19

ANNUAL FINANCIAL STATEMENTS

Sanlam Wealthsmiths™

CONTENTS

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

The Audit, Actuarial and Finance committee has confirmed that effective systems of internal control and risk management are being maintained. There were no breakdowns in the functioning of the internal financial control systems during the year, which had a material impact on the Sanlam Limited Group or Company 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 IFRS and are supported by reasonable and prudent judgements consistently applied.

The Board of Sanlam Limited takes responsibility for the integrity, objectivity and reliability of the Shareholders' Information included in the Integrated Report. The responsibility for the preparation and presentation of the Shareholders' Information is delegated to management.

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

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

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

The Annual Financial Statements, the Governance Report, the Remuneration Report and the Shareholders' Information on pages 159 to 230 of the Integrated Report were approved by the Board and signed on its behalf by:

Johan van Zyl
Chair

Ian Kirk
Group Chief Executive

Cape Town
11 March 2020

CERTIFICATE BY COMPANY SECRETARY

In my capacity as Company Secretary, I hereby certify, in terms of the Companies Act, 71 of 2008, as amended (the Companies Act) that for the year ended 31 December 2019, the Company has lodged with the Registrar of Companies all such returns as are required of a public Company in terms of this Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

Sana-Ullah Bray
Company Secretary

11 March 2020

DIRECTORS' REPORT

for the year ended 31 December 2019

Nature of business

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

Sanlam Limited is a public company incorporated in terms of the Companies Act in South Africa and listed on the JSE Limited, A2X and the Namibian Stock Exchange.

Corporate governance

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

Group results

Profit attributable to shareholders decreased from R11 627 million in 2018 to R7 150 million in 2019, largely due to the one-off IFRS 2 broad-based black economic empowerment (B-BBEE) cost of R1 686 billion that arose as a result of the 111 349 000 share issue to a new B-BBEE special purpose vehicle. A deemed profit on disposal of associated companies and subsidiaries of some R3,1 billion recognised in terms of IFRS upon associated companies becoming subsidiaries, contributed to the higher 2018 profit. The acquisition of the remaining 53% stake in Saham Finances was the largest contributor to the deemed profit. However, the Group still achieved a solid operational performance in 2019, with growth of 14% in net operational earnings. Further details regarding the Group's results and prospects are included in the Financial Review in the Integrated Report. The information in the Remuneration Report, requiring disclosure in the directors' report in terms of the Companies Act and JSE Listings Requirements, has been audited. The holding company's interest in the after tax profit of the Group subsidiaries, summarised per cluster, is set out in the shareholders' fund income statement on page 184 of the Integrated Report.

Share capital

The issued ordinary share capital of the Company is 2 343 million shares. Refer to page 101 for further information.

Dividend

The Board has declared a normal cash dividend of 334 cents per share (2019: normal dividend of 312 cents), payable on 20 April 2020, to shareholders registered on 14 April 2020. All payments through electronic bank transfer will take place on this date.

Subsidiaries

Details of the Company's principal subsidiaries are set out on page 148.

Directors' interests in contracts

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

Interest of directors and officers in share capital

Details of the shareholding by directors at the date of this report are provided in the online Remuneration Report on pages 41 and 42.

Directors and secretary

Particulars of the directors and Company Secretary at the date of this report, as well as changes in directorships, are set out on pages 149 to 151 of the Integrated Report. Also refer to the online Governance Report.

Subsequent events

The outbreak of the coronavirus during mid-January has disrupted the Global economic markets. In making their estimates and judgements as at 31 December 2019 (as disclosed in note 25) management took into consideration the economic conditions and forecasts as at that date. Management will continue to consider the potential impact of the outbreak on significant estimates and judgements going forward.

No other material facts or circumstances have arisen between the date of the statement of financial position and this report that materially affects the financial position of the Sanlam Limited Group at 31 December 2019 as reflected in these financial statements.

Approval of annual financial statements

The directors have approved the annual financial statements as reflected on page 1, including the certificate by the Company Secretary on page 2, the Audit committee report for the 2019 financial year on page 34 of the online Governance Report and the analysis of shareholders on page 234 of the Integrated Report.

Notice in terms of section 45(5) of the Companies Act

The Company is from time to time, as an essential part of conducting the business of the Sanlam Group, required to provide financial assistance to Group companies as part of its day-to-day operations in the form of loan funding, guarantees or general financial assistance as contemplated in section 45 of the Companies Act. In accordance with section 45(5) of the Companies Act this serves to give notice that the Sanlam Board, in line with existing practice, approved that the Company may, in accordance with and subject to the provisions of section 45 of the Companies Act and in terms of the special resolution passed at the Company's annual general meeting in 2019, provide such direct or indirect financial assistance to related and inter-related companies and corporations as described in section 45 of the Companies Act. The amount and format of financial assistance which may be granted pursuant to the resolution is subject to ongoing review by the Sanlam Board and may in total exceed the reporting threshold of 0,1% of the Sanlam Group's net asset value provided for in the Companies Act.

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

To the Shareholders of Sanlam Limited

Opinion

We have audited the consolidated and separate financial statements of Sanlam Limited and its subsidiaries ('the Group') and Company set out on pages 11 to 151, which comprise the consolidated and separate statements of financial position as at 31 December 2019, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, comprising a summary of significant accounting policies and other explanatory information, including pages 21 to 42 of the 2019 Remuneration Report and the segment information on pages 159 to 230 of the Integrated Report, both of which are available on the Sanlam Limited website.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and Company as at 31 December 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and Company in accordance with sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing the audits of financial statements of the Group and Company and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the Group and Company and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA code) and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Key Audit Matter (which only applies to the consolidated financial statements)	How the matter was addressed in the audit
1. Valuation of insurance contract liabilities We considered the valuation of insurance contract liabilities to be significant to the audit of the Sanlam Limited Group (Sanlam or the Group). Specifically, actuarial assumptions and methodologies involve judgements about future events, both internal and external to the Group, for which small changes can result in a material impact to the valuation of insurance contract liabilities. Additionally, the valuation of insurance contract liabilities is dependent on the quality, integrity and accuracy of the data used in the valuations. We have therefore identified the following areas of focus in relation to the valuation of insurance contract liabilities: a) Appropriateness of actuarial assumptions, models and methodology; and b) Data processes and controls relevant to the actuarial valuation.	Refer to sections 1.a and 1.b below.

Key Audit Matter (which only applies to the consolidated financial statements)	How the matter was addressed in the audit
1. Valuation of insurance contract liabilities (continued) Refer to the Policy liabilities and profit entitlement section of the accounting policies (page 63 to 65), Note 25.2 of the Group financial statements (Critical accounting estimates and judgements), (page 119 to 120), and Note 15 of the Group financial statements (page 104 to 109).	Refer to sections 1.a and 1.b below.
1a. Appropriateness of actuarial assumptions, models and methodology Life insurance actuarial assumptions and methodologies reflected in policyholder liabilities are subject to a considerable level of judgement. The operational assumptions are informed by actual experience, market experience and practice, and expectations as to future trends. Economic assumptions are typically based on latest market conditions and are set in accordance with relevant guidance and the Sanlam Group approved policy. The assumptions that we consider to have the most significant impact on the life insurance actuarial valuations are: • Mortality, longevity, disability and morbidity; • Persistency; • Expenses; • Risk discount rates; and • Allowance for credit defaults. The integrity and appropriateness of models and methodology are also considered to be critical in the overall valuation of insurance contract liabilities. General insurance liabilities include significant estimation uncertainty as a result of uncertainty regarding the ultimate claims outcome as well as other assumptions used.	Our audit of these actuarial assumptions, models and methodology applied in the valuation of insurance liabilities, inter alia, included the following audit procedures that were executed with the assistance of our actuarial experts, across the areas considered material: • We assessed the valuation methodology and assumptions for compliance with the latest actuarial guidance, legislation and approved Company policy. • We assessed the design and operating effectiveness of the key controls of the actuarial valuation process for the setting and updating of actuarial assumptions and the process for model and methodology changes; • We focused our analysis on management's key assumptions around mortality, longevity, disability, morbidity, persistency and expenses and assessed the results of management's experience analyses; • We assessed the economic basis, including allowances for credit risk and the risk discount rates, by independently validating the risk-free yield curve, product yield curves and the credit spreads; • We confirmed, on a sample basis, that model and methodology changes have been appropriately implemented by comparing the impacts of these changes to our own calculations of what we would expect the impact to be; • We evaluated the assumptions and methodology against expectations based on our knowledge of the Group, industry practice, and regulatory and reporting requirements. This included an independent evaluation of the sensitivities of the models to various changes in inputs; • We evaluated the key sources of profit and loss and assessed management's analysis of movements in insurance contract liabilities and obtained evidence to support large or unexpected movements.

Key Audit Matter (which only applies to the consolidated financial statements)	How the matter was addressed in the audit
1a. Appropriateness of actuarial assumptions, models and methodology (continued)	• We evaluated and performed procedures over management's modelling of Investment Guarantee Reserves in terms of the applicable actuarial guidance notes; • We considered the level of margins held, management's justification for holding these margins and how these will be released in future; • We performed procedures over the calculation of the non-participating annuity liability, to consider whether the minimum prescribed margin is provided and we evaluated how the provision for credit risk is being managed; and • For general insurance claims specifically, we referred to historical run-off patterns to consider the appropriateness of claims reserves; • We performed procedures over the Solvency Capital Requirements (SCR) and Minimum Capital Requirements (MCR) calculation to ensure that it is in line with the Insurance Act No. 18 of 2017 (Insurance Act), and the Prudential Standards (FSIs) issued by the Prudential Authority, and we evaluated management actions under the prevailing market conditions.
1b. Data processes and controls relevant to the actuarial valuation Data is a key input into the valuation process. The calculation of insurance contract liabilities has a number of inputs, which are reliant on various processes and systems for accurate and complete data. A breakdown of these processes and systems could result in a misstatement of the value of insurance contracts.	In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we, inter alia, performed the following audit procedures: • We assessed the design and operating effectiveness of the key aspects of the control environment over data integrity, including an evaluation of the effectiveness of the information technology (IT) environment over the policy administration systems and the actuarial valuation systems, together with the data extraction and conversion processes; • We performed an evaluation of the key controls over management's collection, extraction and data validation processes, which included testing of the reconciliations between the policy administration systems and the actuarial data extract from the actuarial valuation systems; and • We performed procedures to evaluate management's grouping of data for input into the actuarial valuation models.

Key Audit Matter (which only applies to the consolidated financial statements)	How the matter was addressed in the audit
2. Valuation of unlisted financial instruments We considered the valuation of unlisted financial instruments to be significant to the audit because of the materiality thereof to the Group's financial statements and the sensitivity thereof to the various unobservable valuation inputs, uncertain future cash flows and assumptions that require considerable judgement. The financial instruments we considered most complex and most sensitive to unobservable valuation inputs is unlisted debt. Refer to Note 25.5 of the Group financial statements (Critical accounting estimates and judgements, page 120) and Note 33 of the Group financial statements pages 129 to 137.	Our audit included the following audit procedures across the areas considered material: • We assessed the design and operating effectiveness of the financial reporting controls we considered significant in the valuations and model approval process. This included the controls over the maintenance and use of credit ratings utilised in the valuations; • We assessed the valuation methodologies applied for appropriateness against generally accepted market practice; • We compared the assumptions used in the Group's models and methodologies to independent external sources where possible; • Where valuation inputs were unobservable, we involved our valuation experts to assist us in assessing these inputs; and • We independently tested the valuation of a sample from each type of financial instrument. In addition to the above, our specific procedures included the following:

Key Audit Matter (which only applies to the consolidated financial statements)	How the matter was addressed in the audit
2. Valuation of unlisted financial instruments (continued)	**Unlisted debt:** • We evaluated the valuation inputs, in particular, the construction of the risk-free curve, liquidity and credit spreads by performing independent checks against external sources; • In respect of counter party exposure, we involved our valuation experts to assist us in considering whether credit risk has been appropriately considered and applied in the valuation at year-end. **Collateralised lending:** • We considered the original loan agreements, as well as any subsequent amendments to the agreements, as well as guarantees, sessions or pledges obtained by the Group; • We considered any collateral held originally as well as any new collateral obtained, together with the impact of collateral calls and/ or other settlements effected prior to year-end; • Through enquiry we obtained information on known legal processes instituted and/ or processes followed with other creditors; • We obtained evidence for all material matters considered in setting the recoverable amount of the collateralised lending, including evidence of collateral held, and subordination agreements where applicable; • We conducted searches of publicly available information in order to ascertain whether there are any other relevant facts or circumstances that should be considered when evaluating the Group's claim on assets to support outstanding balances; • We involved our valuation experts to consider the valuation of the material items of collateral held; • We performed subsequent events procedures up to the date of our audit report.

Key Audit Matter (which only applies to the consolidated financial statements)	How the matter was addressed in the audit
3. Valuation of unlisted strategic investments in subsidiaries, associates and joint ventures for purposes of goodwill impairment testing The Group holds significant unlisted strategic investments, which leads to the recognition of goodwill in the consolidated financial statements of the Group. We consider the goodwill impairment assessment of these unlisted strategic investments to be significant to the audit, because of the materiality of the goodwill recognised in the consolidated financial statements of the Group and the judgemental inputs, such as growth rates, which form part of the impairment assessment. Refer to Note 4.1 of the Group financial statements (Goodwill, page 74 to page 75).	• We compared the valuation output to the carrying value at which unlisted strategic investments are recorded in the financial records to determine whether an indicator of goodwill impairment exists; and • We reviewed the goodwill disclosure in Note 4.1 on page 74 to page 75 of the consolidated financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Integrated Report on pages 1 to 158 and 231 to 240, the Corporate Governance Report on pages 1 to 52, the Directors responsibility for financial reporting on page 1, Certificate by the Company Secretary on page 2 and the Directors' Report as required by the Companies Act of South Africa on page 3.

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

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

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

Responsibilities of the Directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and 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 Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group and 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 Group and 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 consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc., and its predecessor firms, were appointed as joint auditors of Sanlam Limited with its incorporation in 1998. In 2006, Ernst & Young Inc. was appointed as the sole auditor of Sanlam Limited and has continuously therefore been the auditor of the Company for a total of 22 years.

Ernst & Young Inc.

Director: Christo du Toit
Registered Auditor
Chartered Accountant (SA)

3rd Floor, Waterway House
3 Dock Road
V&A Waterfront
Cape Town

11 March 2020

CONTENTS

CAPITAL AND RISK MANAGEMENT REPORT

Capital management

Objective

Responsible capital management and allocation are an essential component of meeting the Group's strategic objective of shared value creation for all stakeholders, including maximising shareholder value. The capital value used by the Group as the primary performance measurement base is Group Equity Value (GEV), as reported on page 28 of the Integrated Report. The management of the Group's capital base requires a continuous review of optimal capital levels, including the use of alternative sources of funding, to maximise Return on GEV (RoGEV) and ensure appropriate solvency levels as a safeguard to our clients, regulators and broader society. The Group has an integrated capital and risk management approach. The amount of capital required by the various businesses is directly linked to their exposure to financial and operational risks. Accordingly, risk management is an important component of responsible capital management and allocation.

Capital allocation methodology

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

The methodology used to determine the allocation of required capital to South African covered business is aligned with the new regulatory framework, as defined in the South African Insurance Act, 18 of 2017, which replaced the Financial Soundness Valuation (FSV) regime from 1 July 2018.

The Group sets an appropriate level of required capital for Sanlam Life'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. At the lower end of the range, Sanlam Life's covered business should be able to withstand two economic shock scenarios and still have a SCR cover above 100%. A similar methodology was followed to set ranges for the other South African life insurers. The revised approach remains aligned with the overarching principle to set the level and nature of the supporting capital taking cognisance of minimum regulatory capital requirements, as well as economic, risk and growth considerations. For the non-South African insurers, the Group sets supporting capital levels according to risk appetites based on applicable local rules and operational requirements.

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

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

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

Capital management

Covered business (life insurance operations)

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

- Appropriate matching of assets and liabilities for policyholder solutions. This is especially important for long-duration policyholder solutions that expose the Group to interest rate risk, such as non-participating annuities.
- Due regard is given to liquidity risk management, particular where derivatives are utilised for matching purposes.
- The asset mix of the long-term required capital, as well as estate reserves in the policyholder portfolios, also impact the overall capital requirement. The Group'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.
- The optimal use of long-term debt in the Group's capital structure.

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

Other Group operations

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

Group Estate committee

The Group Estate committee, an internal management committee, is responsible for reviewing and overseeing the management of the Group's shareholders' capital base (inclusive of the estate reserves) in terms of the specific strategies approved by the Board. A similar committee was established to specifically consider the Sanlam Emerging Markets (SEM) businesses.

Discretionary capital

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

Capital adequacy

Sanlam Group

For regulatory purposes, the Group's consolidated capital adequacy is assessed under the new Insurance Act and the relevant Prudential Standards, which gave effect to the new regulatory solvency reporting regime from 1 July 2018.

Group capital adequacy is determined by applying the deduction and aggregation method as specified in the Prudential Standards unless indicated otherwise. Entities are included as follows:

- South African insurers: Own Funds and standard formula SCR as prescribed under the Prudential Standards.
- Non-South African insurers regulated in an equivalent jurisdiction: Own Funds and standard formula SCR as prescribed under Solvency II (at present only applicable to the United Kingdom). All general insurers use the prescribed calculations with the exception of Continental Re which uses local solvency.
  The prescribed calculations are currently not performed by the Saham Life entities (with the exclusion Saham Assurance Maroc Vie). These entities use local solvency, however, these will use the prescribed calculations over time as the capability is being developed. In addition, Nico Life Malawi, Sanlam Life Mozambique and Zimnat Life are also included using local solvency (combined these entities account for less than 1% of Own Funds and therefore the results are immaterial from a Group perspective). At 31 December 2018, Saham was included based on local requirements.
- Regulated banks and credit institutions: Regulatory capital resources and capital requirements as per the Basel III framework.
- Other regulated entities: Regulated entities (other than insurers, banks and credit institutions) that have regulations prescribing capital resources and capital requirements are included at these values.
- Where no capital resources and capital requirements are prescribed: Adjusted IFRS net asset values for Own Funds and SCR equal to the equity stress under the Prudential Standards on the Own Funds.

The Sanlam Group solvency cover was 211% at 31 December 2019, compared to 215% as at 31 December 2018. Excluding the corresponding dividend payment and any discretionary capital, the solvency cover reduced from 211% to 195%.

The following table provides an analysis of the contribution to Group solvency per major entity grouping and quality of capital:

R million	Sanlam Limited Own Funds	SCR	Surplus	SCR cover
31 December 2019				
Sanlam Life	121 056	47 810	73 246	253%
Covered business	37 259	18 125	19 134	206%
Participations	83 225	28 927	54 298	288%
Other	572	758	(186)	75%
Other Group entities[1]	60 998	30 597	30 401	199%
SA insurance	21 085	11 715	9 370	180%
SA other	8 914	3 745	5 169	238%
Non-SA insurance	19 897	10 789	9 108	184%
Non-SA other	11 102	4 348	6 754	255%
Sanlam Life consolidation entries[2]	(78 291)	(29 258)	(49 033)	
Total Sanlam Group Own Funds eligible to meet SCR	103 763	49 149	54 614	211%
Tier 1	99 960			
Tier 2	2 322			
Tier 3	1 481			
Total Sanlam Group Own Funds eligible to meet SCR	103 763			

R million	Sanlam Limited Own Funds	SCR	Surplus	SCR cover
31 December 2018				
Sanlam Life	118 503	44 853	73 650	264%
Covered business	35 114	15 920	19 194	221%
Participations	86 905	27 584	59 321	315%
Other	(3 516)	1 349	(4 865)	(261%)
Other Group entities[1]	51 935	25 810	26 125	201%
SA insurance	18 793	11 518	7 275	163%
SA other	2 533	1 556	977	163%
Non-SA insurance	19 117	8 278	10 839	231%
Non-SA other	11 492	4 458	7 034	258%
Sanlam Life consolidation entries[2]	(79 277)	(28 252)	(51 025)	
Total Sanlam Group Own Funds eligible to meet SCR	91 161	42 411	48 750	215%
Tier 1	87 419			
Tier 2	2 322			
Tier 3	1 420			
Total Sanlam Group Own Funds eligible to meet SCR	91 161			

(1) *Values are shown net of participations and intra-group loans.*
(2) *Adjustments for Sanlam Life intragroup participations.*

Sanlam Life (solo)

For regulatory purposes, capital adequacy for the South African insurance operations is measured with reference to the standard formula as specified under the Prudential Standards.

