No other discretionary margins are added.

24. Retirement benefits obligations

The Company provides retirement benefits for employees and former employees. All employees are now on a defined contribution scheme. A few employees were on a defined benefit scheme up to 28 February 2015 and were then transferred to the defined contribution scheme. The defined benefit scheme now only pays pensions to former employees but there remained a share of surplus in respect of the transferred employees, amounting to R11.8m, which was transferred to the defined contribution funds in March 2017. The assets of all these schemes are held in independent trust funds, administered in terms of the Pension Funds Act of 1956 (as amended).

The defined benefit scheme currently has assets in excess of its liabilities.

24. Retirement benefits obligations (continued)

The Company has an obligation to fund a portion of the post-retirement-medical contributions for employees and former employees who retired from the Company. This applies only to staff employed prior to June 1998 because employment contracts issued after this date do not impose this obligation on the employer.

Defined benefit pension fund	2018	2017
Number of funds	1	1
Number of employees covered by fund	0	0
Number of pensioners covered by fund	120	129
Company contribution to the fund during the year	R0m	R0m
Frequency of valuation:	Annually	Annually
Latest valuation date:	2018-12-31	2017-12-31

This fund was financially sound according to the latest independent valuation

Principal actuarial assumptions at latest valuation date per annum:

• Pre-retirement discount rate	n/a	n/a
• Post-retirement discount rate	10.10%	9.83%
• Future salary increases	n/a	n/a
• Expected return on assets	9.83%	9.82%
• Actual return on assets	-3.90%	14.10%

Defined contribution pension fund		
Number of employees covered by fund	5,472	5,032
Contribution to the fund during the year	R67.7m	R59.0m

Post-retirement medical aid obligations:		
Principal actuarial assumptions:		
• Pre-retirement discount rate	n/a	n/a
• Returns for All Bond Index (ALBI)	10.10%	9.83%
• Expected increase in medical aid contributions	9.10%	8.83%

Defined Benefit Plan	2018 R'000	2017 R'000
Amounts recognised in the Statement of financial position		
Present value of funded obligations	(88,095)	(89,580)
Fair value of plan assets	92,020	104,929
Net assets	3,925	15,349
Effect of the asset ceiling	(3,925)	(15,349)
Net liability included in statement of financial position	-	-

24. Retirement benefits obligations (continued)	**Actuarial value of fund assets**	**Present value of fund obligations**	**Asset ceiling**	**Net asset / (liability)**
2018				
Balance at the beginning of the year	104,929	(89,580)	(15,349)	-
Movement for the year	(12,909)	1,485	11,424	-
Interest income/(expense)	10,315	(8,806)	(1,509)	-
Returns from plan assets, excluding amounts included in interest	(14,224)	-	-	(14,224)
Benefit payments	(9,000)	9,907	-	907
Actuarial gains and losses	-	384	-	384
Gain/(loss) on settlement	-	-	-	-
Effect of limiting a net defined benefit asset to the asset ceiling	-	-	12,933	12,933
Balance at end of year	92,020	(88,095)	(3,925)	-
2017				
Balance at the beginning of the year	114,120	(103,619)	(10,501)	-
Movement for the year	(9,191)	14,039	(4,848)	-
Interest income/(expense)	11,207	(10,175)	(1,031)	1
Returns from plan assets, excluding amounts included in interest	2,644	-	-	2,644
Benefit payments	(11,000)	8,656	-	(2,344)
Actuarial gains and losses	-	3,516	-	3,516
Gain/(loss) on settlement	(12,042)	12,042	-	-
Effect of limiting a net defined benefit asset to the asset ceiling	-	-	(3,817)	(3,817)
Balance at end of year	104,929	(89,580)	(15,349)	-

Fund assets comprise:	**2018 R'000**	**2017 R'000**
Equities and similar securities	35,171	40,602
Interest-bearing investments	41,202	44,065
Investment funds	14,598	18,628
Structured transactions	-	15
Cash, deposits and similar securities	1,049	1,619
Total fund assets	92,020	104,929

Defined benefit plan - Net expenses recognised in profit and loss

Past service cost	-	-
Total included in staff costs	-	-

24. Retirement benefits obligations (continued)

The following discounted benefits are expected payments to be made in the future years out of the defined benefit plan:	< 1 year R'000	1 to 5 years R'000	> 5 years R'000	Total R'000
31 December 2018	7,900	13,601	66,594	88,095
31 December 2017	7,800	15,800	65,980	89,580