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.

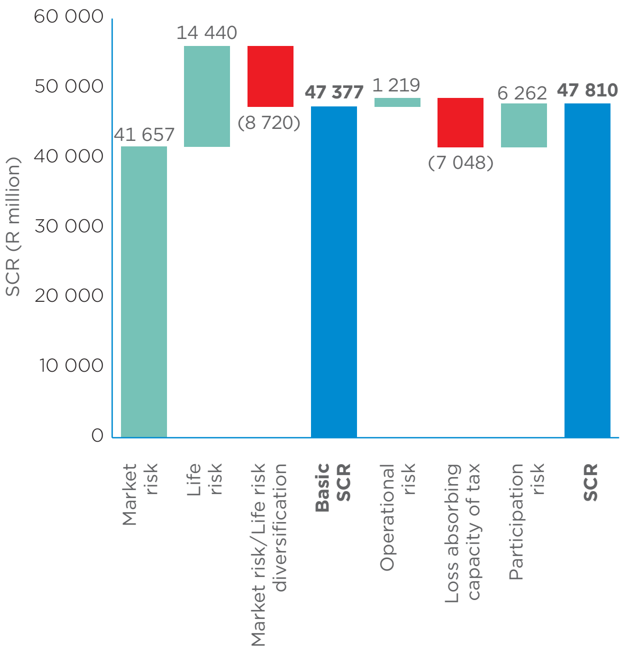
The following table provides a reconciliation between the IFRS shareholders' fund for the Sanlam Life solo entity (the largest insurer within the Sanlam Group) and its Own Funds.

R million	Sanlam Life Insurance Limited 2019	2018
Reconciliation of IFRS shareholders' Fund to Own Funds		
IFRS Shareholders' fund	**110 729**	108 176
Adjustments from IFRS to regulatory basis	**(12 774)**	(10 508)
Write-down intangibles including DAC and goodwill	**(3 944)**	(3 699)
Regulatory adjustment to valuation basis	**(8 830)**	(6 809)
Regulatory basis adjustment to policyholder liabilities	**31 281**	29 096
Liability valuation adjustments	**49 273**	45 573
Impact of risk margin	**(7 291)**	(6 529)
Increase in net deferred tax liabilities resulting from liability valuation differences above	**(10 701)**	(9 948)
Add subordinated debt	**1 025**	1 025
Basic Own Funds	**130 261**	127 789
Write-down treasury shares	**(9 205)**	(9 286)
Own Funds eligible to meet SCR	**121 056**	118 503
SCR	**47 810**	44 853
SCR cover	**253%**	264%

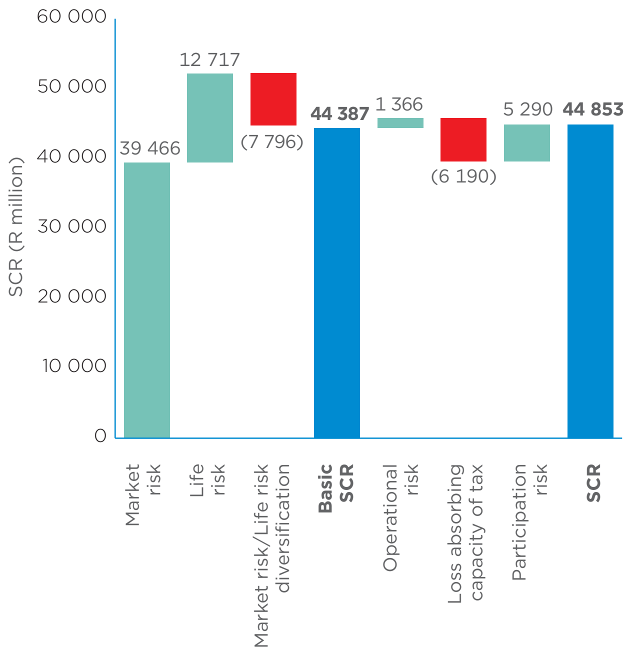
Sanlam Life solo SCR

The graph below shows the SCR for Sanlam Life (solo) and the main contributors to the SCR being 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) and participations, 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 2019



31 December 2018



Sanlam Life covered business

For this view, the regulatory solvency balance sheet and SCR are adjusted to exclude strategic participations, cash available for dividend payments to Sanlam, discretionary capital and other capital not allocated to covered business. Sanlam sets the level of required capital for the Sanlam Life covered business on this view, based on a stated target SCR cover range of between 170% and 210%.

The SCR cover ratio for Sanlam Life covered business of 206% at 31 December 2019 remains well within the stated target range.

Sensitivity analysis

The following table provides solvency sensitivity analysis for the Sanlam Group and Sanlam Life solo.

Sanlam Group

	Own Funds eligible to meet SCR		SCR		Surplus		SCR cover	
R million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Base position	**103 763**	91 161	**49 149**	42 411	**54 614**	48 750	**211%**	215%
Equities -30%[1]	**97 833**	84 503	**47 074**	40 953	**50 759**	43 550	**208%**	206%
Interest rates -1%	**105 396**	92 951	**49 852**	43 477	**55 544**	49 474	**211%**	214%
Credit spreads +1%	**103 271**	90 398	**49 195**	42 440	**54 076**	47 958	**210%**	213%
ZAR appreciation 10%	**103 154**	86 952	**49 260**	41 156	**53 894**	45 796	**209%**	211%
Shock scenario[2]	**92 378**	82 241	**45 694**	40 687	**46 684**	41 554	**202%**	202%

Sanlam Life

	Own Funds eligible to meet SCR		SCR		Surplus		SCR cover	
R million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Base position	**121 056**	118 503	**47 810**	44 853	**73 246**	73 650	**253%**	264%
Equities -30%[1]	**91 066**	86 887	**35 600**	34 274	**55 466**	52 613	**256%**	254%
Interest rates -1%	**122 769**	119 653	**48 104**	45 350	**74 665**	74 303	**255%**	264%
Credit spreads +1%	**120 641**	118 088	**47 900**	45 024	**72 741**	73 064	**252%**	262%
ZAR appreciation 10%	**120 558**	117 512	**47 932**	44 705	**72 626**	72 807	**252%**	263%
Shock scenario[2]	**88 821**	84 814	**34 378**	34 329	**54 443**	50 485	**258%**	247%

(1) *For the equity sensitivity, the value of participations in Sanlam Life is also assumed to decline by 30%, while the Sanlam Group result considers the actual equity exposure within these participations.*

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

The sensitivities illustrate the resilience of the Sanlam and Sanlam Life balance sheets. The cover ratio improves for some equity sensitivities due to the effect of the equity symmetrical adjustment in the standard formula under the Prudential Standards that allows for a reduced equity stress after a downward adjustment to equity values.

Credit rating

Standard & Poor's (S&P) issued the following ratings for Group companies during 2019:

	Most recent ratings issued
Sanlam Limited	South Africa National Scale: zaA+
Sanlam Life Insurance Limited	South Africa National Scale: zaAAA
Subordinated debt issued by Sanlam Life Insurance Limited	South Africa National Scale: zaA+
Santam Limited	South Africa National Scale: zaAAA

Risk management

Governance structure

In terms of the Group's overall governance structure, the meetings of the Sanlam Board and Sanlam Life Board are combined to improve the flow of information and to increase the efficiency of the Boards. The agenda of the Sanlam Board focuses on Group strategy, capital management, accounting policies, financial results, dividend policy, human resource development, corporate governance and JSE requirements. The Sanlam Life Board is responsible for statutory matters across all Sanlam businesses, as well as monitoring operational efficiency and risk issues throughout the Group. In respect of separately listed subsidiaries, this is done within the limitations of sound corporate governance practices. Refer to the Corporate Governance Report online for further information on the responsibilities of the Sanlam Board and Sanlam Life Board and their committees.

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

Sanlam Life Board
Responsible for the Group's risk management framework and policies, as well as monitoring the effectiveness and disclosure thereof, in accordance with best practice

Sanlam Life Risk and Compliance committee
Assists the Sanlam Life Board in fulfilling its responsibilities

Sanlam Group Executive committee
Responsible as the Sanlam Board's executive overseer to ensure that the businesses achieve optimal risk-adjusted returns

Group risk management
Develops Group risk management framework, policies and guidelines for approval by the Sanlam Life Board, co-ordinates reporting responsibilities and improves risk management across the Group

Business and sub-business level risk management
Identifies and manages risks faced by the business

Business level management committees
Additional committees that may be established by a business to assist its Executive committee in certain areas of risk management

Business level Audit and Risk committees/forums
Assist the business level Board in fulfilling its responsibilities to the Sanlam Life Board

Role of Group risk management

The role of Group risk management is one of setting Group standards and guidelines, co-ordinating and monitoring risk management practices and ultimately reporting to the Sanlam Board and Sanlam Life Board.

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

- Permanent invitees of business units' Risk and Audit committees;
- Member of the Central Credit committee (see description below);
- Transactional approval incorporated into approval frameworks of business units where appropriate;
- Involvement and approval of corporate activity transactions;
- Chairs the Estate committee and Asset and Liability committee at Group level, as well as the Group risk forum (see descriptions below);
- Chairs the Group IT Steering committee;
- Guidance on risk-related matters at business level;
- Involvement with specialist risk management issues at business level;
- Regular meetings/engagement with the cluster chief risk officers; and
- Member of the Non-Listed Asset Controlling Body.

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

OTHER RISK MANAGEMENT/MONITORING MECHANISMS

Estate committees Reviews and oversees the management of the Group's capital base, including policyholder portfolios where shareholders carry all investment risk	**Asset and Liability committees** Determines appropriate investment policies and guidelines for policyholder portfolios where guarantees are provided	**Credit committees** Oversees the identification, measurement and control of corporate credit risk exposure
Investment committees Determine and monitor appropriate investment strategies for policyholder solutions	**Treasury function** Manages the liquidity risks in the borrowing functions of Sanlam	**Non-Listed Asset Controlling Body** Reviews and approves the valuation of all unlisted assets in the Group for recommendation to the Sanlam Board and Sanlam Life Board
Group risk forum Aids coordination and transfer of knowledge between businesses and the Group, and assists Group risk management in identifying risks requiring escalation to the Sanlam Life Board	**Financial Director** Ensures that sound financial practices are followed, adequate and accurate reporting occurs, and financial statement risk is minimised	**Actuarial** Monitors and reports on key risks affecting the life insurance operations. Determines capital requirements of the life insurance operations and the potential impact of strategic decisions thereon, by using appropriate modelling techniques
Forensics Investigates and reports on fraud and illegal behaviour in businesses	**Group secretariat and public officers** Reviews and reports on corporate governance practices and structures. Reports on applicable legal and compliance matters	**Group compliance function** Facilitates management of compliance through analysing and advising on statutory and regulatory requirements, and monitoring implementation and execution thereof
Group technology and information Manages and reports Group-wide technology, cyber and information security risks	**Risk officer (per business)** Assists business management in their implementation of the Group risk management framework and policies, and to monitor the business's entire risk profile	**Internal audit** Assists the Sanlam Life Board and management by monitoring the adequacy and effectiveness of risk management in businesses

OTHER RISK MANAGEMENT/MONITORING MECHANISMS

Actuarial forum	General insurance forum	
Assists the Audit, Actuarial and Finance and the Risk and Compliance committees on actuarial-related matters. It also assists the actuarial control function in providing oversight over first line activities in Group actuarial, most notably balance sheet management	Assists the Audit, Actuarial and Finance and the Risk and Compliance committees on general insurance-related matters	

Group risk policies, standards and guidelines

The main policies, standards and guidelines are:

- Sanlam Group Enterprise Risk Management (ERM) policy;
- Sanlam Group ERM framework;
- Sanlam Group Risk Escalation policy;
- definitions of risk categories standard;
- risk appetite guidance note;
- Sanlam Group risk appetite statement;
- Sanlam Risk and Compliance committee charter;
- Sanlam Life Risk and Compliance committee charter;
- Sanlam Group Own Risk and Solvency Assessment (ORSA) policy; and
- Group risk forum terms of reference.

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

A standard endeavours to ensure consistent use of terminology.

A guidance note is aimed at providing information.

The following also cover aspects with linkage to risk management:

- Sanlam Life combined assurance model;
- Sanlam Group Internal Control policy;
- Sanlam Group Business Continuity Management policy;
- Sanlam Group Outsourcing policy;
- Sanlam Group Operational Risk Management policy;
- Sanlam Group Information and Information Technology (I and IT) Risk Management policy;
- Sanlam Group Cyber Resilience policy;
- Representations from Group businesses to the Sanlam and Sanlam Life Audit, Actuarial and Finance committees;
- Sanlam corporate credit risk strategy and policy;
- Sanlam Reinsurance and Other Risk Mitigation policy;
- Sanlam Life Underwriting Risk Management policy;
- Sanlam Investment policy;
- Sanlam Financial Crime Combating policy;
- Sanlam Human Resources policies;
- Sanlam Group Governance framework;
- Sanlam Group High-level Authorisation framework;
- Sanlam Life Audit, Actuarial and Finance committee charter; and
- Sanlam Group Anti-money Laundering and the Countering of the Financing of Terrorism (AML/CFT) policy.

Sanlam Group ERM policy and plan

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

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

Sanlam Group Risk Escalation Policy

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

Summary of Sanlam Group's Risk Appetite

The Sanlam Group has a Risk Appetite framework that aims to articulate the types and quantum of risks that the organisation are prepared to take (i.e. seek, accept or tolerate) in pursuit of its strategic objectives (including objectives of value creation and growth). It sets out the quantitative and qualitative boundaries on risk taking activities that apply across the organisation.

The risk appetite reflects the Group's overall philosophy to risk taking, thus reflecting how it balances its goals of efficiency, growth and return from a risk taking perspective. It reflects the setting of targets for risk taking across the Group as a whole, plus the breakdown of these high-level statements into more detailed risk tolerances.

Risk appetite criteria have been specified for each of the risk categories specified in the Group's risk classification standard, together with some additional criteria around capital and solvency risks and earnings risks. The Group's risk appetite statement is thus grouped into the following risk appetite buckets:

- Capital and solvency risks;
- Earnings risks;
- Market and asset concentration risks;
- Credit risks;
- Liquidity risks;
- Operational risks;
- Brand and reputational risks; and
- Strategic risks.

Each cluster/business needs to manage its risks within the Group ERM framework, including the Group risk appetite statements.

Assessment of the effectiveness of the risk management process

According to King IV, the Board should receive assurance regarding the effectiveness of the risk management process. The following process is followed to provide such assurance:

- Sanlam makes use of an industry best practice model to measure risk maturity across the different clusters on an annual basis. Internal Audit will annually, in conjunction with Group Risk Management, prepare risk management process audit plans for approval by the Sanlam Life Risk and Compliance committee.
- Typically, the larger businesses will be assessed by an external firm against the maturity model, at least once every three years.
- Internal Audit will also typically do assessments for the smaller businesses on a rolling basis.
- The information on the assessments will be presented to the cluster Financial and Risk committees and to the Sanlam Life Risk and Compliance committee.

Risk types

The Group is exposed to the following main risks:

Risk categories (primary) Level 1	Risk types (secondary) Level 2 and description
Operational	**Operational risk** is the risk that there is a loss as a result of inadequate or failed internal processes, people or systems and external events. Operational risk includes:
	Technology, cyber and information security (IT) risk: the risk of obsolescence of infrastructure, deficiency in integration, failures/inadequacies in systems/networks and the loss of accuracy, confidentiality, availability and integrity of critical information. Cyber risk and information security risk are also included under this category.
	Business continuity risk: the risk that inadequate planning, controls and preparation are in place to ensure the organisation can overcome serious incidents or disasters and resumes its normal operations within a reasonably short period.
	Going concern risk: The risk that inadequate processes, people and/or financial resources exist to continue business in the foreseeable future.
	Legal risk: the risk that the Group's operations or its condition are disrupted or adversely affected by legal proceedings against it, adverse judgements from courts, contracts that turn out to be unenforceable or contractual obligations which have not been provided for.
	Compliance/regulatory risk: the risk of not complying with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct, including acceptable market conduct practices[(1)], investment management mandates, as well as the failure to uphold the Group's core values and Code of Ethical Conduct.
	Human resources risk: the risk that the Group does not have access to appropriate skills and employee complement to operate and effectively manage other operational risk.
	Fraud/financial crime risk: the risk of financial crime and unlawful conduct impacting the Group. It includes both internal and external fraud.
	Taxation risk: the risk of financial loss due to changes in tax legislation that result in the actual tax on shareholders' fund earnings being higher than expected, with a corresponding reduction in RoGEV; or the actual policyholder tax being higher than that assumed in the determination of premium rates and guaranteed policy benefits.
	Regulatory change risk: the risk that unanticipated new acts or regulations will result in the need to change business practices that may lead to financial loss.
	Process risk: the risk of loss as a result of failed or inadequate internal processes.
	Project risk: the risks that are inherent in major projects.
	Physical risk: risk related to financial loss that might occur due to natural and non-natural disaster events.
	Outsourcing provider risk: the risk arising from the inability or unwillingness of an outsourcing service provider to discharge its contractual obligations; and from concentration with an individual outsourcing service provider (which exacerbates the former).
Conduct	**Conduct risk** relates to the failure to deliver fair client outcomes or the failure to uphold integrity within the market. It also refers to the failure to uphold the Group's core values and Code of Ethical Conduct.

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

Risk categories (primary) Level 1	Risk types (secondary) Level 2 and description
Brand and reputational	**Reputational risk:** is the risk that adverse publicity regarding the Group's business practices, associations and market conduct, whether accurate or not, will cause a loss of confidence in the integrity of the institution. The risk of loss of confidence relates to stakeholders, which include, *inter alia*, potential and existing clients, investors, suppliers and supervisors.
	Brand risk: is the risk that market perception of the organisation's brand might be weak or inferior when compared to other competitors within the market.
Strategic	**Strategic risk** is the risk that the Group's strategy is inappropriate or that the Group is unable to implement its strategy.
	Capital risk: the risk related to the potential loss of part or all of on balance sheet capital.
	Competition risk: the potential for losses due to competitive pressures.
	Governance risk: the risk that the effective, ethical management of a company by its executives and managerial levels is not achieved.
	Market share risk: risk related to the reduction of the organisation's market share or inability to grow/expand market share.
	Organisational strategy risk: risk that the structure of the organisation or the overall strategic direction of the organisation might cause the organisation not to achieve its strategic goals.
	Performance risk: risk that products or services offered by the organisation might underperform against market expectations.
	Product risk: the risk that relates to design defects within products which may cause loss to the organisation.
	Profit/earnings risk: risk that profitability/earnings of the organisation might be affected due to various internal/external factors.
	Investment risk: the probability or likelihood of occurrence of losses relative to the expected return on any particular investment.
Market	**Market risk** is the risk arising from the level or volatility of market prices of financial instruments which have an impact upon the value of assets and liabilities of the organisation. Market risk includes:
	Equity risk: the risk resulting from the sensitivity of values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities.
	I**nterest rate risk:** the risk of loss or adverse change in the value of assets and liabilities due to unanticipated changes in the level or volatility of interest rates.
	Currency risk: the risk of loss or adverse change in the value of assets and liabilities owing to unanticipated changes in the level or volatility of currency exchange rates.
	Property risk: the risk that the value of investment properties will fluctuate as a result of changes in the environment (i.e. the risk of loss or adverse change in the value of assets and liabilities due to unanticipated changes in the level and volatility of market prices of property).
	Asset liability mismatching (ALM) risk: the risk of a change in value as a result of a deviation between asset and liability cash flows, prices or carrying amounts. ALM risk originates from changes in market risk factors.
	Concentration risk: the risk of losses associated with inadequately diversified asset portfolios. This may arise either from a lack of diversification in the asset portfolio, or from large exposure to default risk by a single issuer of securities or a group of related issuers (market risk concentrations).
	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 minimise a loss (or make the required profit).