	% Change in assumed actuarial assumptions	
Sensitivity analysis	**2% Increase**	**2% Decrease**
Aggregate interest cost	447	(511)
Defined benefit obligation for post-employment medical benefits	4,425	(5,056)

The sensitivity analysis above has been determined by varying the investment return actuarial assumptions. The assumptions made when preparing the sensitivity analysis have been grouped into two scenarios. In scenario one the base investment return (affecting the pre- and post- retirement discount rate and expected rate of return) has been decreased by 2% and in scenario two the base investment return has increased by 2%.

Post-employment medical aid benefits	2018 R'000	2017 R'000
Amounts recognised in the statement of financial position		
Present value of funded obligations	(28,456)	(29,010)
Fair value of plan assets	28,456	29,010
Net assets	-	-
Effect of the asset ceiling	-	-
Net liability included in statement of financial position	-	-

Post-employment medical aid benefits - Net expenses recognised in profit and loss		
Interest on obligation	2,852	3,150
Total included in staff costs	2,852	3,150

25. 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	337,016	287,386
Fair value (R'000)	28,747	25,003

25. Related parties (continued)

During the year the Company paid Sanlam Group Companies for the following:

Nature of the transaction	Related party	2018 R'000 Debit/(Credit)	2017 R'000 Debit/(Credit)
Short term insurance	Sanlam Life Insurance Ltd [1]	27	171
Internal audit	Sanlam Life Insurance Ltd [1]	4,249	4,091
Portfolio management fees	Sanlam Investment Management (Pty) Ltd [2]	14,446	15,420
Rental and parking	Sanlam Life Insurance Ltd [1]	1,302	1,122
Corporate facility	Sanlam Life Insurance Ltd [1]	1,590	1,606
IT Services	Sanlam Life Insurance Ltd [1]	55,608	54,968
Policy administration fee received	Channel Life Limited [3]	(5,943)	(10,124)
Pension administration fee	Sanlam Life Insurance Ltd [1]	5,551	4,635
Franchise fee	Sanlam Life Insurance Ltd [1]	19,978	19,009
Services centres fees	Sanlam Life Insurance Ltd [1]	3,431	4,938
SAP administration fee	Sanlam Life Insurance Ltd [1]	2,568	2,270
Collecting commission	Multi-data [3]	103	78
Sale of associate	Sanlam Emerging Markets (Pty) Ltd [2]	(237,853)	(194,201)

[1] Holding company
[2] Fellow subsidiary
[3] Division of the ultimate holding company

The Company has the following intercompany balances with group companies:

Nature of the transaction	Related party		
Intercompany: Loan receivable	Sanlam Share Trust [1]	51,515	48,106
Intercompany: Loan receivable/(payable)	Channel Life Limited [2]	(662)	288
Intercompany: Loan receivable	African Life Properties (Pty) Ltd [3]	1,629	974
Intercompany: Loan receivable	Santam Limited [1]	622	627
Intercompany: Loan payable	Sanlam Life Insurance Ltd [4]	(208,913)	(199,051)
Intercompany: Loan receivable	Principal subsidiary and associated companies [3]	13,022,503	13,327,063

[1] Subsidiary of the ultimate holding company
[2] Fellow subsidiary
[3] Loans with subsidiary and associated companies are disclosed in note 6.1 , 6.2 and note 28.
[4] Holding company

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 19.1.

Subsidiaries and associated companies

During the period the Company and its subsidiaries and associated companies entered into various transactions in the ordinary course of business. These transactions occurred under terms and conditions that are no less favourable than those arranged with third parties.

The Company advanced, repaid and received loans from its subsidiaries and associates during the current and previous periods. Details of the loans and investments in subsidiaries and associates are disclosed in note 6.1 and note 6.2.

25. Related parties (continued)

Key management personnel compensation

For the purpose of IAS 24 'related party disclosures', key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. Details of the compensation paid to the board of directors are disclosed in note 19.1.

Key management personnel include members of the Executive Committee of the Company

Compensation paid to the Company's key management personnel is as follows:	2018 R'000	2017 R'000
Short-term employee benefits	28,763	26,857
Share based payments	5,831	12,792
Total key management personnel compensation	34,594	39,649

The above compensation is for 15 contributing staff members (2017: 13) considered to be part of key management.