Risk categories (primary) Level 1	Risk types (secondary) Level 2 and description
Market continued	**Credit spread risk:** the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or volatility of market implied credit spreads over the risk-free interest rate term structure.
Credit risk	**Credit risk** is the risk of default and deterioration in the credit quality of issuers of securities, counterparties, and intermediaries to whom the company has exposure. Credit risk includes:
	Default risk: credit risk arising from the inability or unwillingness of a counterparty to a financial instrument to discharge its contractual obligations.
	Downgrade or migration risk: risk that changes in the possibility of a future default by an obligator will adversely affect the present value of the contract with the obligator today.
	Settlement risk: risk arising from the lag between the value and settlement dates of securities transactions.
	Reinsurance counterparty risk: concentration risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings.
Funding liquidity risk	**Funding liquidity risk** is the risk relating to the difficulty/inability to accessing/raising funds to meet commitments associated with financial instruments or policy contracts.
Insurance risks (life business)	**Insurance risk (life business)** – relates to life insurance classes regulated under the Insurance Act: risk arising from the underwriting of life insurance contracts, in relation to the perils covered and the processes used in the conduct of business. It includes:
	Underwriting risk: the risk that the actual experience relating to mortality, longevity, disability and medical (morbidity) will deviate negatively from the expected experience used in the pricing of solutions and valuation of policy liabilities.
	Persistency risk: the risk of financial loss due to negative lapse, surrender and paid-up experience. It covers the risk of loss or adverse change in insurance liabilities due to unanticipated change in the rate of policy lapses, terminations, renewals and surrenders.
	Expense risk: the risk of loss due to actual expense experience being worse than that assumed in premium rates and the valuation of policy liabilities. It covers the risk of loss or adverse change in insurance liabilities due to adverse variation in the expenses incurred in servicing insurance and reinsurance contracts.
	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).
Insurance risks (general insurance business)	**Insurance risk (general insurance business)** – relates to general insurance classes regulated under the Insurance Act: risk arising from the underwriting of general insurance contracts, in relation to the perils covered and the processes used in the conduct of business. It includes:
	Claims risk (premium and reserve risk): refers to a change in value caused by ultimate costs for full contractual obligations varying from those assumed when these obligations were estimated. Claims risk are often split into reserve risk (relating to incurred claims) and premium risk (relating to future claims).
	Underwriting risk: relates to inaccurate assessment of the risks associated with writing an insurance policy or from uncontrollable factors. As a result, the insurer's costs may significantly exceed the premium income.
	Reinsurance risk: the inability of the ceding company or the primary insurer to obtain insurance from a reinsurer at the right time and at an appropriate cost.
	Catastrophe risk: the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

Risk management: general risks

1. Operational risk

Operational risk is mainly governed through the Group Operational Risk management policy. This sets out the responsibilities for the following different lines of defense on how operational risk should be managed within the organisation:

- Business Exco/senior management (first line);
- Risk management (second line); and
- Internal Audit (third line).

The Group mitigates this risk through its culture and values, a comprehensive system of internal controls, internal audit, and forensic and compliance functions in addition to other measures such as back-up facilities, contingency planning and insurance. The initiation of transactions and their administration are conducted on the basis of the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions. Operational key risk indicators are also identified and tracked across the various businesses to identify and assess risks effectively.

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

The following functionaries assist in mitigating operational risk:

Internal audit

A Board-approved internal audit charter governs internal audit activity within the Group. Regular risk-focused reviews of internal control and risk management systems are carried out. The Chief Audit Executive of Sanlam is appointed in consultation with the chairman of the Audit, Actuarial and Finance committee and has unrestricted access to the chairman of the committee. The authority, resources, scope of work and effectiveness of the functions are reviewed regularly.

External audit

The Group's external auditors are Ernst & Young Inc. The reports of the independent auditors for the year under review are included on page 160 of the Integrated Report and page 4 of the Annual Financial Statements. The external auditors assess certain systems of internal financial control for the purpose of expressing an independent opinion on the Annual Financial Statements. Non-audit services rendered by the external auditors are strictly governed by a Group policy in this regard. The Group applies a policy of compulsory rotation of audit partners.

Technology, cyber and information security risk

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

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

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

Going concern/business continuity risk

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

Legal risk

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

Compliance risk

Laws and regulations

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

Compliance with client mandates

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

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

Financial crime/fraud risk

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

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

Taxation risk

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

Regulatory risk

Regulatory risk is mitigated by ensuring that the Group has dedicated personnel that are involved in and therefore informed of relevant developments in legislation. The Group takes a proactive approach in investigating and formulating views on all applicable issues facing the financial services industry. The risk is also managed, as far as possible, through clear contracting. The Group monitors and influences events, to the extent possible, through participation in discussions with legislators, predominantly through industry organisations.

Process risk

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

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

Project risk

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

Outsourcing provider risk

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

2. Reputational risk

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

3. Conduct risk

Conduct risk is monitored through various means within the individual business clusters. There is a specific focus on market and client conduct such as Treating Clients Fairly (TCF). These metrics are monitored and reported on a regular basis to all relevant stakeholders within the business clusters. Escalation of conduct risk matters arising from the business clusters to Group level will follow the normal risk escalation policy. The Sanlam Customer Interest committee also meets on a quarterly basis to discuss conduct related matters.

4. Strategic risk

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

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

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

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

Risk management: by business area

The following business areas' risks are included:

- Investment management;
- General insurance;
- Life insurance; and
- Retail credit.

SanFin, Santam and the Group Office are excluded from the above business areas, but rather disclosed separately.

Investment management

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

Investment performance

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

- Recruitment and retention of high-quality investment professionals and support staff who are organised into stable teams, with a performance culture that receive pertinent training and development and regular employee appraisals;
- Optimisation of a robust investment process to ensure good investment decisions;
- Rigour of the procedures for portfolio implementation;
- Effectiveness of the dealing desk; and
- Analyses of fund performance.

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

General insurance

Sanlam Emerging Markets' (SEM) exposure to general insurance business includes significant exposures to general insurers in Morocco, Ivory Coast and Lebanon, an investment in Shriram General Insurance (through the holding in Shriram Capital and direct) in India and a holding in Pacific & Orient in Malaysia. In addition to these investments, SEM has smaller exposures to various other general insurance businesses, either directly or through Sanlam Pan Africa (formerly Saham Finances), across Africa.

The main risk emanating from the general insurance operations is insurance risk. This risk is managed through reinsurance, close monitoring of claims and sound underwriting practices. In addition, the SEM organisational structure was amended in January 2019 by splitting the portfolio across Africa by business line into Sanlam Pan Africa (SPA) General Insurance and SPA Life Insurance (India, Malaysia, and Lebanon are dealt with separately) to ensure the appropriate focus on the general insurance portfolio. The Sanlam General Insurance Risk Forum was also constituted to assist the Sanlam Risk Committee, the SEM Audit and Risk Committee and the Santam Risk Committee to ensure the sound risk management of all General Insurance entities within the Sanlam Group.

Life insurance

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

The table below summarises the various risks associated with the different policyholder solutions as well as with the capital portfolio. Please refer to the "Policy liabilities and profit entitlement section" on page 63 for a description of the different policyholder solutions, as well as to note 15 on page 104, which discloses the monetary value of the Group's exposure to the various solutions.

	Market risk				Credit risk	Liquidity risk	Insurance risk	
Life insurance businesses exposed to risk via:	**Equity**	**Interest rate**	**Currency**	**Property**			**Persis-tency**	**Other insurance risks**
Policyholder solutions								
Linked and market-related	✓[1]	✓[1]	✓[1]	✓[1]	✓[1]	✓[3]	✓	✓
Smoothed-bonus business:								
Stable bonus	✓[2]	✓[2]	✓[2]	✓[2]	✓[2]	✓[3]	✓	✓
Reversionary bonus	✓[2]	✓[2]	✓[2]	✓[2]	✓[2]	✓[3]	✓	✓
Participating annuities	✓[2]	✓[2]	✓[2]	✓[2]	✓[2]	✓[3]	✓	✓
Non-participating annuities	×	✓[5]	×[4]	×[4]	✓	✓[5]	×	✓
Other non-participating liabilities								
Guarantee plans	×	✓[5]	×[4]	×	✓	✓[6]	✓	✓
Other	✓	✓	×[4]	✓	✓	✓[5]	✓	✓
Capital portfolio	✓[7]	✓	✓	✓	✓	✓	×	×

(1) *Only market-related policies (not linked policies) expose the life insurance businesses to this risk, due to these policies providing guaranteed minimum benefits at death or maturity.*
(2) *The life insurance businesses are exposed to this risk, only if the assets backing these policies have underperformed to the extent that there are negative bonus stabilisation reserves that will not be recovered by declaring lower bonuses in the subsequent years.*
(3) *Although liquidity risk is present, it is not a significant risk for the savings businesses due to an appropriate amount of liquid assets held in respect of expected outflows.*
(4) *An immaterial amount of assets is exposed to this risk.*
(5) *Liabilities are matched, as far as possible, with interest-bearing assets to ensure that the duration of assets and liabilities are closely aligned. This may also include derivatives which could give rise to liquidity risk.*
(6) *Liabilities are matched with assets that have similar maturity profiles.*
(7) *Sanlam Life's portfolio backing required capital consists of assets managed according to a hedged equity programme.*
✓ *Risk applicable to item*
× *Risk not applicable to item*

The management of these risks is as follows:

1. Market risk

Linked and market-related business

Linked and market-related business relates to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. Policyholders carry the full market risk in respect of linked business. Market-related policies, however, provide for guaranteed minimum benefits at death or maturity, and therefore expose the life insurance businesses to market risk. The risk relating to guaranteed minimum benefits is managed by appropriate investment policies, determined by the Asset Liability committee (ALCO), and by adjusting the level of guarantees for new policies to prevailing market conditions. These investment policies are then reflected in the investment guidelines for the policyholder portfolios. The Group's long-term policy liabilities include a specific provision for investment guarantees. The current provision for investment guarantees in insurance contracts has been calculated on a market-consistent basis in accordance with professional practice notes issued by the Actuarial Society of South Africa.

Smoothed-bonus business

These policies provide for the payment of an after-tax and after-cost investment return to the policyholder, in the form of bonuses. The use of bonuses is a mechanism to smooth returns to policyholders in order to reduce the effects of volatile investment performance, and bonus rates are determined in line with the product design, policyholder reasonable expectations, affordability and the approved bonus philosophy. Any returns not yet distributed are retained in a policyholder bonus stabilisation reserve, for future distribution to policyholders. In the event of adverse investment performance, this reserve may become negative. Negative bonus stabilisation reserves are allowed for in the valuation of these liabilities to the extent that the shortfall is expected to be recovered by declaring lower bonuses in the subsequent three years. The funding level of portfolios is bolstered through loans from the capital portfolio and cancellation of non-vested bonuses in instances where negative stabilisation reserves will not be eliminated by these management actions. At 31 December 2019, all material stable and reversionary bonus business portfolios had a funding level in excess of the minimum reporting level of 92,5%.

Market risk is borne by policyholders to the extent that the after-tax and after-cost investment returns are declared as bonuses. The capital portfolio is, however, exposed to some market risk as an underperformance in investment markets may result in an underfunded position that would require financial support from the capital portfolio. The Group manages this risk through an appropriate investment policy. ALCO oversees the investment policy for the various smoothed-bonus portfolios. The aim is to find the optimum balance between high investment returns (to be able to declare competitive bonus rates) and stable investment returns given the need to meet guaranteed benefits and to support the granting of stable bonus rates. The requirements for the investment management of each portfolio are set out in investment guidelines, which cover, *inter alia*, the following:

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

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

Non-participating annuities

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

Guarantee plans

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

Other non-participating business

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

Policyholder solutions' exposure to currency risk

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

Capital

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

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

R million	Euro	United States dollar
31 December 2019		
Investment properties	**–**	**–**
Equities and similar securities	**1**	**709**
Equity-accounted investments[1]	**–**	**–**
Interest-bearing instruments	**2**	**211**
Government interest-bearing investments	**–**	**116**
Corporate interest-bearing investments	**2**	**95**
Mortgages, policy and other loans	**–**	**–**
Investment funds	**–**	**373**
Cash, deposits and similar securities	**–**	**21**
General insurance technical assets	**–**	**296**
Net working capital	**177**	**1 138**
Other liabilities[2]	**(39)**	**(141)**
Foreign currency exposure	**141**	**2 607**
Exchange rates (rand):		
Closing rate	**15,70**	**13,98**
Average rate	**16,16**	**14,43**
31 December 2018[3]		
Investment properties	–	–
Equities and similar securities	2	413
Equity-accounted investments[1]	–	–
Interest-bearing instruments	–	416
Government interest-bearing investments	–	7
Corporate interest-bearing investments	–	409
Mortgages, policy and other loans	–	–
Investment funds	33	307
Cash, deposits and similar securities	–	8
General insurance technical assets	–	214
Net working capital	(52)	1 974
Other liabilities[2]	–	(107)
Foreign currency exposure	(17)	3 225
Exchange rates (rand):		
Closing rate	16,44	14,38
Average rate	15,57	13,17

[1] *Equity-accounted investments only include significant entities that have foreign currency exposure.*
[2] *Other liabilities include structured transaction liabilities and general insurance technical provisions.*
[3] *During 2019, on further integration of Saham Finances into the Sanlam Group, additional information became available in respect of 2018 currency risk. Prior year figures were restated accordingly.*

	British pound	Botswana pula	Indian rupee	Moroccan dirham	Lebanese Pound	Angolan Kwanza	Malaysian Ringgit	Other currencies	Total
	–	**14**	**–**	**5 180**	**–**	**–**	**–**	**1 585**	**6 779**
	18	**15**	**–**	**5 522**	**182**	**3**	**–**	**900**	**7 350**
	–	**1 522**	**10 529**	**–**	**–**	**–**	**505**	**–**	**12 556**
	237	**77**	**–**	**593**	**107**	**1**	**603**	**1 609**	**3 440**
	18	**1**	**–**	**(85)**	**910**	**–**	**113**	**1 135**	**2 208**
	219	**9**	**–**	**664**	**(803)**	**1**	**490**	**447**	**1 124**
	–	**67**	**–**	**14**	**–**	**–**	**–**	**27**	**108**
	83	**733**	**–**	**3 964**	**–**	**–**	**5**	**316**	**5 474**
	220	**310**	**30**	**(224)**	**797**	**–**	**214**	**306**	**1 674**
	–	**62**	**–**	**657**	**337**	**201**	**–**	**1 088**	**2 641**
	445	**186**	**335**	**7 984**	**(1 364)**	**(750)**	**352**	**(468)**	**8 035**
	2	**(221)**	**886**	**(13 296)**	**(839)**	**(542)**	**(67)**	**(4 590)**	**(18 847)**
	1 005	**2 698**	**11 780**	**10 380**	**(780)**	**(1 087)**	**1 612**	**746**	**29 102**
	18,52	**1,34**	**0,20**	**1,49**	**0,01**	**0,03**	**3,44**		
	18,42	**1,36**	**0,21**	**1,52**	**0,01**	**0,04**	**3,49**		
	–	49	–	5 457	–	–	–	1 575	7 081
	20	22	–	1 610	28	119	78	2 442	4 734
	–	1 494	10 057	–	–	–	651	–	12 202
	238	72	–	751	302	2	569	1 233	3 583
	93	8	–	269	–	–	211	1 200	1 788
	145	9	–	480	302	2	358	10	1 715
	–	55	–	2	–	–	–	23	80
	31	387	–	7 370	–	–	75	369	8 572
	330	654	5	–	736	–	96	460	2 289
	–	24	–	734	303	261	–	552	2 088
	327	33	(1)	6 939	(1 115)	(1 006)	329	(807)	6 621
	(24)	(142)	–	(11 634)	(975)	(435)	(59)	(3 829)	(17 205)
	922	2 593	10 061	11 227	(721)	(1 059)	1 739	1 995	29 965
	18,32	1,37	0,21	1,51	0,01	0,05	3,49		
	17,60	1,32	0,19	1,42	0,01	0,05	3,28		

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

Sensitivities

Refer to page 197 of the Integrated Report online for an analysis of the Group's sensitivity to market risk.

2. Credit risk – policyholder solutions and capital

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

✓ *Risk applicable to item*

Sanlam recognises that a sound credit risk policy is essential to minimise the effect on the Group as a result of loss owing to a major corporate failure and the possible systemic risk such a failure could lead to. The Sanlam Corporate Credit Risk policy has been established for this purpose. Credit risk occurs owing to trading, investment, structured transactions and lending activities. These activities in the Group are conducted mostly by either Sanlam Specialised Finance (SanFin), via the Central Credit Manager (CCM) activities, or the Sanlam Investments (SI) sub-cluster of Sanlam Investments Group (SIG) in terms of the investment guidelines granted to them by the life insurance operations. The Boards of SI and SanFin have delegated responsibility for credit risk management to the Central Credit committee. In Sanlam Emerging Markets, Botswana Insurance Fund Management (BIFM), Sanlam Investments Namibia, Sanlam Investments East Africa (SIEA), as well as the asset management team in Saham Finances, perform investment activities. The Sanlam Emerging Markets ALCO and Estate committees oversee these activities as well as the investment activities of the SEM insurers who perform their own investment activities.

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

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

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

As far as possible, taking into account materiality and available risk indicators, facilities are reviewed on an annual basis by the appropriate approval authority. Where possible, Sanlam's interest is protected by obtaining acceptable security. Covenants are also stipulated in the loan agreements, specifying actions that are agreed to. Compliance with these loan covenants is monitored on an ongoing basis for signs of deterioration in credit quality. A credit administration and reporting department is in place to implement risk control measures and maintain ongoing review of the credit reports and conditions, and to ensure overall compliance with the Credit Risk policy.

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

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

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

The Group has considered the impact of changes in credit risk on the valuation of its liabilities. Credit risk changes will only have an impact in extreme situations and are not material for the 2019 and 2018 financial years. Given the strong financial position and rating of the Group, the credit rating of its liabilities remained unchanged.

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

Credit risk concentration by credit rating

Assets backing policy liabilities	AAA %	AA %	A %
31 December 2019			
Government interest-bearing investments	14	9	1
Corporate interest-bearing investments	3	8	5
Mortgages, policy and other loans	–	–	–
Structured transactions	–	31	9
Cash, deposits and similar securities	11	13	2
Net working capital	–	–	–
Total	6	11	3
31 December 2018			
Government interest-bearing investments	18	2	4
Corporate interest-bearing investments	2	7	4
Mortgages, policy and other loans	–	–	–
Structured transactions	–	28	14
Cash, deposits and similar securities	7	6	3
Net working capital	–	–	–
Total	6	7	5

Credit risk concentration by credit rating

Capital portfolio	AAA %	AA %	A %
31 December 2019			
Government interest-bearing investments[2]	3	3	–
Corporate interest-bearing investments	6	8	11
Mortgages, policy and other loans	–	–	4
Structured transactions	4	26	8
Cash, deposits and similar securities	3	13	10
Net working capital	5	14	3
Total	5	11	6
31 December 2018			
Government interest-bearing investments[2]	2	3	1
Corporate interest-bearing investments	5	6	10
Mortgages, policy and other loans	–	–	–
Structured transactions	4	–	56
Cash, deposits and similar securities	1	3	7
Net working capital	–	–	5
Total	2	2	8

[1] *Due to the timing of the Saham Finances acquisition during the end of 2018, interest-bearing investment assets for Saham Finances have been classified as not rated for 2018.*

[2] *The not-rated government interest-bearing investments relate mainly to not-rated government paper held by some of the Group's life businesses outside of South Africa in their local markets.*

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

BBB %	BB %	B %	Not rated[1] %	Other %	Total %	Carrying value R million
8	**49**	**10**	**9**	**–**	**100**	**43 563**
21	**52**	**5**	**4**	**2**	**100**	**78 332**
6	**57**	**16**	**18**	**3**	**100**	**20 151**
39	**17**	**2**	**2**	**–**	**100**	**20 056**
21	**40**	**–**	**13**	**–**	**100**	**27 966**
–	**–**	**–**	**100**	**–**	**100**	**1 785**
18	**46**	**6**	**9**	**1**	**100**	**191 853**
51	7	2	15	1	100	42 068
32	36	8	8	3	100	76 554
6	54	16	20	4	100	16 584
34	20	4	–	–	100	17 922
41	22	–	11	10	100	24 938
–	–	–	100	–	100	3 553
35	26	6	12	3	100	181 619

BBB %	BB %	B %	Not rated[1] %	Other %	Total %	Carrying value R million
9	**11**	**60**	**13**	**1**	**100**	**1 277**
22	**31**	**7**	**15**	**–**	**100**	**4 688**
6	**27**	**8**	**52**	**3**	**100**	**287**
41	**15**	**2**	**4**	**–**	**100**	**323**
8	**14**	**1**	**51**	**–**	**100**	**2 800**
11	**24**	**10**	**31**	**2**	**100**	**7 508**
14	**23**	**11**	**29**	**1**	**100**	**16 883**
4	11	–	70	9	100	2 080
2	38	4	35	–	100	4 518
4	23	25	48	–	100	253
–	39	1	–	–	100	629
3	22	–	63	1	100	3 370
16	19	–	56	4	100	6 670
8	24	2	51	3	100	17 520

Maximum exposure to credit risk

The life insurance businesses' maximum exposure to credit risk is equivalent to the amounts recognised in the statement of financial position as there are no financial guarantees provided to parties outside the Group. Please refer to note 28 on page 125, which discloses the possible obligations of the Group. There are also no loan commitments provided that are irrevocable over the life of the facility or revocable only in adverse circumstances.