26. Notes to the statement of cash flows

26.1. Cash generated by operations

		2018	2017
Profit before tax per statement of comprehensive income		1,361,612	1,496,868
Movement on long term policy contracts		(501,204)	1,239,557
Non-cash flow items		1,571,145	(1,178,082)
Depreciation	1.	21,491	18,261
Amortisation of intangible assets	3.	5,100	3,975
Movement in provisions		5,320	8,934
Deferred acquisitions cost expensed	4.	87,143	91,953
Investment surpluses	17.2	1,452,091	(1,301,205)
Items disclosed separately		(1,183,638)	(1,008,657)
Interest received	17.1	(1,090,650)	(914,473)
Dividends received	17.1	(92,988)	(94,184)
Decrease in intercompany loans receivable		(3,771)	(8,663)
Increase / (decrease) in intercompany loans payable		10,525	52,068
Deferred acquisition cost paid		(75,427)	(91,694)
Increase in net working capital assets and liabilities		302,634	114,054
Net acquisition of investments [1]		(1,199,031)	(260,192)
Net acquisition of fixed assets [1]	1.	(36,024)	(24,520)
Net Acquisition of intangible assets	3.	-	(10,000)
Cash generated by operations		**246,821**	**320,739**

[1] Refer to note 31 for details on the restatement

26.2. Reconciliation of taxation paid

	2018	2017
Movement between taxation balance at the beginning of the year and balance at end of year	(292,776)	29,646
Less movement for normal taxation through the income statement	(152,694)	(547,612)
Taxation paid	**(445,470)**	**(517,966)**

26.3. *Cash, deposits and similar securities*	**2018 R'000**	**2017 R'000**
Working capital: Cash, deposits and similar securities	1,088,729	1,061,741
Total cash, deposits and similar securities	**1,088,729**	**1,061,741**

27. Disposal of subsidiaries

Fair value of investment sold	-	(194,201)
Consideration received	-	194,201
Profit on disposal of subsidiary	-	-

During 2017 the Company sold its investment in Sanlam Life Insurance Zambia Ltd (incorporated in Zambia) and African Life Assurance Company (Tanzania) Ltd (incorporated in Tanzania) to Sanlam Emerging Markets (Pty) Ltd at fair value.

28. Collateral

The following collateral has been received in respect of securities lending activities conducted:		
Total value of the loans	147,722	153,601
Fair value of collateral accepted as security for these activities	223,366	176,042
Collateral as % of loans	151%	115%
Collateral consisted of:		
Cash	20%	15%
Money Market	20%	15%
Bonds	2%	10%
Equities	35%	38%
Bank Guarantees	22%	21%

29. Principal subsidiary and associated companies	**Note 1**	**Holding % 2018**	**Holding % 2017**	**Fair value of interest 2018 R'000**	**Fair value of interest 2017 R'000**	**Loans 2018 R'000**	**Loans 2017 R'000**
Principal subsidiary companies							
Directly held							
African Life Properties (Pty) Ltd	ZAR	100	100	70,575	71,739	1,629	974
Joint venture with Santam Limited	ZAR	100	100	-	-	622	627
SDM Investment Trust	ZAR	100	100	1,422,225	2,967,633	13,021,638	13,326,257
Total				**1,492,800**	**3,039,372**	**13,023,889**	**13,327,858**
Associated companies							
Nico Life Insurance Company Ltd (incorporated in Malawi)	MWK	49	49	341,455	250,085	243	179
FBN Insurance Ltd (incorporated in Nigeria)	NGN	-	35	-	195,155	-	-
Total				**341,455**	**445,240**	**243**	**179**

Note 1: Details of currencies

ZAR	South African Rand
ZMK	Zambian Kwacha
TZS	Tanzanian Shillings
NGN	Nigerian Naira
MWK	Malawian Kwacha