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

Reinsurance credit risk

Sanlam makes use of reinsurance to:

- access underwriting expertise;
- access product opportunities;
- enable it to underwrite risks greater than its own risk appetite; and
- protect its mortality/risk book against catastrophes.

The use of reinsurance exposes the Group to credit risk. The counterparty risks of reinsurers are managed under the Group's Credit Risk framework. The Group's reinsurance arrangements include proportionate, excess and catastrophe coverage. All risk exposures in excess of specified monetary limits are reinsured. Catastrophe insurance is in place for single-event disasters. As far as possible, credit risk in respect of reinsurance is managed by placing the Group's reinsurance only with subsidiaries of companies that have high international or similar credit ratings.

3. Liquidity risk

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

✓ *Risk applicable to item*

3.1 The following tables summarise the overall maturity profile of the policyholder business:

R million	**<1 year**	**1 – 5 years**	**>5 years**	**Open ended**	**Total**
31 December 2019					
Insurance contracts	8 529	26 858	74 242	80 058	189 687
Investment contracts	10 919	53 061	78 221	259 280	401 481
Total policy liabilities	**19 448**	**79 919**	**152 463**	**339 338**	**591 168**
Properties	32	–	–	14 114	14 146
Equities and similar securities	–	–	–	76 322	76 322
Government interest-bearing investments	1 623	4 294	38 416	–	44 333
Corporate interest-bearing investments	12 797	46 126	18 959	448	78 330
Mortgages, policy and other loans	4 516	10 311	4 386	937	20 150
Structured transactions	13 140	4 263	1 832	823	20 058
Investment funds[1]	–	–	–	318 155	318 155
Cash, deposits and similar securities	19 221	8 577	210	18	28 026
Deferred acquisition costs	–	–	–	637	637
Long-term reinsurance assets	195	830	834	184	2 043
Term finance	–	–	(96)	–	(96)
Lease liabilities	(13)	(47)	–	–	(60)
Structured transactions liabilities	(11 042)	(463)	(324)	(11)	(11 840)
Net working capital	964	–	–	–	964
Total policyholder assets	**41 433**	**73 891**	**64 217**	**411 627**	**591 168**

[1] *The effects of consolidating investment funds are not taken into account in the above analysis and controlled funds are reflected as 'investment funds'.*

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
31 December 2018					
Insurance contracts	8 238	30 305	73 450	76 455	188 448
Investment contracts	10 786	50 132	69 839	224 580	355 337
Total policy liabilities	19 024	80 437	143 289	301 035	543 785
Properties	–	–	–	13 432	13 432
Equities and similar securities	–	–	–	80 340	80 340
Government interest-bearing investments	1 950	4 200	36 438	–	42 588
Corporate interest-bearing investments	7 819	50 594	17 700	441	76 554
Mortgages, policy and other loans	2 935	8 747	3 869	1 033	16 584
Structured transactions	7 882	5 892	3 276	871	17 921
Investment funds[1]	–	–	–	275 310	275 310
Cash, deposits and similar securities	13 602	9 646	364	1 327	24 939
Deferred acquisition costs	–	–	–	630	630
Long-term reinsurance assets	53	948	818	152	1 971
Term finance	–	–	(112)	–	(112)
Structured transactions liabilities	(7 528)	(2 053)	(211)	(29)	(9 821)
Net working capital	3 449	–	–	–	3 449
Total policyholder assets	30 162	77 974	62 142	373 507	543 785

[1] *The effects of consolidating investment funds are not taken into account in the above analysis and controlled funds are reflected as 'investment funds'.*

3.2 Policyholder portfolios supporting linked and market-related business, participating annuities and other non-participating life business are invested in appropriate assets, taking expected cash outflows into account. Please refer to the liquidity section on page 42 describing the Liquidity Risk Management framework.

3.3 These policyholder solutions do not expose the Group to significant liquidity risks. Expected cash flows are taken into account in determining the investment guidelines and asset spread of the portfolios. Limits are also placed on the exposure to illiquid investments.

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

3.5 Liquidity risk is managed by matching the liabilities with assets that have similar maturity profiles to the liabilities.

3.6 The life insurance businesses' capital is not subject to excessive levels of liquidity risk but assets could be realised in a short timeframe if need be. The publicly issued unsecured bonds issued by Sanlam Life are managed on a corporate level (refer to page 58 for more information).

4. Insurance risk

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

✓ *Risk applicable to item*
× *Risk not applicable to item*

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

Persistency risk

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

Other insurance risk

Underwriting risk

The Group manages underwriting risk through:

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

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

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

Expense risk

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

Concentration risk

The Group writes a diverse mix of business, and continually monitors this risk and the opportunities for mitigating actions through reinsurance. The Group's life insurance businesses are focused on different market segments, resulting in a mix of individual and institutional clients, as well as entry-level, middle-income market and high-net-worth clients.

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

Non-participating annuity payable per annum per life insured

	Number of lives	
R'000	**2019**	**2018**[1]
0 – 20	**197 098**	202 852
20 – 40	**27 374**	26 121
40 – 60	**10 284**	9 641
60 – 80	**5 895**	5 680
80 – 100	**3 430**	3 181
>100	**9 489**	8 766
	253 570	256 241

[1] *Prior year figures were restated to include legacy plan annuities previously excluded.*

Value of benefits insured: non-participating life business (excluding funeral policies)

Benefits insured per individual life	Number of lives		Before reinsurance		After reinsurance	
R'000	**2019**	**2018**	**2019 %**	**2018 %**	**2019 %**	**2018 %**
0 – 500	**8 942 824**	8 256 509	**18**	19	**24**	26
500 – 1 000	**306 031**	295 205	**13**	11	**15**	13
1 000 – 5 000	**477 464**	440 259	**42**	43	**41**	43
5 000 – 8 000	**37 129**	32 830	**9**	10	**7**	8
>8 000	**26 358**	23 633	**18**	17	**13**	10
	9 789 806	9 048 436	**100**	100	**100**	100

Value of benefits insured: non-participating life business (including funeral policies)

Benefits insured per individual life	Number of lives		Before reinsurance		After reinsurance	
R'000	**2019**	**2018**[1]	**2019 %**	**2018**[1] **%**	**2019 %**	**2018**[1] **%**
0 – 500	**14 677 846**	13 000 063	**19**	24	**25**	32
500 – 1 000	**306 031**	295 205	**13**	10	**14**	11
1 000 – 5 000	**477 464**	440 259	**41**	41	**41**	39
5 000 – 8 000	**37 129**	32 830	**9**	9	**7**	8
>8 000	**26 358**	23 633	**18**	16	**13**	10
	15 524 828	13 791 990	**100**	100	**100**	100

[1] *Prior year figures were restated due to the reclassification of data for individuals covered by funeral products.*

	2019		2018	
	R million	%	R million	%
South Africa	**474 312**	**80**	433 989	80
Rest of Africa	**51 470**	**9**	48 311	9
Other International	**65 386**	**11**	61 485	11
Total policy liabilities	**591 168**	**100**	543 785	100

Retail credit

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

Sanlam Personal Loans

The balance of loans advanced by SPL to clients at 31 December 2019 is shown below:

R million	2019	2018
Gross balance	**5 633**	4 931
Provisions[1]	**(743)**	(606)
Net balance	**4 890**	4 325

[1] *Expected credit losses in terms of IFRS 9.*

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

- As SPL is a joint venture that has been equity accounted based on Sanlam's percentage interest in its net asset value, the Group is exposed to credit risk to the value of the investment, which is disclosed in note 8.2.4 on page 85.
- The Group treasury function also provided financing to SPL of R3 893 million at 31 December 2019 (2018: R3 343 million). This exposure is managed by SanFin. The maximum approved limit of financing that can be advanced to SPL is R4,9 billion.

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

Sanlam Emerging Markets

Retail credit profits are a significant part of SEM's operating earnings. The majority of the Group's exposure to retail credit is made up of an investment in Shriram Capital (which has indirect holdings in Shriram TFC and Shriram City Union Finance) and a direct holding in Shriram TFC. The carrying value of these investments on the Group statement of financial position is R8 878 million (2018: R8 554 million), of which approximately 75% (2018: 75%) is attributed to credit business and the majority of the remainder to general insurance business. Other significant retail credit investments include Letshego which is owned by Botswana Insurance Holdings and has a carrying value of R1 522 million (2018: R1 494 million), and Capricorn Investment Holdings in Namibia (which has a stake in Capricorn Investment Group, which owns 44% of Bank Windhoek) and a carrying value of R1 097 million (2018: R1 123 million).

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

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

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

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

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

SanFin

During 2017, changes were made to the structure of the investment cluster, including the formation of SanFin. SanFin is a combination of Sanlam Capital Markets (SCM), including the CCM, Sanlam Structured Solutions (SSS) and Sanlam Portfolio Management (SPM). SanFin was formed to strengthen the financial risk management of the Sanlam balance sheet in collaboration with Sanlam balance sheet management and Sanlam Group risk management. The aim is to centralise the management of shareholder credit risk, liquidity risk and interest rate risk.

1. Market risk

SanFin uses VaR to calculate market risk capital for listed instruments. VaR measures the maximum loss over a given horizon with a specified level of confidence.

VaR is computed as follows:

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

VaR is used as the basis for market risk capital computations. Limits are established for the amount of market risk capital that may be consumed. These limits are supplemented with limits on exposures and stresses metrics at different levels within SanFin, e.g. business level and within businesses.

2. Credit risk

For credit risk capital, SanFin utilises the concept of unexpected losses. Based on historical default data, expected losses are computed on a portfolio of credits. Economic principles dictate that a provision should be created for expected losses. An unexpected loss, on the other hand, is the maximum amount over and above the expected loss that SanFin could incur over the particular time horizon with a certain level of confidence. In SanFin's economic capital model, an unexpected loss over a one-year time horizon at a 99,5% confidence level is used as the estimate of credit risk capital. This is consistent with the one-year 99,5% VaR used for market risk capital.

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

- Credit ratings for external credit assets and funding are deteriorated by three rating notches;
- The impact of the deterioration in credit spreads is determined with reference to an internally generated credit spread matrix;
- The stressed credit spreads are used to revalue the credit assets and funding; and
- The cumulative net change in the valuations of credit assets and funding is reported as the test results.

The table below shows the possible effect of increased spreads related to a three notch deterioration in credit rating.

R million	2019	2018
Stress results 3 (3 notch)	**(741)**	(379)

Maximum exposure to credit risk

SanFin's maximum exposure to credit risk is equivalent to the amounts recognised in the statement of financial position, as there are no financial guarantees provided to parties outside the Group that are expected to result in an outflow of resources, nor are there any loan commitments provided that are irrevocable over the life of the facility or revocable only in adverse circumstances. Please refer to note 28 on page 125, which discloses the possible obligations of the Group.

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

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

Concentration risk

Management determines concentrations by counterparty, with reference to the proportion of total credit risk capital held in respect of that counterparty compared to the overall credit risk capital of the entire portfolio. The 10 largest contributors to credit risk capital make up 50% (2018: 30%) of total credit risk capital, but only 24% (2018: 14%) of the total exposure. SanFin is therefore not exposed to significant concentration risk.

3. Liquidity risk

Within SCM, the maximum available facilities of R7 billion (2018: R7 billion) exceed the amount utilised of R2 billion (2018: R3 billion), indicating available unutilised funding sources. In order to keep commitment fees contained within the Sanlam Group, facilities are negotiated with Sanlam at market-related terms, before external facilities are sought.

Undrawn committed facilities granted by SCM to various counterparties were R384 million (2018: R435 million). A significant portion of trading account assets and liabilities is due within one year.

Hedging of long-term liabilities within the CCM is achieved by investing in shorter dated credit instruments in combination with bond forwards and bond futures to match the interest rate sensitivity of the liabilities as closely as possible. This introduces roll-over risk at futures close out and/or forward maturity dates, additional cash requirements emanating from collateral and margin calls during periods of market stress events, as well as decreasing cash amounts raised from bond carry roll-overs as bond values fall. To manage these additional liquidity risks in the Group, a Liquidity Risk Management policy has been developed and has been approved by the Board. The policy is based on the principles of Basel III (including, where required, the need for high-quality liquid assets to be held to cover liquidity requirements during periods of market and liquidity stress events), with specific attention given to the management of hedge roll-over risk. However, it should be noted that different to banks, a life company's balance sheet has an inherent ability to absorb illiquidity due to the nature, term and structure of its liabilities. This ability to absorb illiquidity is used to mitigate the liquidity risks within the CCM.

Term finance liabilities in respect of margin business are matched by assets with an appropriate maturity profile. These assets are managed to ensure that sufficient liquid investments are available to match the cash flow profile of the term finance liabilities. The maturity profile of term finance liabilities in respect of the margin business and the assets held to match this term finance is provided in the following table:

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
31 December 2019					
CCM term finance liabilities	**(80)**	**(580)**	**–**	**–**	**(660)**
Interest-bearing liabilities held in respect of margin business	**(80)**	**(580)**	**–**	**–**	**(660)**
Assets held in respect of CCM term finance	**413**	**81**	**45**	**121**	**660**
Equities and similar securities	**–**	**–**	**–**	**121**	**121**
Corporate interest-bearing investments	**488**	**80**	**45**	**–**	**613**
Mortgages, policy and other loans	**–**	**1**	**–**	**–**	**1**
Working capital assets and liabilities	**(75)**	**-**	**–**	**–**	**(75)**
Net term finance liquidity position	**333**	**(499)**	**45**	**121**	**–**

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
31 December 2018					
CCM term finance liabilities	(440)	(510)	–	–	(950)
Interest-bearing liabilities held in respect of margin business	(440)	(510)	–	–	(950)
Assets held in respect of CCM term finance	334	416	86	114	950
Equities and similar securities	–	–	–	114	114
Corporate interest-bearing investments	41	415	86	–	542
Mortgages, policy and other loans	–	1	–	–	1
Working capital assets and liabilities	293	–	–	–	293
Net term finance liquidity position	(106)	(94)	86	114	–

Santam

Objective and framework

As an insurance group, Santam Limited and its subsidiaries are exposed to various insurance and financial risks. These risks cause uncertainty and therefore the challenge for management is to determine what level of uncertainty is acceptable for each business unit as it strives to enhance stakeholder value.

Santam has adopted an ERM approach and framework that enables management to effectively deal with uncertainty and thus enhance the capacity to build value by efficiently and effectively deploying resources in pursuit of achieving the group's objectives. The ERM process adopted is considered appropriate to the nature, scale and complexity of Santam's business and risks. The Santam approach is aligned with the principles of King IV, ISO 31000, regulatory solvency requirements as well as the requirements of its majority shareholder, Sanlam.

Santam's ERM framework and process is designed to assist the board in ensuring that management continually monitors risk and reports back to the risk committee on the status of these risks. ISO 31000 was adopted to ensure that a structured and practical approach to risk management is implemented throughout the business. Santam's ERM process is well defined and businesses are responsible and accountable for integrating ERM in the operations. ERM adds value by being aligned to the business strategy and objectives. More information relating to the overall enterprise risk management and governance process is available in Santam's integrated report at www.santam.co.za.

Capital appetite

Santam's objective is to maintain sufficient capital (including foreign capital), which comprises shareholders' equity and subordinated debt capital, to meet its strategic business plan and objectives. This represents sufficient surpluses for both regulatory and economic capital. To assist in managing its capital position, Santam has set an internal coverage ratio band for its economic capital requirement while at all times achieving specific threshold levels for its regulatory capital requirement. The internal economic capital model is the preferred measure of capital sufficiency used to support, inform and improve decision-making across the group. It is used to determine the group's optimum capital structure, its investment strategy, its reinsurance programme and to determine the pricing and target returns for each portfolio. The economic capital analysis compares available capital with the economic capital assessment. Santam's economic capital requirement at 31 December 2019 based on the internal economic capital model amounted to R7,3 billion (2018: R6.9 billion) or an economic capital coverage ratio of 160% (2018: 159%). Santam received approval from the Prudential Authority to use its partial internal model for determining regulatory capital. A condition attached to the approval is that Santam will, initially, be required to hold a capital add-on equal to 20% of the benefit obtained from using the partial internal model instead of the standard formula. Santam will be able to reduce the capital add-on over time by complying with the requirements of the Prudential Authority.

Following the partial internal model approval, Santam has revised its group economic coverage ratio band to be between 150% and 170%.

Risk assessment process

A key component of the ERM framework is the risk assessment process. Santam's risk assessment process consists of risk identification, risk analysis, risk evaluation and risk treatment/management of those risks that are relevant to Santam's strategic objectives. Risks are identified from a top down (strategic) and bottom up (operational) perspective to create and maintain an integrated view of material risk exposures. The top down approach is undertaken at an executive and senior management level and considers strategic risks affecting Santam in the medium to long term. In parallel, the bottom up approach is undertaken by enterprise, risk and compliance management (ERCM) at a business unit or specialist unit level to assess all categories of risks from their perspectives with specific focus on underwriting, reinsurance and financial risks.

The risk identification process is used to build an aggregated view of all significant risks faced by the organisation. This, together with the risk categories and knowledge base is translated into the Santam risk universe. The risk universe is a summary of the most common risk themes across all categories of risk within Santam and assists management in understanding and effectively managing the relevant risks.

Risk analysis provides an input to risk evaluation and informs decisions on how the risks need to be treated. Risk analysis involves consideration of the causes and sources of risk, their positive and negative consequences and the likelihood that those consequences may occur.

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

- insurance risk (consisting of underwriting and reinsurance risk);
- credit risk;
- market risk; and
- operational risk.

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

Once the relevant risks are better understood, the risk appetite framework governs how the risks should be managed within the group. Santam has formulated a risk appetite policy which aims to quantify the amount of capital the business is willing to put at risk in the pursuit of value creation. It is within this risk appetite framework that Santam has selected its asset allocation and reinsurance programme which are among the most important determinants of risk and hence, capital requirements within the organisation. The internal model allows for the measurement of Santam's expected performance relative to the risk appetite assessment criteria agreed to by Santam's Board. The risk appetite process also includes the assessment of non-financial measures in determining the overall capital requirements. These assessments are presented to the risk and investment committees as well as the Board on a quarterly basis for consideration.

Insurance risk

Insurance risk refers to the risk of loss as a result of underwriting insurance contracts. More specifically, Santam defines insurance risk to include:

- underwriting risk; and
- reinsurance risk.

Over the last five years, Santam's risk management function has developed a group-wide governance and risk management framework in terms of the Board-approved underwriting and reinsurance policies, required by the regulator's Prudential Standards.

This framework is implemented at business unit level through underwriting practice policies (approved by the business units boards) that set out the specific requirements and parameters within which insurance risks are managed. Through Santam risk management's ongoing monitoring and review processes, business units are held accountable to the framework.

A key benefit of the framework from a risk management perspective is that it facilitates enhanced oversight and collaboration between business units and significantly improves the understanding and management of risk concentrations that arise from time to time and that extend over several business unit portfolios in most instances.