29. Principal subsidiary and associated companies (continued) **Equity price risk sensitivity on the investment in subsidiaries**	**Fair value of interest** **R'000**	**Effect as a result of an increase/decrease in fair value** **+1%** **R'000**	 **-1%** **R'000**
2018			
Principal subsidiary companies			
Directly held			
African Life Properties (Pty) Ltd	70,575	706	(706)
SDM Investment Trust	1,422,225	14,222	(14,222)
Total	**1,492,800**	**14,928**	**(14,928)**
Associated companies			
Nico Life Insurance Company Ltd (incorporated in Malawi)	341,455	3,415	(3,415)
Total	**341,455**	**3,415**	**(3,415)**
2017			
Principal subsidiary companies			
Directly held			
African Life Properties (Pty) Ltd	71,739	717	(717)
SDM Investment Trust	2,967,633	29,676	(29,676)
Total	**3,039,372**	**30,393**	**(30,393)**
Associated companies			
Nico Life Insurance Company Ltd (incorporated in Malawi)	250,085	2,501	(2,501)
FBN Insurance Ltd (incorporated in Nigeria)	195,155	1,952	(1,952)
Total	**445,240**	**4,453**	**(4,453)**

In respect of the SDM Investment Trust there is exposure to equity risk as a result of investments in equity funds.

30. 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. Sanlam 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

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.

30. Adoption of new standards (continued)

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) Sanlam 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.

31. 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, 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, 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.

		2017	
Impact of restatement	**As previously reported R'000**	**Adjustments R'000**	**Restated R'000**
Cash flows from operating activities	**194,136**	**(294,712)**	**(100,576)**
Cash flows from investing activities	**(100,511)**	**294,712**	**194,201**
Net acquisition of investments	(260,192)	260,192	-
Acquisition of subsidiaries and associates	-	-	-
Disposal of subsidiaries and associated companies	194,201	-	194,201
Purchases of equipment	(26,542)	26,542	-
Disposal of equipment	2,022	(2,022)	-
Acquisition of intangible assets	(10,000)	10,000	-

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 Sanlam Developing Markets 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.
- Managing the impact of new business on capital requirements by limiting volumes of capital intensive new business.
- The asset mix of the long-term required capital, as well as estate reserves in the policyholder portfolios also impact the overall capital requirement. 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	10,956,466	10,279,308
SCR	5,163,914	5,071,340
Surplus	**5,792,552**	**5,207,968**
SCR cover	**212%**	**203%**
Tier 1	10,956,466	10,279,308
Tier 2	-	-
Tier 3	-	-
Total	**10,956,466**	**10,279,308**

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.

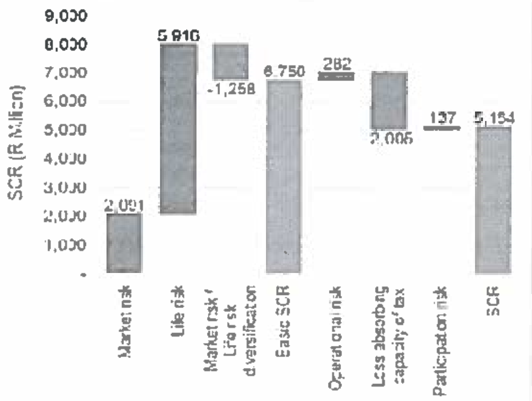
Capital Management Report (continued)

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	3,716,886	3,952,008
Adjustments to IFRS carrying value	(239,937)	(240,828)
Remove goodwill and intangibles	(31,971)	(37,071)
Remove DAC	(185,378)	(197,094)
Reinsurance valuation differences	(22,588)	(6,663)
Adjustments to policyholder liabilities from move to solvency basis	8,058,297	7,204,679
Liability valuation differences	12,836,634	11,754,046
Impact of risk margin	(1,735,377)	(1,838,319)
Increase in net deferred tax liabilities resulting from liability valuation differences above	(3,042,960)	(2,711,048)
SAM Basic Own Funds	**11,535,246**	**10,915,859**
Write down of other reserves	(578,780)	(636,551)
SAM Own Funds eligible to meet SCR	**10,956,466**	**10,279,308**

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



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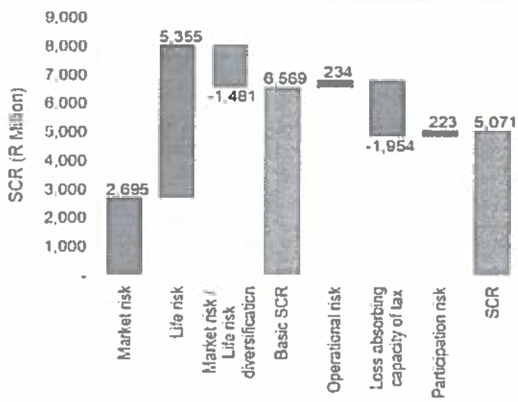