Underwriting risk

Santam manages underwriting risk through its underwriting strategy and proactive claims handling. The underwriting strategy aims to ensure that the portfolio of insurance contracts issued is well diversified and reasonably priced. Claims costs are actively managed to ensure that the impact of factors such as the volatility of the rand is adequately addressed.

In general, Santam issues personal, commercial, niche and cell/policyholder insurance policies, as well as reinsurance contracts in respect of most of the classes of business listed below:

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

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

Aviation – Covers property (both moveable and immovable) risks associated with aircraft (i.e. in respect of their use, ownership, storage, loss or damage), as well as liability and transport risks associated with this class of business.

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

Credit Insurance – Covers risks associated with the financial losses that result from the default of specified third parties (typically trade partners – both local and foreign) of the insured.

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

Engineering – Provides cover for risks relating to:

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

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

Marine – Covers property (both moveable and immovable) risks associated with watercraft (i.e. in respect of their use, ownership, storage, loss or damage), as well as liability and transport risks (both on land and on water bodies) associated with this class of business.

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

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

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

Travel – Covers risks associated with local and international travel, for both business and leisure purposes.

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

In order to determine the underwriting risk faced by Santam and its subsidiaries, a stochastic simulation of Santam's claims is performed at a line of business level. Assumptions for each line of business are determined based on more than 15 years' worth of historic data. The expected claims liabilities are modelled for specific lines of business, which are then split into the appropriate sub-classes. For each sub-class of business, three types of losses are modelled, namely attritional losses, individual large losses and catastrophe losses. Each of the sub-classes is modelled based on its own assumptions whose methodology and calibration are thoroughly documented in the internal model documentation.

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

Santam also models various catastrophes and the losses from each catastrophe are allocated to multiple classes of business. The following catastrophes are modelled:

- Earthquake;
- Storm (small);
- Storm (large);
- Hail (excluding crop damage);
- Marine (cargo);
- Aviation (hull/liability);
- Conflagration (property);
- Conflagration (liability);
- Utility Failure;
- Latent Liability; and
- Economic Downturn.

The net claims ratio for Santam, excluding the share of SEM and SAN JV businesses which is important in monitoring insurance risk, has developed as follows over the past seven years:

Loss history	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Claims paid and provided %*	**62,3**	60,6	65,9	65,1	62,1	63,1	69,3

* *Expressed as a percentage of net earned premiums.*

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

Underwriting limits (per risk and, where relevant, per event) are set for business units, underwriting managers and intermediaries to ensure that Santam's risk appetite is appropriately delegated. Underwriting performance is monitored continuously and the pricing policy is revised accordingly. Risk factors considered as part of the review are unique to each class of business (listed above) and constantly evolve as the risk environment changes. Santam has the right to reprice and change the conditions for accepting risks on renewal and/or, in most cases 30 days.

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

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

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

Claims development tables

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

Payment development

General insurance claims – gross

R million	Total actual claims cost	Claims paid in respect of (i.e. incident year) 2019	2018	2017	2016	2015	2014	2013	2012 and prior
Reporting year									
2019	**18 898**	**14 055**	3 667	606	244	101	204	10	11
2018	**17 997**	**–**	12 231	4 627	503	371	165	84	16
2017	**18 823**	**–**	–	13 623	4 032	534	438	104	92
2016	**16 112**	**–**	–	–	11 087	3 909	506	380	230
2015	**14 019**	**–**	–	–	–	9 786	3 388	354	491
2014	**13 556**	**–**	–	–	–	–	9 031	3 578	947
2013	**13 148**	**–**	–	–	–	–	–	9 152	3 996
2012	**11 340**	**–**	–	–	–	–	–	–	11 340
Cumulative payments to date	**123 893**	**14 055**	15 898	18 856	15 866	14 701	13 732	13 662	17 123

General insurance claims – net

R million	Total actual claims cost	Claims paid in respect of (i.e. incident year) 2019	2018	2017	2016	2015	2014	2013	2012 and prior
Reporting year									
2019	**14 805**	**11 746**	2 574	177	129	89	77	7	6
2018	**14 107**	**–**	10 955	2 563	246	191	80	69	3
2017	**13 819**	**–**	–	10 852	2 359	242	196	91	79
2016	**12 809**	**–**	–	–	9 866	2 386	212	153	192
2015	**11 476**	**–**	–	–	–	8 734	2 239	171	332
2014	**11 040**	**–**	–	–	–	–	7 927	2 489	624
2013	**11 335**	**–**	–	–	–	–	–	8 423	2 912
2012	**9 904**	**–**	–	–	–	–	–	–	9 904
Cumulative payments to date	**99 295**	**11 746**	13 529	13 592	12 600	11 642	10 731	11 403	14 052

Reporting development

General insurance claims provision – gross

R million	Total provision raised	2019	2018	2017	2016	2015	2014	2013	2012 and prior
		Financial year during which claim occurred (i.e. incident year)							
Reporting year									
2019	9 208	4 353	2 647	772	675	170	187	122	282
2018	8 497	–	5 033	1 405	1 082	221	312	134	310
2017	8 348	–	–	5 240	1 541	493	506	201	367
2016	6 814	–	–	–	3 870	1 143	895	297	609
2015	6 279	–	–	–	–	3 100	1 577	758	844
2014	6 240	–	–	–	–	–	4 069	844	1 327
2013	5 523	–	–	–	–	–	–	3 267	2 256
2012	4 948	–	–	–	–	–	–	–	4 948
	55 857	4 353	7 680	7 417	7 168	5 127	7 546	5 623	10 943

General insurance claims provision – net

R million	Total provision raised	2019	2018	2017	2016	2015	2014	2013	2012 and prior
		Financial year during which claim occurred (i.e. incident year)							
Reporting year									
2019	4 901	2 813	768	363	298	133	116	105	305
2018	4 345	–	2 679	602	321	175	135	113	320
2017	4 442	–	–	3 031	451	252	170	171	367
2016	3 973	–	–	–	2 334	512	312	234	581
2015	4 056	–	–	–	–	2 291	581	348	836
2014	3 968	–	–	–	–	–	2 337	448	1 183
2013	4 207	–	–	–	–	–	–	2 459	1 748
2012	3 971	–	–	–	–	–	–	–	3 971
	33 863	2 813	3 447	3 996	3 404	3 363	3 651	3 878	9 311

Reserving

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

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

Percentile approach

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

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

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

Cost of capital approach

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

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

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

Reinsurance risk

Reinsurance risk is the risk of loss due to either insufficient or inappropriately structured reinsurance cover relative to Santam's risk management strategy and objectives. It also includes the risk that the reinsurance program is inappropriately administered. Santam obtains third-party reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or capital. Santam has an extensive reinsurance programme that has developed over many years to suit the risk management needs of the business.

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

The core components of the reinsurance programme comprised:

- Individual excess-of-loss cover for property, liability, engineering, aviation and marine risks, which provides protection to limit losses between the range of R10 million to R50 million per risk, excluding reinstatement premiums, following a claim or claims against the covers. Santam protects its per risk loss exposure down to a maximum amount of R85 million on any one risk.
- Santam buys catastrophe cover exceeding the 1 in 250 year earthquake catastrophe loss using an external validated earthquake loss prediction model. This model typically results in cover of up to 1,3% of the total exposure of the significant geographical areas, amounting to protection of R8,2 billion per event, with an attachment point of R150 million.
- During the course of the year, Santam purchased a multi-year aggregate excess of loss treaty, which protects Santam against the accumulation of multiple catastrophe losses over a financial year, which losses are below the catastrophe excess of loss retention of R150 million; and
- Santam's agriculture portfolio is protected through a 60% proportional and a non-proportional reinsurance arrangement with non-proportional cover set at levels offering protection from extreme aggregate loss events.

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

In 2019, a similar five-year agreement was entered into with New Reinsurance Company Limited, a wholly owned subsidiary of Munich Re, domiciled in Switzerland. This agreement is effective 1 January 2020.

Santam has a reinsurance quota share programme, with a number of key international reinsurers with an estimated annual reinsurance quota share premium of R1 billion. The agreement reduces Santam's net catastrophe exposure.

The Santam board approves the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is placed with external reinsurers that have an international credit rating of no less than A- (2018: A-) from S&P or AM Best, unless specific approval is obtained from the Board to use reinsurers with ratings lower than the agreed benchmark.

Insurance-related credit risk

Credit risk reflects the financial impact of the default of one or more of Santam's counterparties.

Santam is exposed to financial risks caused by a loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

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

- reinsurer defaults on presentation of a large claim;
- reinsurers default on their share of Santam's insurance liabilities; and
- default on amounts due from insurance contract intermediaries.

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

Santam determines the credit quality for each of its counterparties by reference to ratings from independent rating agencies. Santam measures the probability of default on the basis of assessments made by the rating agencies over a one-year time horizon and the resulting loss given default. The underlying default probabilities are based on the credit migration models developed by S&P, Moody's, Fitch and CGR which incorporate up to ninety years' worth of credit default information. The probability of default assigned is based on the highest credit rating assigned by the various rating agencies.

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

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

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

The concentration risk calculation is performed in four steps:

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

Credit risk capital is held for exposure to risk-based assets such as bonds and bank deposits as well as for the following types of exposure:

- Outstanding premiums due from intermediaries and reinsurance due from reinsurers;
- Reinsurance claims provisions; and
- Exposure to potential reinsurance recoveries based on the losses generated by the internal model.

Santam seeks to avoid concentration of credit risk to groups of counterparties, to business sectors, product types and geographical segments. The financial instruments, except for Santam's exposure to the four large South African banks, do not represent a concentration of credit risk. In terms of Santam's internal risk appetite framework, no more than 15% of total portfolio assets are generally invested in any one of the four major South African banks. Accounts receivable are spread over a number of major companies and intermediary parties, clients and geographic areas. Santam assesses concentration risk for debt securities, money market instruments and cash collectively. Santam does not have concentrations in these instruments to any one company exceeding 15% of total debt securities, money market instruments or cash.

Santam uses a large panel of secure reinsurance companies. The credit risk of reinsurers included in the reinsurance programme is considered annually by reviewing their financial strength as part of the renewal process. Santam's largest reinsurance counterparty is Allianz (2018: Allianz). The credit risk exposure is further monitored throughout the year to ensure that changes in credit risk positions are adequately addressed.

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

31 December 2019

R million	AAA	AA+	AA	AA-	A+	A
Debt securities – quoted	16	18	–	–	–	–
Debt securities – unquoted	–	–	–	–	–	–
Total debt securities	16	18	–	–	–	–
Total unitised investments	–	–	–	–	–	–
Short-term money market instruments	–	–	225	–	–	–
Receivables due from contract holders/ intermediaries	–	–	187	30	–	6
Reinsurance receivable	–	5	4	80	24	3
Other loans and receivables	–	12	8	23	3	–
Cell owners' interest	–	–	–	–	–	–
Deposit with cell owners	–	–	–	–	–	–
Cash and cash equivalents	–	92	267	113	15	–
Total	16	127	691	246	42	9

31 December 2018

R million	AAA	AA+	AA	AA-	A+	A
Debt securities – quoted	–	–	118	–	–	–
Debt securities – unquoted	–	–	–	–	–	–
Total debt securities	–	–	118	–	–	–
Total unitised investments	–	–	–	–	–	–
Short-term money market instruments	–	–	–	–	–	–
Receivables due from contract holders/ intermediaries	–	–	–	–	–	–
Reinsurance receivable	–	–	12	27	7	23
Other loans and receivables	–	–	–	10	3	–
Cell owners' interest	–	–	–	–	–	–
Deposit with cell owners	–	–	–	–	–	–
Cash and cash equivalents	–	–	159	420	26	–
Total	–	–	289	457	36	23

	A-	BBB+	BBB	BBB-	BB+	BB	BB-	Not rated	Carrying value
	–	**11**	**10**	**6 427**	**320**	**411**	**356**	**360**	**7 929**
	–	**–**	**–**	**5 215**	**20**	**166**	**173**	**995**	**6 569**
	–	**11**	**10**	**11 642**	**340**	**577**	**529**	**1 355**	**14 498**
	–	**–**	**–**	**7**	**–**	**218**	**–**	**3 558**	**3 783**
	–	**–**	**–**	**2 179**	**190**	**101**	**162**	**38**	**2 895**
	69	**–**	**–**	**10**	**1**	**–**	**–**	**4 442**	**4 745**
	37	**–**	**–**	**1**	**20**	**–**	**–**	**199**	**373**
	–	**10**	**61**	**73**	**5**	**9**	**4**	**911**	**1 119**
	–	**–**	**–**	**–**	**–**	**–**	**–**	**26**	**26**
	–	**–**	**–**	**–**	**–**	**–**	**–**	**180**	**180**
	–	**2**	**11**	**3 595**	**72**	**262**	**98**	**115**	**4 642**
	106	**23**	**82**	**17 507**	**628**	**1 167**	**793**	**10 824**	**32 261**

	A-	BBB+	BBB	BBB-	BB+	BB	BB-	Not rated	Carrying value
	–	–	16	5 517	231	1 672	556	353	8 463
	–	4	–	4 278	51	106	176	834	5 449
	–	4	16	9 795	282	1 778	732	1 187	13 912
	–	–	–	–	–	–	–	2 501	2 501
	–	–	29	2 274	12	84	261	268	2 928
	69	–	–	29	–	–	–	4 651	4 749
	40	–	–	–	–	–	–	310	419
	11	–	12	126	3	45	10	886	1 106
	–	–	–	–	–	–	–	13	13
	–	–	–	–	–	–	–	191	191
	2	–	–	1 598	88	1 322	–	3	3 618
	122	4	57	13 822	385	3 229	1 003	10 010	29 437

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

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

Market risk

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

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

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

Each of the major components of market risk faced by Santam is described in more detail below.

Price risk

Santam is subject to price risk due to the impact that volatility in the market has on the value of its equity portfolios, resulting in either a positive or negative effect on its net asset value.

Santam has a well-defined investment strategy, including return objectives, asset allocation, portfolio construction and asset manager selection. The strategy has been translated into various specialist mandates which in turn have been outsourced mostly to SI. The total level of equity investments, both listed and unlisted, is closely monitored by the Investment committee and the Board. The internal economic capital model is used to model the asset mix and absolute level of equity exposure on at least a quarterly basis and to compare the results to Santam's risk appetite. The analysis is presented to the investment committee for consideration in terms of required actions.

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

Equity price risk arises from the negative effect that a fall in the market value of equities can have on Santam's net asset value. Santam's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling methods. Santam sets appropriate risk limits to ensure that no significant concentrations in individual companies arise. Santam's largest investment in any one company comprises 7,7% (2018: 10,4%) of the total quoted equities and 0,4% (2018: 0,6%) of the total assets. The company's largest investment in any one company comprises 12,8% (2018: 18,2%) of the total quoted equities and 0,5% (2018: 0,6%) of the total assets.

Interest rate risk

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

The market value of bonds and other fixed interest-bearing financial instruments are dependent on the level of interest rates. This includes movements in fixed income prices reflecting changes in expectations of credit losses, changes in investor risk aversion, or price changes caused by market liquidity. The income received from floating rate interest-bearing financial instruments is also affected by changes in interest rates.

The impact of a change in the interest rate on the asset mix as well as the economic capital requirements is determined using the internal economic capital model. The result of this analysis is presented to the investment committee on at least a quarterly basis for consideration and approval of required actions.

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

Exposure to interest rate risk is monitored through several methods that include scenario testing and stress testing using measures such as duration. The bond returns are modelled based on the historic performance of the individual bonds held in the portfolio, and adjusted to reflect the current interest rates and inflation environment. The risk-free rate used for modelling is 9% as at 31 December 2019 (2018: 9%).

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

Currency risk

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

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

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

Santam has two sources of currency risk:

- operational currency risk: underwriting liabilities in currencies other than the currency of the primary environment in which the business units operate (non-functional currencies); and
- structural currency risk: investing in SEM target shares and SAN JV.

These risks affect both the value of Santam's assets, as well as the cost of claims, particularly for imported motor parts, directly and indirectly. The fair value of the investments in the SEM target shares are impacted by changes in the foreign exchange rates of the underlying operations. Santam is also pursuing international diversification in underwriting operations through the business written by Santam Re and the specialist underwriting managers. Any changes in foreign exchange rates relating to the investment in SAN JV are recognised directly in the foreign currency translation reserve in the statement of changes in equity. These movements will only be released to profit or loss should the investment in SAN JV be disposed of.

In order to mitigate the foreign currency mismatch risk, Santam monitors the level of foreign currency assets relative to foreign currency liabilities and foreign currency capital requirements.

In terms of Santam's risk management strategy, foreign currency risks can be assessed on a case by case basis to determine whether specific hedging requirements exist.

Derivatives risk

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

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

Liquidity risk

Liquidity risk is the risk that Santam will encounter difficulty in raising funds to meet the commitments associated with its financial obligations as a result of assets not being available in a form that can immediately be converted into cash.

Santam manages liquidity requirements by matching the underlying risk profile of the assets invested to the corresponding liabilities. For example, the net insurance liabilities are covered by investments with limited capital risk (i.e. cash and short duration interest-bearing investments) while Santam's subordinated debt obligations are covered by longer duration interest-bearing investments and interest rate swaps.

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

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

Operational risk

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

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

Group Office

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

1. Liquidity risk

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

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

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
31 December 2019					
Non-CCM term finance liabilities	(354)	(2 600)	–	–	(2 954)
Interest-bearing liabilities held in respect of margin business	(354)	(2 600)	–	–	(2 954)
Assets held in respect of non-CCM term finance	–	2 000	954	–	2 954
Equities and similar securities	–	–	–	–	–
Corporate interest-bearing investments	–	2 000	954	–	2 954
Mortgages, policy and other loans	–	–	–	–	–
Working capital assets and liabilities	–	–	–	–	–
Net term finance liquidity position	(354)	(600)	954	–	–

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
31 December 2018					
Non-CCM term finance liabilities	(84)	(2 620)	–	–	(2 704)
Interest-bearing liabilities held in respect of margin business	(84)	(2 620)	–	–	(2 704)
Assets held in respect of non-CCM term finance	–	2 164	540	–	2 704
Equities and similar securities	–	–	–	–	–
Corporate interest-bearing investments	–	2 164	540	–	2 704
Mortgages, policy and other loans	–	–	–	–	–
Working capital assets and liabilities	–	–	–	–	–
Net term finance liquidity position	(84)	(456)	540	–	–

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

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

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
31 December 2019					
Term finance liabilities					
Interest-bearing liabilities	–	(1 013)	–	–	(1 013)
Assets held in respect of term finance	220	460	277	56	1 013
Government interest-bearing investments	1	1	–	–	2
Corporate interest-bearing investments	164	375	277	–	816
Mortgages, policy and other loans	1	58	–	–	59
Structured transactions	32	3	–	–	35
Investment funds	–	–	–	56	56
Cash, deposits and similar securities	45	23	–	–	68
Working capital assets and liabilities	(23)	–	–	–	(23)
Net term finance liquidity position	220	(553)	277	56	–

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
31 December 2018					
Term finance liabilities					
Interest-bearing liabilities	–	(1 013)	–	–	(1 013)
Assets held in respect of term finance	87	679	192	55	1 013
Government interest-bearing investments	2	–	–	–	2
Corporate interest-bearing investments	74	552	192	–	818
Mortgages, policy and other loans	1	68	–	–	69
Structured transactions	–	43	–	–	43
Investment funds	–	–	–	55	55
Cash, deposits and similar securities	27	16	–	–	43
Working capital assets and liabilities	(17)	–	–	–	(17)
Net term finance liquidity position	87	(334)	192	55	–

2. Sensitivity analysis – market risk

Refer to page 197 of the Integrated Report online for an analysis of the Group's exposure to market risk as measured by GEV.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of presentation

Introduction

The consolidated financial statements are prepared on the historical-cost basis, unless otherwise indicated, in accordance with 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 in South Africa. The financial statements are presented in South African rand rounded to the nearest million, unless otherwise stated.