Risk Management Report

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.
SDM	Sanlam Developing Markets 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. • Inherent valuation: The net exposure (likely impact), without any mitigation or controls in place. • Residual valuation: the net exposure, allowing for the effectiveness of the existing controls, as well as additional risk mitigation actions defined.
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: • **Opportunities:** upside risks, or the "offensive" aspects of risks (looking for opportunities to exploit specific risks) • **Hazards:** downside risks, or the "defensive" aspect of risks (focusing on prevention or mitigation of actions that can generate losses) • **Uncertainties:** the volatility aspect of risks (manage risk in order to achieve financial performance within defined ranges).
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 SDM 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	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: • Qualitatively: On a relative scale (e.g. high, moderate or low); or • 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)).
Emerging risks	Emerging risks represent known or unknown risks with a significant potential impact on business, but for which the likely severity for SDM 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).

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 SDM 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 Group Executive Committee.

The SDM CRO determines the relevant risk management framework for the Company in accordance with the Group Guidelines and policies. The SDM 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 SDM Actuarial).

In the execution of its ERM responsibilities, SDM 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 SDM 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 SDM, 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 SDM 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.

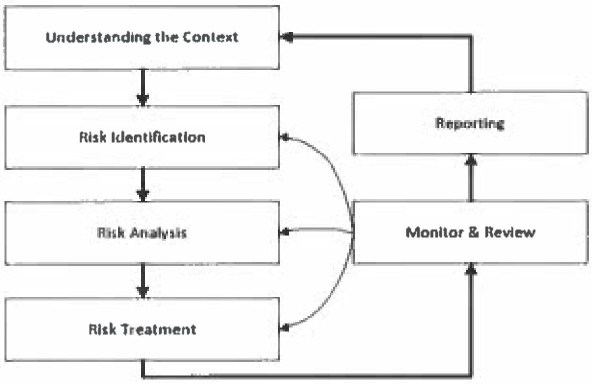
The major risk categories for SDM are:

- 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 SDM 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 SDM CRO should maintain risk evaluation criteria and a logical, practical framework for the identification and analysis of risk and its root causes. The SDM 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?

7.2. *Risk Identification (continued)*

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 SDM risk profile. To this end, the SDM CRO must ensure that global studies of emerging risks are analysed and the potential impact on SDM's goals reviewed with the business risk managers, to determine whether new risks should be included in the SDM 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.

The assessed level of residual risk, compared with the risk appetite and tolerance levels of SDM, 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 SDM 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

SDM should review and report to the SDM Audit, Actuarial and Risk Committee, SDM 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. Ongoing monitoring and reporting (continued)

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 SDM 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 SDM evolve.

Basic protocols will include:

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

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 SDM. 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 SDM CRO, to ensure that an overall portfolio view of risk is maintained for SDM.

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 SDM are:

General Risks	**1. Operational Risk**	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: • **Information and technology risk:** 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. • **Business continuity risk:** Risk of business disruption, system failures and recoverability, damage to physical assets or security breaches of systems and facilities. • **Legal risk:** Risk that SDM 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. • **Policyholders' reasonable expectation (PRE) risk:** client facing documentation / mis-selling • **Compliance risk:** 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). • **Business continuity/Going concern risk:** Risk of business disruption, system failures and recovery, damage to physical assets or security breaches of our systems / facilities. • **Fraud risk:** Any form of unlawful conduct, from internal sources (initiated by own employees or intermediaries) or all external sources. • **Taxation risk:** 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. • **HR risks:** 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. • **Regulatory risk:** Risk of regulatory changes impacting business (FAIS, FICA, Ombud, TCF, RE exams, political risk) • **Process management risk:** Risk of financial losses due to inefficient administrative processes, e.g. data capture errors, incomplete documentation, mis-selling or poor advice. • **Project risk:** Risk in major projects, whether IT or non-IT, inability to deliver project efficiently (time, budget, scope, business handover and control). • **Financial statement risk:** Risk of financial misstatement, regulatory or reputational risk of non-conformance with accounting and regulatory standards or restatement of financial statements. • **Outsourcing provider risk:** The risk arising from the inability or unwillingness of an outsourcing service provider to discharge its contractual obligations.
	2. Reputational Risk	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.
	3. Strategic Risk	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: • Strategic risk (risk of inefficient strategy, or inefficient implementation of strategies) • Key risk that may impact the achievement of goals • Risks of mergers, acquisitions, joint ventures • Risks from competitors' strategies • BEE / FSC risks