The following new or revised IFRS and interpretations became effective on 1 January 2019 and have therefore been applied:

- IFRS 16 – Leases
- IFRIC 23 – Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interest in Associates and Joint Ventures (Amendments to IAS 28)
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12, and IAS 23)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

IFRS 16 – Leases has been applied by using the modified retrospective approach. The Group has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. There was no impact on retained earnings at the beginning of the current period. The reclassifications and adjustments arising on transition are recognised in the opening balance sheet on 1 January 2019 and are reflected in note 36.1 of the annual financial statements.

The Group has elected to apply the interpretation, IFRIC 23 – Uncertainty over Income Tax Treatments, retrospectively with the cumulative effect of initially applying the interpretation as an adjustment to the opening retained earnings balance. Therefore, the Group has not restated comparatives for the 2018 reporting period. There was however no impact on the statement of financial position or opening retained earnings as at 1 January 2019. Refer to note 36.2 of the annual financial statements.

The other amendments listed above did not have a significant impact on the amounts recognised in prior or current period(s) and are not expected to significantly affect the current or future periods. No further disclosures have accordingly been made.

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

- Effective 1 January 2020:
  - Amendments to References to Conceptual Framework in IFRS Standards
  - Definition of a Business (Amendments to IFRS 3)
  - Definition of Material (Amendments to IAS 1 and IAS 8)
- IFRS 17 – Insurance Contracts (effective 1 January 2022)

IFRS 17 – Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The granular level of modelling and accounting required to meet the requirements of IFRS 17 will have a significant impact on the underlying valuation models, systems and processes. The Group's assessment of the requirements of the standard against current data, processes and valuation models is largely complete, as well as the overall design of the future actuarial and financial reporting processes and architecture. Solution build activities are tracking in line with the Group-wide programme.

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

Glossary of terms and definitions

A glossary containing explanations of technical terms used in these financial statements is presented on page 239 of the Integrated Report online.

The following sections provide additional information in respect of the presentation of selected items in the Group financial statements on pages 66 to 142.

Use of estimates, assumptions and judgements

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates and assumptions affect items reported in the Group statement of financial position and statement of comprehensive income, as well as contingent liabilities. The major items subject to the application of estimates, assumptions and judgements include:

- impairment of goodwill and value of business acquired;
- the liability arising from claims under general insurance contracts;
- the fair value of unlisted investments;
- the valuation of policy liabilities;
- impairment of financial assets, including measurement of ECL (expected credit losses) allowances for trade receivables;
- classification of financial assets;
- potential claims and contingencies;

- the consolidation of investment funds where the Group has less than a majority interest;
- determining the lease term of contracts with renewal and termination options – Group as lessee; and
- leases – estimating the incremental borrowing rate.

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 25 for further information on critical estimates and judgements and note 28 for information on contingencies.

Policyholders' and shareholders' activities

The Group financial statements set out on pages 66 to 142 include the consolidated activities of the policyholders and shareholders. Separate financial information on the activities of the shareholders of the Sanlam Group is disclosed on pages 159 to 230 of the Integrated Report online.

The assets, liabilities and activities of the policyholders and shareholders in respect of the life insurance businesses are managed separately and are governed by the valuation basis for policy liabilities and profit entitlement rules, which are determined in accordance with prevailing legislation, IFRS, generally accepted actuarial practice and the stipulations contained in the Sanlam Life demutualisation proposal. The valuation basis in respect of policy liabilities and the profit entitlement of shareholders are set out on pages 63 to 65.

Insurance contracts

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

Cash, deposits and similar securities

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

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

Financial instruments

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

- Audited Capital and Risk Management Report on pages 11 to 58;
- Note 8: Investments
- Note 15: Long-term policy liabilities
- Note 16: Term finance
- Note 25: Critical accounting estimates and judgements

Segmental information

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

- Sanlam Personal Finance;
- Sanlam Emerging Markets;
- Sanlam Investment Group;
- Sanlam Corporate;
- Santam; and
- Group Office and Other.

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

The audited segmental information is disclosed in the Shareholders' Information on pages 159 to 230 of the Integrated Report online. Refer to the Financial Review on pages 68 to 87 of the Integrated Report online for additional information on these business segments and to the Group structure on page 11 of the Integrated Report online for a description of the main businesses and the cluster to which they are allocated.

Accounting policies

The Sanlam Group has identified the accounting policies that are most significant to its business operations and the understanding of its results. These include policies relating to insurance liabilities, deferred acquisition costs, the ascertainment of fair values of financial assets, financial liabilities and derivative financial instruments, and the determination of impairment losses. In each case, the determination of these is fundamental to the financial results and position, and requires management to make complex judgements based on information and financial data that may change in future periods. Since these involve the use of assumptions and subjective judgements as to future events and are subject to change, the use of different assumptions or data could produce materially different results. These policies (as set out in the relevant notes to the financial statements) are in accordance with and comply with IFRS and have been applied consistently for all periods presented unless otherwise noted.

Basis of consolidation

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

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

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

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

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

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

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

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

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

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

- First party – where the risks that are being insured relate to the cell shareholders' own operations or operations within the cell shareholders' group of companies. The cell shareholder and the policyholder are considered the same person. Where more than one contract is entered into with a single counterparty, it shall be considered a single contract, and the shareholder and insurance agreement are considered together for risk transfer purposes. As these contracts are a single contract, there is no significant risk transfer and such cell captive facilities are accounted for as investment contracts.
- Third party – where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. The company is the principle to the insurance contract, although the business is underwritten on behalf of the cell shareholder. However, the shareholder's agreement determines that the cell shareholders remain responsible for the solvency of the cell captive arrangements. In substance, the insurance company therefore reinsures this business to the cell shareholder as the cell shareholder remains responsible for the solvency of the cell captive arrangement.

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

Foreign currencies

Transactions and balances

Foreign currency transactions are translated to functional currency, i.e. the currency of the primary economic environment in which each of the Group's entities operate, at the exchange rates on transaction date. Monetary assets and liabilities are translated to functional currency at the exchange rates ruling at the financial period-end. Non-monetary assets and liabilities carried at fair value are translated to functional currency at the exchange rates ruling at valuation date. Non-monetary assets and liabilities carried at historic cost are translated to functional currency at the exchange rates ruling at the date of initial recognition. Exchange differences arising on the settlement of transactions or the translation of monetary assets and liabilities (excluding investment assets and liabilities) are recognised in the statement of comprehensive income as financial services income. Exchange differences on non-monetary assets and liabilities and monetary assets and liabilities classified as investment assets and liabilities, such as equities and foreign interest-bearing investments, are included in investment surpluses.

Foreign operations

Statement of comprehensive income items of foreign operations (including foreign subsidiaries, associates and joint ventures) with a functional currency different from the presentation currency, are converted to South African rand at the weighted average exchange rates for the financial year, except where the average exchange rate is not representative of the timing of specific items, in which instances the exchange rate on transaction date is used. The closing rate is used for the translation of assets and liabilities, including goodwill, intangible assets and fair value adjustments arising on the acquisition of foreign entities. At acquisition, equity is translated at the rate ruling on the date of acquisition. Post-acquisition equity is translated at the rates prevailing when the change in equity occurred. Exchange differences arising on the translation of foreign operations are transferred to a foreign currency translation reserve until the disposal of the net investment when it is released to the statement of comprehensive income.

POLICY LIABILITIES AND PROFIT ENTITLEMENT

Introduction

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

The valuation basis and methodology, which comply with South African actuarial guidelines and requires minimum liabilities to be held based on a prospective calculation of policy liabilities, serves as a liability adequacy test. No adjustment is required to the value of the liabilities at 31 December 2019 as a result of the aforementioned adequacy test.

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

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

Classification of contracts

A distinction is made between investment contracts without discretionary participation features (DPF) (which fall within the scope of IFRS 9 – Financial Instruments), investment contracts with DPF and insurance contracts (where the Financial Soundness Valuation (FSV) method continues to apply, subject to certain requirements specified in IFRS 4 – Insurance Contracts).

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

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

- Investment contracts with DPF
- Investment contracts with investment management services
- 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.
- 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.

Insurance contracts and investment contracts with DPF

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

- the best estimate of future experience;
- the compulsory margins prescribed in the SAP 104; and
- discretionary margins determined to release profits to shareholders consistent with policy design and company policy.

The value of policy liabilities at 31 December 2019 exceeds the minimum requirements in terms of SAP 104 and APN 110.

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

Best estimate of future experience

The best estimate of future experience is determined as follows:

- Future investment return assumptions are derived from market yields of fixed interest securities on the valuation date, with adjustments for the other asset classes.
- The appropriate asset composition of the various asset portfolios, investment management expenses, taxation at current tax rates and charges for investment guarantees are taken into account.
- For some of the Group's African operations, where long-term fixed interest markets are underdeveloped, investment return assumptions are based on an assessment of longer-term economic conditions. The future investment returns for Namibian businesses are based on a combination of the market yields of South African and Namibian fixed interest securities on the valuation date. Refer to note 4 on page 139 of the Integrated Report online for investment return assumptions per asset class.
- Future expense assumptions are based on the 2019 actual expenses and escalated at estimated expense inflation rates per annum, with a higher rate assumed for legacy business. The allocation of initial and maintenance expenses is based on functional cost analyses and reflects actual expenses incurred during 2019. Allowance is made for project expenses consistently with the best estimate used for embedded value purposes.
- Assumptions with regard to future mortality, disability and disability payment termination rates are consistent with Sanlam's recent experience or expected future experience if this would result in a higher liability. In particular, mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of HIV/Aids and for expected improvements in mortality rates in the case of annuity business.
- Persistency assumptions with regard to lapse, surrender and paid-up rates are consistent with Sanlam's recent experience or expected future experience if this would result in a higher liability.

Asset portfolios

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

Bonus stabilisation reserves

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

Provision for future bonuses

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

Reversionary bonus business

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

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

Individual stable bonus, linked and market-related business

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

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

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

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

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

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

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

Other non-participating business
Most of the other non-participating business liabilities are valued on a retrospective basis. The remainder is valued prospectively and contains discretionary margins by not allowing policies with negative reserves.

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

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

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

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

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

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

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

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

Investment contracts (other than with DPF)

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

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

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

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

GROUP STATEMENT OF FINANCIAL POSITION

at 31 December 2019

R million	Notes	2019	Restated[1] 2018
ASSETS			
Equipment	1	1 655	1 587
Right-of-use assets	2.1	1 912	–
Owner-occupied properties	3	1 794	2 010
Goodwill[1]	4.1	18 974	20 392
Value of business acquired[1]	4.2	8 768	9 553
Other intangible assets	5	926	1 082
Deferred acquisition costs	6	3 505	3 446
Long-term reinsurance assets	7	2 042	1 971
Investments		770 995	690 744
Properties	8.1	21 565	21 349
Investments in associates and joint ventures	8.2	18 682	18 361
Equities and similar securities	8.3.1	201 501	184 787
Interest-bearing investments	8.3.2	234 509	211 770
Structured transactions	8.3.2	23 090	21 341
Investment funds	8.3.2	222 141	190 005
Cash, deposits and similar securities	8.3.2	49 507	43 131
Deferred tax	9.1	1 872	2 249
Assets of disposal groups classified as held for sale	32	159	139
General insurance technical assets	10	10 166	9 540
Working capital assets		77 461	72 863
Trade and other receivables[1]	11.1	46 180	43 653
Taxation[1]		912	1 059
Cash, deposits and similar securities	35.1	30 369	28 151
Total assets		900 229	815 576
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital and premium	12	13 452	5 657
Treasury shares		(4 127)	(3 934)
Other reserves	13	(1 859)	10 495
Retained earnings		59 851	57 288
Shareholders' fund		67 317	69 506
Non-controlling interest	14	12 043	12 111
Total equity		79 360	81 617
Long-term policy liabilities	15	591 168	543 785
Term finance	16	11 187	7 413
Margin business	16.1	3 614	3 654
Other interest-bearing liabilities	16.1	7 573	3 759
Lease liabilities	2.2	2 110	–
Structured transactions liabilities	8.3.2	19 272	15 629
External investors in consolidated funds	35.2	85 187	66 146
Cell owners' interest		3 935	3 305
Deferred tax[1]	9.1	5 766	5 352
General insurance technical provisions[1]	10	41 332	38 033
Working capital liabilities		60 912	54 296
Trade and other payables	11.2	58 062	50 761
Provisions	17	523	450
Taxation		2 327	3 085
Total equity and liabilities		900 229	815 576

[1] *Refer to note 36.3 for more information.*

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

R million	Notes	2019	2018
Net income		**147 796**	77 721
Financial services income	18	**95 520**	73 619
Reinsurance premiums paid	19	**(15 893)**	(11 262)
Reinsurance commission received	20	**2 676**	2 166
Investment income	8.4	**33 003**	31 208
Investment surpluses	8.4	**43 064**	(16 447)
Finance cost – margin business	22	**(242)**	(164)
Change in fair value of external investors' liability		**(10 332)**	(1 399)
Net insurance and investment contract benefits and claims		**(91 526)**	(29 524)
Long-term insurance contract benefits	15.5	**(30 802)**	(18 566)
Long-term investment contract benefits	15.5	**(39 506)**	2 999
General insurance claims		**(29 646)**	(20 662)
Reinsurance claims received	20	**8 428**	6 705
Expenses		**(41 051)**	(31 701)
Sales remuneration	21	**(13 246)**	(10 139)
Administration costs	21	**(27 805)**	(21 562)
Impairments	21.2	**(742)**	(449)
Amortisation of intangibles	21.2	**(1 405)**	(659)
Net operating result		**13 072**	15 388
Equity-accounted earnings	8.2.1	**2 989**	2 424
Finance cost – other	22	**(1 500)**	(846)
Profit before tax		**14 561**	16 966
Taxation	9.2	**(5 756)**	(4 164)
Shareholders' fund	9.2	**(4 017)**	(3 510)
Policyholders' fund	9.2	**(1 739)**	(654)
Profit for the year		**8 805**	12 802
Other comprehensive income (net of tax): to be recycled through profit or loss in subsequent periods			
Movement in foreign currency translation reserve		**(4 707)**	2 002
Other comprehensive income of equity accounted investments		**(335)**	126
Movement in cashflow hedge		**–**	166
Other comprehensive income: not to be recycled through profit or loss in subsequent periods			
Employee benefits re-measurement profit	26	**25**	4
Comprehensive income for the year		**3 788**	15 100
Allocation of comprehensive income:			
Profit for the year		**8 805**	12 802
Shareholders' fund		**7 150**	11 627
Non-controlling interest		**1 655**	1 175
Comprehensive income for the year		**3 788**	15 100
Shareholders' fund		**2 951**	13 698
Non-controlling interest		**837**	1 402
Earnings attributable to shareholders of the company (cents):			
Profit for the year:			
Basic earnings per share	23	**345,8**	565,4
Diluted earnings per share	23	**342,1**	559,7

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

R million	Share capital	Share premium	Treasury shares	Non-distributable reserve
Balance at 1 January 2018	21	1	(3 811)	9 976
IFRS transitional adjustments[4]	–	–	–	–
Comprehensive income	–	–	–	–
Profit for the year	–	–	–	–
Other comprehensive income[3]	–	–	–	–
Shares issued	1	5 634	–	–
Net (acquisition)/disposal of treasury shares[2]	–	–	(123)	–
Share-based payments	–	–	–	–
Transfer to non-distributable reserve	–	–	–	178
Transfer (from)/to consolidation reserve	–	–	–	–
Dividends paid[1]	–	–	–	–
Acquisitions, disposals and other movements in interests	–	–	–	–
Balance at 31 December 2018	**22**	**5 635**	**(3 934)**	**10 154**
Comprehensive income	**–**	**–**	**–**	**–**
Profit for the year	**–**	**–**	**–**	**–**
Other comprehensive income	**–**	**–**	**–**	**–**
Shares issued	**1**	**7 794**	**–**	**–**
Net (acquisition)/disposal of treasury shares[2]	**–**	**–**	**(193)**	**–**
Share-based payments	**–**	**–**	**–**	**–**
B-BBEE IFRS 2 costs[5]	**–**	**–**	**–**	**–**
Transfer from non-distributable reserve	**–**	**–**	**–**	**(173)**
Transfer (from)/to consolidation reserve	**–**	**–**	**–**	**–**
Dividends paid[1]	**–**	**–**	**–**	**–**
Acquisitions, disposals and other movements in interests	**–**	**–**	**–**	**(2)**
Balance at 31 December 2019	**23**	**13 429**	**(4 127)**	**9 979**

(1) *A dividend of 334 cents per share (2018: 312 cents per share) was declared in 2020 in respect of the 2019 earnings. Based on the number of shares in issue on declaration date, the total dividend is expected to amount to R6,5 billion (after allowing for treasury shares), but may vary depending on the number of shares in issue on the last day to trade. Dividends proposed or declared after the statement of financial position date are not recognised at the statement of financial position date.*

(2) *Comprises movement in cost of shares held by subsidiaries, the share incentive trust, other consolidated funds and the B-BBEE SPV.*

(3) *Other comprehensive income include a realisation of cash flow hedging adjustment of R1,500 billion in respect of the acquisition of interests in Saham Finances.*

(4) *During the prior year IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers were adopted.*

(5) *A one-off expense of R1 686 million was recognised in terms of International Financial Reporting Standards (IFRS) 2 Share-Based Payment in respect of the Broad-Based Black Economic Empowerment (B-BBEE) share issuance to the new B-BBEE special purpose vehicle (SPV). Refer to note 29.1 for more information.*

Foreign currency translation reserve	Retained earnings	Subtotal: equity	Consolidation reserve	Shareholders' fund	Non-controlling interest	Total equity
(492)	52 125	57 820	(400)	57 420	6 017	63 437
–	(429)	(429)	–	(429)	(12)	(441)
1 717	11 981	13 698	–	13 698	1 402	15 100
–	11 627	11 627	–	11 627	1 175	12 802
1 717	354	2 071	–	2 071	227	2 298
–	–	5 635	–	5 635	–	5 635
–	(289)	(412)	(610)	(1 022)	(29)	(1 051)
–	358	358	–	358	26	384
–	(178)	–	–	–	–	–
–	(141)	(141)	141	–	–	–
–	(6 053)	(6 053)	–	(6 053)	(867)	(6 920)
(15)	(86)	(101)	–	(101)	5 574	5 473
1 210	**57 288**	**70 375**	**(869)**	**69 506**	**12 111**	**81 617**
(3 888)	**6 839**	**2 951**	**–**	**2 951**	**837**	**3 788**
–	**7 150**	**7 150**	**–**	**7 150**	**1 655**	**8 805**
(3 888)	**(311)**	**(4 199)**	**–**	**(4 199)**	**(818)**	**(5 017)**
–	**–**	**7 795**	**–**	**7 795**	**–**	**7 795**
–	**(338)**	**(531)**	**(7 871)**	**(8 402)**	**1**	**(8 401)**
–	**391**	**391**	**–**	**391**	**33**	**424**
–	**1 686**	**1 686**	**–**	**1 686**	**–**	**1 686**
–	**173**	**–**	**–**	**–**	**–**	**–**
–	**456**	**456**	**(456)**	**–**	**–**	**–**
–	**(6 500)**	**(6 500)**	**–**	**(6 500)**	**(1 095)**	**(7 595)**
36	**(144)**	**(110)**	**–**	**(110)**	**156**	**46**
(2 642)	**59 851**	**76 513**	**(9 196)**	**67 317**	**12 043**	**79 360**

GROUP STATEMENT OF CASH FLOW

for the year ended 31 December 2019

R million	Notes	2019	2018
Cash flow from operating activities		**6 645**	10 760
Cash utlilised in operations	30.1	**(9 910)**	(7 286)
Interest and preference share dividends received		**17 541**	18 199
Interest paid		**(1 094)**	(1 136)
Dividends received		**13 198**	12 307
Dividends paid		**(7 433)**	(6 844)
Taxation paid		**(5 657)**	(4 480)
Cash flow from investment activities		**(509)**	(6 764)
Acquisition of subsidiaries and associated companies	30.2	**(685)**	(7 254)
Disposal of subsidiaries and associated companies	30.3	**176**	490
Cash flow from financing activities		**2 503**	4 052
Shares issued		**7 795**	5 635
Movement in treasury shares		**(8 401)**	(1 051)
Disposal of non-controlling interest		**–**	90
Term finance raised		**3 998**	2 455
Term finance repaid		**(299)**	(3 077)
Lease liabilities repaid		**(590)**	–
Net increase in cash and cash equivalents		**8 639**	8 048
Net foreign exchange difference		**(325)**	(124)
Cash and cash equivalents at beginning of the year		**63 343**	55 419
Cash and cash equivalents at end of the year	30.4	**71 657**	63 343

1. Equipment

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

R million	**2019**	**2018**
Computer equipment	**684**	677
Cost	**2 349**	2 160
Accumulated depreciation and impairment	**(1 665)**	(1 483)
Furniture, equipment, vehicles and other	**971**	910
Cost	**2 071**	1 744
Accumulated depreciation and impairment	**(1 100)**	(834)
Equipment	**1 655**	1 587
Reconciliation of carrying amount		
Balance at beginning of the year	**1 587**	876
Additions and expenditure capitalised	**729**	527
Acquired through business combinations	**30**	735
Disposals	**(169)**	(209)
Depreciation	**(492)**	(350)
Foreign currency translation differences	**(29)**	–
Net other movements	**(1)**	8
Balance at end of the year	**1 655**	1 587

2. Leases

This note provides information for leases where the group is a lessee. For leases where the group is a lessor, see note 8.1 and 8.4.

The Group has mainly leases for office buildings and some IT equipment and vehicles. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Extension and termination options are included in a number of leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. This would be the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

2. Leases (continued)

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonably certain to exercise that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

To determine the incremental borrowing rate, the group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

2.1 Right-of-use assets

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

R million	Properties	Furniture, equipment, vehicles and other	Total
Balance at 1 January 2019	–	–	–
IFRS transitional adjustment	1 932	53	1 985
Additions	219	25	244
Variable lease payment adjustment	171	(1)	170
Depreciation	(479)	(22)	(501)
Disposals/termination of lease agreements	(12)	–	(12)
Foreign currency translation differences	(6)	(1)	(7)
Other movements	36	(3)	33
Balance at 31 December 2019	1 861	51	1 912

2.2 Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

R million	2019
Balance at 1 January 2019	–
IFRS transitional adjustment	2 066
Additions	260
Variable lease payment adjustment	170
Interest accrued	195
Lease payments	(590)
Disposals/termination of lease agreements	(11)
Foreign currency translation differences	(5)
Other movements	25
Balance at 31 December 2019	2 110
Maturity analysis – carrying value	
Due within one year	446
Due within two to five years	1 209
Due within five to 10 years	455
	2 110
Maturity analysis – undiscounted	
Due within one year	595
Due within two to five years	1 530
Due within five to 10 years	624
	2 749
The Group is exposed to the following potential cash flows (undiscounted) which are not included in the lease liability:	
Extension options	431
Leases not yet commenced to which the lessee is committed	186
	617

2.3 Additional profit or loss and cash flow information

Refer to the Expenses (note 21.1) and the Finance cost (note 22) notes for information about depreciation, operating lease expenses and interest expense respectively.

R million	2019
Total cash outflow in respect of leases in the year	(590)

3 Owner-occupied properties

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

3. Owner-occupied properties (continued)

R million	2019	2018
Balance at beginning of the year	2 010	963
Additions and expenditure capitalised	12	92
Disposals	–	(11)
Transfer to non-current assets held for sale	(15)	(1)
Acquired through business combinations	–	971
Disposal of subsidiaries	(113)	–
Transfer from investment properties	208	1
Foreign currency translation differences	(251)	2
Impairment	(8)	–
Depreciation	(31)	(7)
Other movements	(18)	–
Balance at end of the year	**1 794**	2 010

4. Intangible assets arising on acquisition

4.1 Goodwill

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

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

For impairment purposes, the carrying amount of goodwill is allocated to cash generating units at the lowest level of operational activity (business) to which it relates. The carrying amount of goodwill is reviewed bi-annually for impairment and written down where this is considered necessary. Impairment losses in respect of goodwill are recognised in the statement of comprehensive income and are not reversed. Where a number of related businesses acquired in the same business combination are allocated to different Group business divisions, the related goodwill is allocated to those cash generating units that expect to benefit from the synergies of the business combination. The recoverable amount of goodwill has been determined based on the various businesses' valuations, as included in Group Equity Value plus a multiple of life insurance value of new business (representing the total value in use for entities at embedded value), less the consolidated net asset value of the respective businesses. Refer to page 170 of the online Integrated Report for an analysis of Group Equity Value as well as pages 193 to 195 for valuation assumptions used.

Goodwill in respect of associated companies and joint ventures is included in the carrying value of investments in associated companies and joint ventures. Refer to note 8.2 for additional information.

R million	2019	Restated(1) 2018
Balance at beginning of the year	20 392	4 158
Gross carrying amount	20 875	4 641
Accumulated impairment	(483)	(483)
Acquired through business combinations(1)	361	16 924
Impairments	(26)	–
Disposals	(67)	(225)
Foreign currency translation differences	(1 686)	(465)
Balance at end of the year	18 974	20 392
Gross carrying amount	19 319	20 875
Accumulated impairment	(345)	(483)
Allocation of goodwill		
Life insurance	3 732	4 317
Sanlam Life and Pensions UK	356	356
MCIS Insurance	192	194
BrightRock Holdings	441	441
Saham Finances(1)	2 516	3 101
Other	227	225
Other Sanlam businesses	15 242	16 075
Goodwill held on Group level	1 198	1 198
Santam	860	851
Sanlam Investment Management	681	681
International: Investment Management	567	525
Sanlam Investments East Africa Limited	75	100
Sanlam UK (excluding Sanlam Life and Pensions UK)	450	117
Saham Finances(1)	10 816	11 962
Nucleus	459	454
Other	136	187
Balance at end of the year	18 974	20 392

(1) *Refer to note 36.3 for more information.*

Goodwill acquired through business combinations relates mainly to the acquisitions of Thesis amounting to R305 million (2018: Saham Finance, ACA Employee Benefits and Nucleus).

4. Intangible assets arising on acquisition (continued)

4.2 Value of business acquired

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

VOBA is amortised on a straight-line basis over the expected life of the client relationships underlying the book of business acquired, currently 25 years for Sanlam Developing Markets, 15 years for Channel Life, Brackenham Holdings and Sanlam Private Investments UK, 11 years for Brightrock Holdings and 10 years for MCIS Insurance, Saham Finances, Nucleus and Thesis. VOBA is tested for impairment on a bi-annual basis and written down for impairment where this is considered necessary. Where impairment events subsequently reverse, impairments are reversed up to a maximum of what the amortised cost would have been. VOBA is derecognised when the related contracts are terminated, settled or disposed of. For impairment testing purposes, the value of business acquired is allocated to cash-generating units at the lowest level of operational activity (business) to which it relates. The recoverable amount has been determined based on the various businesses' contribution to Group Equity Value, less the related net asset value. Refer to page 178 of the online Integrated Report for an analysis of Group Equity Value. The gain or loss on the disposal of a subsidiary or business includes the carrying amount of VOBA attributable to the entity or business sold.

R million	2019	Restated[1] 2018
Balance at beginning of the year	**9 553**	1 930
Foreign currency translation differences	**(412)**	(108)
Acquired through business combinations[1]	**786**	8 322
Amortisation	**(1 155)**	(545)
Disposals	**(4)**	(44)
Impairment	**–**	(2)
Balance at end of the year	**8 768**	9 553
Gross carrying amount	**12 828**	12 004
Accumulated amortisation and impairment	**(4 060)**	(2 451)
Allocation of value of business acquired		
Sanlam UK	**1 675**	1 148
Sanlam Developing Markets	**421**	415
Sanlam Emerging Markets[1]	**5 895**	7 120
Sanlam Investment Group	**222**	218
BrightRock Holdings	**304**	339
Sanlam Corporate: ACA Employee Benefits	**158**	177
Other	**93**	136
Balance at end of the year	**8 768**	9 553

[1] *Refer to note 36.3 for more information.*

VOBA acquired through business combinations relates mainly to the acquisition of Thesis (Sanlam UK), contributing R405 million (2018: Saham Finance (Sanlam Emerging Markets), Bridge Fund Managers (Sanlam Investments Group), ACA Employee Benefits (Sanlam Corporate) and Nucleus (Sanlam UK)).

5 Other intangibles

Acquired intangible assets are recognised at cost on acquisition date. Subsequent to initial recognition, these assets are reflected at their depreciated cost prices less provisions for impairment in value, where appropriate. Amortisation is provided for on a straight-line basis, taking into account the residual value and estimated useful lives . The residual values, estimated useful lives of the assets and depreciation methods are reviewed at each statement of financial position date and adjusted, as appropriate. Other intangible assets are assessed for indicators of impairment on a bi-annual basis and written down for impairment where this is considered necessary. The recoverable amount has been determined based on the various businesses' contribution to Group Equity Value, less the related net asset value. Refer to page 178 of the online Integrated Report for an analysis of Group Equity Value.

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

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

R million	2019	2018
Balance at beginning of the year	**1 082**	517
Gross carrying amount	**1 645**	949
Accumulated impairment	**(563)**	(432)
Additions during the year	**202**	105
Acquired through business combinations	**–**	684
Impairments	**(33)**	(35)
Disposals	**(64)**	(59)
Amortisation	**(250)**	(117)
Foreign currency translation differences	**(11)**	(13)
Balance at end of the year	**926**	1 082
Gross carrying amount	**1 719**	1 645
Accumulated impairment	**(793)**	(563)

6. Deferred acquisition costs

Incremental costs of obtaining investment contracts with investment management services are capitalised to a deferred acquisition cost (DAC) asset if they are separately identifiable, can be measured reliably and it is probable that they will be recovered.

DAC are amortised to the statement of comprehensive income over the term of the contracts as the related services are rendered and revenue recognised, which varies from year to year dependent on the outstanding term of the contracts in force. The DAC asset is tested for impairment bi-annually and written down when it is not expected to be fully recovered from fee income.

R million	2019	2018
Balance at beginning of the year	**3 446**	3 659
Acquisition costs capitalised	**672**	637
Acquired through business combinations	**–**	170
Expensed for the year	**(590)**	(654)
Impairment	**(13)**	–
Foreign currency translation differences	**(10)**	(4)
Derecognition[(1)]	**–**	(362)
Balance at end of the year	**3 505**	3 446

[(1)] *This relates to the derecognition of deferred acquisition costs of Glacier Financial Holdings during 2018 with a corresponding derecognition in deferred revenue liabilities. This had no impact on earnings.*

7 Long-term reinsurance assets

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

7. Long-term reinsurance assets (continued)

R million	2019	2018
Balance at beginning of the year	**1 971**	1 063
Acquired through business combinations	**–**	832
Foreign currency translation differences	**(29)**	(15)
Other movement in reinsurers' share of insurance liabilities	**100**	91
Balance at end of year	**2 042**	1 971
Maturity analysis of long-term reinsurance assets		
Due within one year	**172**	51
Due within two to five years	**832**	949
Due after more than five years	**868**	844
Open ended	**170**	127
Total long-term reinsurance assets	**2 042**	1 971

Amounts due from reinsurers in respect of claims incurred by the Group that are reinsured, are included in trade and other receivables (refer to note 11.1).

8. Investments

8.1 Properties

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

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

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

R million	Notes	2019	2018
Properties comprise:			
Office buildings		**5 857**	5 263
Retail buildings		**3 592**	3 335
Industrial buildings		**991**	954
Undeveloped land		**455**	503
International properties (situated outside South Africa)		**10 015**	10 663
Other		**655**	631
Total properties		**21 565**	21 349
Less: straight-line rental adjustment		**(165)**	(140)
Total investment properties		**21 400**	21 209
Reconciliation of carrying amount of properties			
Properties – balance at beginning of the year		**21 349**	11 505
Additions		**469**	2 165
Disposals		**(698)**	(171)
Reclassified to disposal groups classified as held for sale	32	**(2)**	(128)
Acquired through business combinations		**71**	7 446
Foreign currency translation differences		**(263)**	224
Investment surpluses		**847**	309
Transfers to owner-occupied properties		**(208)**	(1)
Properties – balance at end of the year		**21 565**	21 349

R million	2019	2018
Reconciliation of straight-line rental adjustment		
Straight-line rental adjustment – balance at beginning of the year	**140**	128
Movement for the year included in the statement of comprehensive income	**25**	12
Straight-line rental adjustment – balance at end of the year	**165**	140
Contractual future minimum lease payments receivable under non-cancellable operating leases:		
Due within one year	**939**	979
Due within two to five years	**2 060**	2 514
Due after five years	**666**	696
Future minimum lease payments	**3 665**	4 189

8.2 Investments in associates and joint ventures

Associated companies

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

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

Joint ventures

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

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

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

For impairment purposes each investment is tested for impairment individually and goodwill is not tested separately from the investment in associated companies and joint ventures, nor is any impairment allocated to any underlying assets. Impairment losses in respect of associated companies and joint ventures is based on the greater of value in use or fair value and is recognised in the statement of comprehensive income, with reversal of future periods allowed.

8. Investments (continued)

8.2 Investments in associates and joint ventures (continued)

Joint ventures (continued)

R million	Notes	2019	2018
Investments in associated companies	8.2.3	**16 690**	16 321
Shriram Capital		**7 381**	7 132
Shriram Transport Finance Company		**1 497**	1 422
Shriram General Insurance		**1 150**	1 008
Shriram Life Insurance		**501**	495
Letshego		**1 522**	1 494
Capricorn Investment Holdings		**1 097**	1 123
Pacific & Orient		**503**	651
AfroCentric		**1 043**	931
Other associated companies		**1 996**	2 065
Investments in joint ventures		**1 992**	2 040
Sanlam Personal Loans	8.2.4	**811**	819
Speqtel Investment Holdings[1]		**400**	539
Other joint ventures		**781**	682
Total investments		**18 682**	18 361

[1] *Investment is held by investment-linked life insurance funds.*

8.2.1 *Equity-accounted earnings*

R million	2019	2018
Investments in associated companies		
Shriram Capital	**1 074**	645
Shriram Transport Finance Company	**171**	153
Shriram General Insurance	**464**	96
Shriram Life Insurance	**44**	17
Saham Finances[1]	**–**	480
Letshego	**244**	138
Capricorn Investment Holdings	**115**	144
Pacific & Orient	**18**	43
AfroCentric	**112**	111
Other associated companies	**428**	391
Investments in joint ventures		
Sanlam Personal Loans	**234**	198
Other joint ventures	**85**	8
Equity-accounted earnings	**2 989**	2 424

[1] *The Group acquired the remaining interest in Saham Finances during 2018 with the investment being consolidated from the effective date. Earnings for 2018 were accounted for the period 1 January 2018 to 30 September 2018.*

8.2.2 *Impairments of equity-accounted investments*

R million	2019	2018
	337	376
Letshego[1]	**121**	229
Capricorn Investment Holdings[1]	**81**	96
Pacific & Orient[1]	**88**	–
Other	**47**	51

[1] *Lower forecasted cash flows resulted in a lower GEV valuation and the recognition of an IFRS impairment charge as a result.*

8.2.3 *Investments in associated companies*

Details of material associated companies:

R million	Shriram Capital[1] 2019	Shriram Capital[1] 2018	Shriram Transport Finance Company[1] 2019	Shriram Transport Finance Company[1] 2018
Carrying value of interest – equity method	**7 381**	7 132	**1 497**	1 422
Fair value of interest – based on internal valuation	**8 368**	9 078	**1 554**	1 812
Fair value of interest – based on quoted prices for listed businesses	**8 258**	8 482	**1 562**	1 739
Effective interest in issued share capital – shareholders' fund[2]	**26%**	26%	**3%**	3%
Summarised financial information:				
Revenue	**11 697**	9 627	**33 181**	27 127
Post-tax profit from continuing operations	**3 801**	2 689	**5 752**	5 136
Other comprehensive income/(loss)	**330**	(223)	**(9)**	–
Total comprehensive income	**4 131**	2 466	**5 743**	5 136
Assets and liabilities				
Non-current assets	**55 100**	51 498	**207 100**	216 270
Current assets	**2 467**	3 329	**8 667**	6 199
Non-current liabilities	**(23 785)**	(22 674)	**(144 209)**	(124 586)
Current liabilities	**(2 162)**	(1 934)	**(37 919)**	(67 854)
Net asset value	**31 620**	30 219	**33 639**	30 029
Non-controlling interest	**12 818**	12 070	**–**	–
Shareholders' fund	**18 802**	18 149	**33 639**	30 029
Calculated carrying value	**6 929**	6 688	**1 002**	895
Goodwill recognised in the carrying value of associate	**452**	444	**495**	527
Carrying value	**7 381**	7 132	**1 497**	1 422
Dividends received	**160**	72	**17**	14

[1] *Shriram Capital has business operations (credit, life and general insurance) mainly in India. Earnings for 2019 have been accounted for the period 1 October 2018 to 30 September 2019. The group also holds a 2,98% direct interest in Shriram Transport Finance Company (associated company of Shriram Capital).*

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

8. Investments (continued)
8.2 Equity-accounted investments (continued)
8.2.3 Investments in associated companies *(continued)*
Details of material associated companies: (continued)

	Shriram General Insurance		Shriram Life Insurance	
R million	2019	2018	2019	2018
Carrying value of interest – equity method	1 150	1 008	501	495
Fair value of interest – based on internal valuation	1 873	1 292	869	742
Effective interest in issued share capital – shareholders' fund	23%	23%	23%	23%
Summarised financial information:				
Revenue	4 455	3 778	1 802	1 558
Post-tax profit from continuing operations	1 595	707	113	55
Other comprehensive income/(loss)	422	(290)	78	–
Total comprehensive income	2 017	417	191	55
Assets and liabilities				
Non-current assets	20 104	18 671	9 274	7 988
Current assets	784	1 144	641	818
Non-current liabilities	(15 563)	(15 691)	(8 014)	(6 959)
Current liabilities	(1 307)	(704)	(538)	(549)
Net asset value	4 018	3 420	1 363	1 298
Non-controlling interest	48	49	–	–
Shareholders' fund	3 970	3 371	1 363	1 298
Calculated carrying value	913	775	314	299
Recognition of hedge on acquisition	(34)	(34)	(10)	(10)
Goodwill recognised in the carrying value of associate	271	267	197	206
Carrying value	1 150	1 008	501	495
Dividends received	225	70	11	7

R million	Letshego[3] 2019	Letshego[3] 2018	Capricorn Investment Holdings[4] 2019	Capricorn Investment Holdings[4] 2018
Carrying value of interest – equity method	**1 522**	1 494	**1 097**	1 123
Fair value of interest – based on internal valuation	**1 581**	1 494	**1 097**	1 123
Fair value of interest – based on quoted prices for listed businesses	**570**	1 246	**1 097**	1 108
Effective interest in issued share capital – shareholders' fund	**28%**	26%	**23%**	23%
Summarised financial information:				
Revenue	**3 794**	3 438	**569**	658
Post-tax profit from continuing operations	**967**	733	**489**	617
Other comprehensive income	**–**	–	**7**	3
Total comprehensive income	**967**	733	**496**	620
Assets and liabilities				
Non-current assets	**683**	695	**4 102**	4 232
Current assets	**13 888**	13 933	**1 125**	1 108
Non-current liabilities	**(7 273)**	(8 165)	**(500)**	(501)
Current liabilities	**(1 135)**	(914)	**(2)**	(1)
Net asset value	**6 163**	5 549	**4 725**	4 838
Non-controlling interest	**501**	608	**–**	–
Shareholders' fund	**5 662**	4 941	**4 725**	4 838
Calculated carrying value	**1 500**	1 293	**1 097**	1 123
Goodwill recognised in the carrying value of associate	**22**	201	**–**	–
Carrying value	**1 522**	1 494	**1 097**	1 123
Dividends received	**58**	161	**56**	46

(3) *The Group holds a 28% (2018: 26,17%) interest in Letshego, a listed retail credit business in Botswana.*

(4) *The Group holds a 23,21% interest in Capricorn Investment Holdings, an investment company in Namibia.*

8. Investments (continued)

8.2 Equity-accounted investments (continued)

8.2.3 Investments in associated companies (continued)

Details of material associated companies: (continued)