10. Risk types (continued)

Financial and business-specific risks	**4. Market Risk**	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: • **Equity risk:** 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. • **Interest rate risk:** 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. • **Currency risk:** 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. • **Property risk:** 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. • **Asset liability mismatching risk:** 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. • **Asset concentration risk:** The risk of losses due to inadequately diversified portfolios. This is usually treated as a cause for general market risk. • **Credit spread risk:** 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.
	5. Credit Risk	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: • **Default risk:** Credit risk arising from the inability or unwillingness of a credit counterparty to discharge its contractual obligations. • **Downgrade or migration risk:** Risk that changes in the possible future default by an obligator will adversely impact current portfolio value. • **Reinsurance counterparty risk:** Concentration risk in terms of exposure to a limited range of reinsurers or types of products. • **Settlement risk:** Risk arising from lag between value and settlement dates of security transactions.
	6. Liquidity Risk	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: • its inability to convert assets into cash; • its failure to procure enough funds; or • funds can only be procured at such high rates, that the income and capital position of or market confidence in SDM can be affected, • or Investment strategy may include inadequate liquid assets to meet outflows from policyholder portfolios. The risk can stem from external sources (competition, volatile markets, regulatory intervention, etc.) or internal sources (operating systems, investment decisions). Secondary types include: • **Market liquidity risk** (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). • **Funding liquidity risk** is the risk relating to the difficulty or inability to access or raise funds to meet commitments associated with financial instruments or policy contracts.

10. Risk types (continued)

Financial and business-specific risks	7. Insurance Risk	The uncertainty underlying the frequency, severity and timing of future claims or expenses in our long-term insurance book. It includes: • **Underwriting risk:** Risk products: risk that actual experience relating to mortality, morbidity, disability deviates from expected experience in pricing and valuation of liabilities. • **Underwriting risk:** Annuity products: risk that actual mortality and longevity experience differs from expected and valuation assumptions. • **Persistency risk:** 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. • **Risk of inefficient capital allocation:** Parameter risk, model risk, insufficient data, etc. • **New product risk:** Impact of new products and options on risk profile of SDM, including future reputational risk. • **Expense risk:** 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. • **Concentration risk:** The risk of financial loss due to having written large proportions of business with policyholders of the same/similar risk profile (including catastrophe risk).

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.

- 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. Risk mitigation (continued)

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.

11.1.6. 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. Risk mitigation (continued)

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 Sanlam Developing Markets 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.

11. Risk mitigation (continued)

11.4. Market risk (continued)

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.

11.4.1 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 37.7% of the Company's investment policy liabilities. Benefits under these policies include a guaranteed maturity value and, in some cases, a level annuity payable during the policy term.

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 Sanlam Developing Markets 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 Company provides the asset manager with monthly updates of the liability profile so that the assets held in the portfolio may be aligned. 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.

In addition, the Company has invested in a number of foreign subsidiaries (refer to note 29 for details). This introduces a currency risk in respect of the value of the investment and the value of profits arising in the subsidiaries.

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

The table below shows the shareholders' fund assets denominated in foreign currencies that are included in the statement of financial position.

Foreign currency exposure	United States Dollar R'000	Malawian Kwacha R'000	Nigerian Naira R'000	Other currencies R'000	Total R'000
2018					
Investment in subsidiaries and associated companies	-	341,455	-	-	341,455
Foreign currency exposure	-	341,455	-	-	341,455
Exchange rates					
Closing rate		0.0185			
Average rate		0.0190			
2017					
Investment in subsidiaries and associated companies	-	250,085	195,155	-	445,240
Foreign currency exposure	-	250,085	195,155	-	445,240
Exchange rates					
Closing rate	12.38	0.0173	0.0347		
Average rate	13.30	0.0185	0.0403		

Foreign currency risk sensitivity - effect on shareholder's fund assets	Fair value of interest R'000	Effect as a result of an increase/decrease in fair value +1% R'000	-1% R'000
2018			
Malawian Kwacha	341,455	3,415	(3,415)

11. Risk mitigation (continued)

11.4. Market risk (continued)

Foreign currency risk sensitivity - effect on shareholder's fund assets	Fair value of interest R'000	Effect as a result of an Increase/decrease in fair value +1% R'000	-1% R'000
2017			
Malawian Kwacha	250,085	2,501	(2,501)
Nigerian Naira	195,155	1,952	(1,952)

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 43.

Life insurance businesses exposed to risk via:	Exposure to Liquidity risk
Policyholder solutions [5]	
Linked and market-related [4]	✔
Smoothed-bonus business	
Stable bonus [1]	✔
Reversionary bonus [1]	✔
Participating annuities [4]	✔
Non-participating annuities [2]	✔
Other non-participating liabilities	
Guarantee plans [3]	✔
Other [2]	✔

[1] 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.
[2] 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.
[3] Liquidity risk is managed by matching the liabilities with assets that have similar maturity profiles as the liabilities.
[4] 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.
[5] 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
2018					
Insurance contracts	100,879	576,326	2,200,726	732,582	3,610,513
Investment contracts	2,434,391	10,643,686	114,728	1,969,486	15,162,291
Total policy liabilities [1]	2,535,270	11,220,012	2,315,454	2,702,068	18,772,804
Equities and similar securities	-	-	-	796,284	796,284
Government interest bearing investments	47,213	50,087	194,674	-	291,974
Corporate interest bearing investments	514,775	228,501	35,043	-	778,319
Structured transactions	-	8,064	-	-	8,064
Investment funds	-	-	-	2,138,749	2,138,749
Cash deposits and similar securities	276,364	1,145,996	-	-	1,422,360
SDM Investment Trust Assets	1,039,926	1,687,910	-	10,897,549	13,625,385
Long-term reinsurance assets	-	671	3,207	50	3,928
Net working capital	(292,259)	-	-	-	(292,259)
Total policyholder assets	1,586,019	3,121,229	232,924	13,832,632	18,772,804

[1] 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
2017					
Insurance contracts	107,099	531,027	2,237,696	616,117	3,491,939
Investment contracts	3,242,707	10,917,365	133,416	1,488,581	15,782,069
Total policy liabilities [1]	3,349,806	11,448,392	2,371,112	2,104,698	19,274,008
Equities and similar securities	-	-	-	856,548	856,548
Government interest bearing investments	43,203	81,056	194,401	-	318,660
Corporate interest bearing investments	479,149	842,176	8,053	-	1,329,378
Structured transactions	947	62,758	-	-	63,705
Investment funds	-	-	-	947,038	947,038
Cash deposits and similar securities	322,632	216,483	-	-	539,115
SDM Investment Trust Assets	735,121	482,693	-	14,326,091	15,543,905
Long-term reinsurance assets	-	1,296	3,446	58	4,800
Net working capital	(329,141)	-	-	-	(329,141)
Total policyholder assets	1,251,911	1,686,462	205,900	16,129,735	19,274,008

[1] 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 actual collection of new business premiums is compared to expected premiums on a monthly basis to maximise collections and give an early warning of future lapses.

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 include risk premium treaties for a high life cover, hospital cover product and critical illness products. 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 R8 004 million (2017: R7 491 million).

Percentage change in net VIF from base value	**2018**	**2017**
Interest rate and assets		
Increase risk discount rate by 1%	-4.70%	-5.20%
Decrease risk discount rate by 1%	5.20%	5.72%
Investment return (and inflation) decreased by 1% and with bonus rates and discount rates changing commensurately	4.25%	4.12%
Equity/property assets fall by 10% without a corresponding fall/rise in dividend/rental yield - Assume portfolio asset mix is rebalanced after fall in market values	-0.71%	-0.97%
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	0.82%	1.03%
Shock scenario	-10.04%	-10.11%
Expenses and persistency		
Non-commission maintenance expenses (excluding investment expenses) decrease by 10%	2.54%	2.41%
Discontinuance rates decrease by 10%	5.26%	5.33%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance non-annuity business	4.89%	4.38%

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. The majority 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.