R million	Pacific & Orient[5] 2019	Pacific & Orient[5] 2018[7]	AfroCentric Health[6], [8] 2019	AfroCentric Health[6], [8] 2018
Carrying value of interest – equity method	**503**	651	**1 043**	931
Fair value of interest – based on internal valuation	**499**	677	**683**	962
Effective interest in issued share capital – shareholders' fund	**49%**	49%	**29%**	29%
Summarised financial information:				
Revenue	**972**	904	**6 181**	4 468
Post-tax profit from continuing operations	**36**	43	**390**	386
Other comprehensive income/(loss)	**3**	(8)	**-**	–
Total comprehensive income	**39**	35	**390**	386
Assets and liabilities				
Non-current assets	**2 545**	2 435	**3 406**	2 435
Current assets	**317**	592	**1 164**	741
Non-current liabilities[7]	**(2 041)**	(2 076)	**(737)**	(170)
Current liabilities[7]	**(72)**	(77)	**(889)**	(458)
Net asset value	**749**	874	**2 944**	2 548
Non-controlling interest	**–**	–	**54**	50
Shareholders' fund	**749**	874	**2 890**	2 498
Calculated carrying value	**367**	429	**829**	717
Goodwill recognised in the carrying value of associate	**136**	222	**214**	214
Carrying value	**503**	651	**1 043**	931
Dividends received	**77**	58	**–**	48

(5) *The Group holds a 49% interest in Pacific & Orient Insurance Co. Berhad, a niche general insurance business in Malaysia.*
(6) *The Group holds a 28,7% interest in ACT HealthCare Assets (Pty) Limited, a health administration and health risk management company.*
(7) *The prior year liabilities have been reclassified from current to non-current liabilities of R2 076 million. This has no impact on the Statement of Financial Position, Statement of Comprehensive Income or Statement of Changes in Equity.*
(8) *AfroCentric Health's value in use is higher than the carrying value.*

Details of immaterial associated companies:

R million	2019	2018
Post-tax profit from continuing operations	**428**	391
Total comprehensive income	**428**	391

8.2.4 *Investments in joint companies*

Details of material joint ventures:

R million	Sanlam Personal Loans[1] 2019	Sanlam Personal Loans[1] 2018
Carrying value of interest – equity method	**811**	819
Fair value of interest – based on internal valuation	**1 496**	1 394
Effective interest in issued share capital: Class A	**70%**	70%
Summarised financial information:		
Non-current assets	**3 944**	3 338
Current assets	**1 208**	1 235
Cash and cash equivalents	**83**	74
Other current assets	**1 125**	1 161
Non-current liabilities	**(2 193)**	(1 513)
Current liabilities	**(1 777)**	(1 866)
Trade and other payables	**(32)**	(29)
Short-term borrowings	**(1 745)**	(1 837)
Net asset value attributable to class B shares	**(23)**	(24)
Total Equity	**1 159**	1 170
Calculated carrying value	**811**	819
Revenue	**185**	90
Interest income	**1 175**	1 116
Interest expense	**(319)**	(305)
Taxation	**(104)**	(110)
Admin expenses excluding depreciation	**(679)**	(551)
Post-tax profit from continuing operations	**258**	240
Total comprehensive income	**258**	240
Dividends received	**194**	5

[1] *The Group holds a 70% interest in Sanlam Personal Loans, a jointly controlled entity in the personal loans business in South Africa.*

Details of individually immaterial joint ventures:

R million	2019	2018
Post-tax profit from continuing operations	**85**	8
Total comprehensive income	**85**	8

8. Investments (continued)

8.3 Other investments

Other investments comprise:

- Equities and similar securities;
- Interest-bearing investments;
- Structured transactions (including non-trading derivatives);
- Investment funds; and
- 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. Loans of investment scrip are not treated as sales and purchases.

Structured transactions

Structured transactions include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, derivatives, structured notes (including equity linked notes), collateralised securities, credit default 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 Group uses valuation techniques that incorporate factors that market participants would consider in setting the price and are consistent with accepted economic methodologies for pricing derivatives such as discounted cash flow models and option pricing models, as appropriate. The Group calibrates its valuation techniques against market transactions or any available observable market data. Day one gains or losses on structured transactions measured using these valuation techniques are recognised in the statement of comprehensive income to the extent that they arise from a technique that incorporates only variables based on observable market data and there has been a change in one of these variables (including time). If there has been no change in one of these variables, the gains or losses are deferred, and recognised in the statement of comprehensive income over the life of the instrument.

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

Derivatives are used for trading purposes by Sanlam Capital Markets and for non-trading purposes by other Group businesses. The fair values related to trading derivatives are included in trade and other receivables and the fair values of non-trading derivatives are included in the structured transactions. Non-trading transactions are those which are held for accounting and economic hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions or cash flows measured at fair value, as well as structures incorporated in the product design of policyholder products.

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

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.

8.3.1 Equities and similar securities

R million	2019	2018
Equities and similar securities comprise:		
Listed on the JSE – at market value	**55 347**	51 711
Unlisted – at directors' valuation	**3 639**	2 534
Offshore equity investments	**26 054**	24 860
Listed – at market value	**23 841**	21 972
Unlisted – at directors' valuation	**2 213**	2 888
Equities held by consolidated investment funds	**116 461**	105 682
Total equities and similar securities	**201 501**	184 787
Classification of equities and similar securities		
Mandatorily measured at fair value through profit or loss	**201 501**	184 787
Total equities and similar securities	**201 501**	184 787

R million	2019	2018
Spread of equities listed on the JSE by sector	**%**	**%**
Consumer services	**8,2**	26,4
Consumer goods	**8,8**	8,5
Financials	**26,2**	26,7
Basic materials	**23,5**	20,3
General industrials	**3,3**	6,0
Telecommunications	**3,6**	4,8
Healthcare	**3,0**	3,6
Information technology	**19,1**	0,5
Property	**0,1**	0,1
Other	**4,2**	3,1
	100,0	100,0

8. Investments (continued)

8.3 Other investments (continued)

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

R million	Designated as at fair value through profit or loss[1]	Mandatorily measured at fair value through profit or loss
31 December 2019		
Interest-bearing investments	**225 765**	**–**
Government interest-bearing investments	**70 631**	**–**
Corporate interest-bearing investments	**135 575**	**–**
Other interest-bearing investments	**19 559**	**–**
Structured transactions	**4 624**	**18 466**
Investment funds	**–**	**222 141**
Cash, deposits and similar securities	**48 504**	**–**
Total	**278 893**	**240 607**
Structured transaction liabilities	**–**	**19 272**
31 December 2018 (Restated)		
Interest-bearing investments	204 823	–
Government interest-bearing investments	62 525	–
Corporate interest-bearing investments	126 537	–
Other interest-bearing investments	15 761	–
Structured transactions	3 092	18 249
Investment funds	–	190 005
Cash, deposits and similar securities[3]	41 897	–
Total	249 812	208 254
Structured transaction liabilities	–	15 629

(1) *The amount of change, during the period and cumulatively, in the fair value through profit or loss that is attributable to change in the credit risk of the financial asset is determined as the change triggered by factors other than changes in benchmark interest rate. The impact of changes in credit risk for 2019 and 2018 was not material. For financial assets designated at fair value through profit or loss, the maximum exposure to credit risk is equivalent to the carrying amount of the financial asset.*

(2) *The estimated fair value of investments valued at amortised cost amounts to R9 474 million (2018: R8 181 million). These are classified as level 2 instruments and the valuation is based on discounted cash flows.*

(3) *Cash, deposits and similar securities to the amount of R1 234 million has been incorrectly classified as Designated at fair value through profit or loss in the 2018 Annual Financial Statements and has been adjusted to correctly reflect at amortised cost. This had no impact on the Statement of Financial position, Statement of Comprehensive Income or the Statement of Changes in Equity.*

Total fair value	Amortised Cost Gross	Expected credit loss allowance for financial assets at amortised cost	Amortised Cost Net[(2)]	Total
225 765	**9 126**	**(382)**	**8 744**	**234 509**
70 631	**3 018**	**(177)**	**2 841**	**73 472**
135 575	**4 712**	**(19)**	**4 693**	**140 268**
19 559	**1 396**	**(186)**	**1 210**	**20 769**
23 090	**–**	**–**	**–**	**23 090**
222 141	**–**	**–**	**–**	**222 141**
48 504	**1 238**	**(235)**	**1 003**	**49 507**
519 500	**10 364**	**(617)**	**9 747**	**529 247**
19 272	**–**	**–**	**–**	**19 272**
204 823	7 143	(196)	6 947	211 770
62 525	2 033	–	2 033	64 558
126 537	3 672	(12)	3 660	130 197
15 761	1 438	(184)	1 254	17 015
21 341	–	–	–	21 341
190 005	–	–	–	190 005
41 897	1 234[(3)]	–	1 234	43 131
458 066	8 377	(196)	8 181	466 247
15 629	–	–	–	15 629

8. Investments (continued)

8.3 Other investments (continued)

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

Reconciliation of expected credit losses

R million	2019 12-month ECL	2019 Lifetime ECL (not credit impaired)	2019 Lifetime ECL (credit impaired)[1]	2019 Total ECL
Cash, deposits and similar securities				
Balance at the beginning of year	–	–	–	–
Net remeasurement of loss allowance[1]	12	–	224	236
Foreign currency translation differences	(1)	–	–	(1)
Balance at the end of the year	11	–	224	235
Government interest-bearing investments				
Balance at the beginning of year	–	–	–	–
Net remeasurement of loss allowance[1]	77	–	102	179
Foreign currency translation differences	(2)	–	–	(2)
Balance at the end of the year	75	–	102	177
Corporate interest-bearing investments				
Balance at the beginning of year	12	–	–	12
Net remeasurement of loss allowance[1]	(7)	–	14	7
Balance at the end of the year	5	–	14	19
Other interest-bearing investments				
Balance at the beginning of year	167	14	3	184
Net remeasurement of loss allowance	18	(13)	–	5
Foreign currency translation differences	(3)	–	–	(3)
Balance at the end of the year	182	1	3	186

[1] The significant increase in Lifetime ECL (credit impaired) net remeasurement of loss allowance mainly relates to write-offs as result of significant increase in credit risk since initial recognition of the financial instruments held by the Group due to the economic environment and the downgrade of the Lebanese sovereign credit rating by the 3 major rating agencies.

R million	2018 12-month ECL	2018 Lifetime ECL (not credit impaired)	2018 Lifetime ECL (credit impaired)	2018 Total ECL
Corporate interest-bearing investments				
Balance at the beginning of year	–	–	–	–
IFRS transitional adjustments	11	–	–	11
Net remeasurement of loss allowance	1	–	–	1
Balance at the end of the year	12	–	–	12
Other interest bearing investments				
Balance at the beginning of year	–	–	–	–
IFRS transitional adjustments	169	–	–	169
Net remeasurement of loss allowance	(2)	14	3	15
Balance at the end of the year	167	14	3	184

Interest bearing investments that are rated between AAA and BBB are considered to have a lower credit risk at the reporting date and the loss allowance is therefore measured at an amount equal to the 12 month expected credit losses. At the reporting date, the credit risk of interest bearing investments rated between BB and CCC have significantly increased since initial recognition and the loss allowance is therefore measured at an amount equal to lifetime expected credit losses. The impairment model is based on the study of historical data and forward-looking information. The probabilities of default and the loss given default are extracted from the reports published by the rating agencies annually. When the issuer's rating deteriorates significantly it is indicative of a significant increase in credit risk since initial recognition.

Maturity analysis

R million	<1 year	1 – 5 years	>5 years	On demand	Total
31 December 2019					
Interest-bearing investments	**33 112**	**106 251**	**93 765**	**1 381**	**234 509**
Government interest-bearing investments	**3 985**	**10 368**	**59 119**	**–**	**73 472**
Corporate interest-bearing investments	**24 341**	**85 318**	**30 154**	**455**	**140 268**
Other interest-bearing investments	**4 786**	**10 565**	**4 492**	**926**	**20 769**
Structured transactions	**15 331**	**5 398**	**2 361**	**–**	**23 090**
Investment funds	**–**	**–**	**–**	**222 141**	**222 141**
Cash, deposits and similar securities	**37 345**	**11 952**	**210**	**–**	**49 507**
Total	**85 788**	**123 601**	**96 336**	**223 522**	**529 247**
Structured Transaction liabilities – Present value	**17 490**	**935**	**847**	**–**	**19 272**
31 December 2018 (Restated)[(1)]					
Interest-bearing investments	22 742	102 582	85 246	1 200	211 770
Government interest-bearing investments[(1)]	4 661	8 748	51 149	–	64 558
Corporate interest-bearing investments[(1)]	15 089	84 803	30 143	162	130 197
Other interest-bearing investments[(1)]	2 992	9 031	3 954	1 038	17 015
Structured transactions[(1)]	10 446	7 270	3 625	–	21 341
Investment funds	–	–	–	190 005	190 005
Cash, deposits and similar securities[(1)]	30 004	12 902	225	–	43 131
Total	63 192	122 754	89 096	191 205	466 247
Structured Transaction liabilities – Present value[(1)]	12 800	2 329	500	–	15 629

(1) *The IFRS 10 consolidated investments funds' underlying investments have been reclassified from 'On demand' to its respective maturity buckets. There was no impact on the Statement of Financial Position, Statement of Comprehensive Income or Statement of Changes in Equity.*

8.4 Investment return

Investment income

Investment income includes interest, net rental income and dividend income. 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.

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

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

8. Investments (continued)

8.4 Investment return (continued)

Investment surpluses

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

R million	2019	2018
Investment income		
Equities and similar securities	**13 198**	12 307
Interest-bearing, preference shares and similar securities	**18 711**	17 831
Properties	**1 110**	867
Rental income – excluding contingent rental	**1 066**	895
Contingent rental income	**222**	120
Rental related expenses	**(178)**	(148)
(Loss)/Income from margin business[1]	**(16)**	203
Total investment income	**33 003**	31 208
Interest income on financial assets measured at amortised cost	**354**	131
Interest expense for financial liabilities measured at amortised cost	**196**	10
Investment surpluses		
Financial assets	**37 159**	(17 846)
Financial assets designated as at fair value through profit or loss	**9 154**	10 508
Financial assets mandatorily measured at fair value through profit or loss	**28 005**	(28 355)
Financial assets measured at amortised cost	**–**	1
Financial liabilities	**5 066**	(2 022)
Financial liabilities designated as at fair value through profit or loss	**5 066**	(2 022)
Investment properties	**847**	309
(Loss)/profit on disposal of subsidiaries, associated companies and operations	**(8)**	3 112
Total investment surpluses	**43 064**	(16 447)
Investment return includes:		
Foreign exchange (losses)/gains	**(510)**	5 944

[1] *Refer to note 22 for finance cost incurred in respect of margin business.*

R million	2019	2018
Financial assets measured at amortised cost		
Gains on derecognition of financial assets measured at amortised cost	**1**	4
Losses on derecognition of financial assets measured at amortised cost	**(4)**	(3)

8.5 Use of valuation techniques to determine fair value

Refer to note 33 for additional disclosures.

9. Taxation

9.1 Deferred tax

Deferred tax

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

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

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

Normal tax

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

R million	Income tax	Capital gains tax
Reconciliation of the deferred tax balances:		
Balance at 1 January 2018	1 982	(2 334)
Temporary differences credited/(charged) to the statement of comprehensive income	(56)	936
Accruals and provisions	160	–
Tax losses and credits	(530)	(4)
Net unrealised investment surpluses on shareholders' fund	165	301
Net unrealised investment surpluses on policyholders' fund	8	542
Other temporary differences	141	97
Acquisition of subsidiaries(1)	(3 112)	(475)
Foreign currency translation differences	(48)	(5)
Disposal of subsidiaries	(27)	36
Balance at 31 December 2018 (Restated)	(1 261)	(1 842)
Temporary differences charged to the statement of comprehensive income	**(122)**	**(584)**
Accruals and provisions	**(10)**	**(10)**
Tax losses and credits	**33**	**2**
Net unrealised investment surpluses on shareholders' fund	**52**	**87**
Net unrealised investment surpluses on policyholders' fund	**(45)**	**(555)**
Leases	**(3)**	**–**
Other temporary differences	**(149)**	**(108)**
Acquisition of subsidiaries	**(299)**	**–**
Disposal of subsidiaries	**(9)**	**–**
Foreign currency translation differences	**215**	**8**
Balance at 31 December 2019	**(1 476)**	**(2 418)**

(1) *Refer to note 36.3 for more information.*

9. Taxation (continued)

9.1 Deferred tax (continued)

R million	Income tax	Capital gains tax
Analysis of deferred tax balances at 31 December 2019	**(1 476)**	**(2 418)**
Accruals and provisions	**(283)**	**(550)**
Tax losses and credits	**1 494**	**87**
Unrealised gains/losses on shareholders' fund	**366**	**(809)**
Unrealised gains/losses on policyholders' fund	**(47)**	**(947)**
Leases	**(3)**	**–**
Intangible assets	**(2 217)**	**7**
Other temporary differences	**(786)**	**(206)**
Analysis of deferred tax balances at 31 December 2018 (Restated)	(1 261)	(1 842)
Accruals and provisions	(302)	(552)
Tax losses and credits	1 475	87
Unrealised gains/losses on shareholders' fund	289	(898)
Unrealised gains/losses on policyholders' fund	(3)	(392)
Intangible assets[1]	(2 107)[1]	(42)
Other temporary differences	(613)	(45)

R million	2019	Restated 2018
Total deferred tax asset recognised	**1 872**	2 249
Total deferred tax liability recognised[1]	**(5 766)**	(5 352)[1]
Total net deferred tax	**(3 894)**	(3 103)

[1] *Refer to note 36.3 for more information.*

9.2 Income tax

Analysis of income tax per category

	Normal income tax		Deferred tax		Total	
R million	2019	2018	2019	2018	2019	2018
RSA – current year	**3 234**	2 890	**116**	291	**3 350**	3 181
RSA – prior year	**24**	(1)	**(16)**	(10)	**8**	(11)
Dividends Tax – Policyholders	**125**	129	**–**	–	**125**	129
Foreign	**1 336**	877	**26**	(225)	**1 362**	652
Capital gains tax	**328**	1 149	**583**	(936)	**911**	213
Tax expense	**5 047**	5 044	**709**	(880)	**5 756**	4 164
Shareholders' fund					**4 017**	3 510
Policyholders' fund					**1 739**	654
Tax expense					**5 756**	4 164

R million	2019	2018
In addition to income tax the following indirect taxes and levies were paid, which are included in the appropriate items:		
Included in administration costs	**494**	436
Included elsewhere in profit for the year	**112**	124
Total indirect taxes and levies	**606**	560

Indirect taxes and levies include value-added tax and statutory levies payable to the Prudential Authority.

9.2 Income tax (continued)

%	2019	2018
Standard rate of taxation	**28,0**	28,0
Adjusted for:		
Non-taxable income	**(6,8)**	(4,5)
Disallowable expenses	**8,6**	2,7
Utilisation of assessed losses[(1)]	**–**	1,4
Investment surpluses	**(1,9)**	(6,3)
Foreign tax rate differential	**(1,1)**	0,1
Policyholders	**8,8**	2,8
Other fund transfers	**2,4**	(0,2)
Prior year adjustment	**(0,3)**	(0,2)
Other	**1,8**	0,7
Effective tax rate	**39,5**	24,5

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

(1) *This reconciling item is as a result of assessed losses recognised relating to policyholder funds.*

10 General insurance technical provisions

Outstanding claims

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

Unearned premiums

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

General insurance technical assets

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

Salvage and subrogation reimbursements

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

10. General insurance technical provisions (continued)

R million	2019	Restated 2018
General insurance technical provisions	**41 332**	38 033
Outstanding claims[(1)]	**26 455**	24 789
Provision for unearned premiums	**14 370**	12 799
Deferred reinsurance acquisition revenue	**507**	445
Less: General insurance technical assets		
Reinsurers' share of technical provisions	**10 166**	9 540
Outstanding claims	**6 841**	6 538
Unearned premiums	**2 552**	2 345
Deferred acquisition cost	**773**	657
Net general insurance technical provisions	**31 166**	28 493

Analysis of movement in general insurance technical provisions

	2019			2018 Restated		
R million	**Gross**	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Outstanding claims						
Balance at beginning of the year	**24 789**	**(6 538)**	**18 251**	11 005	(4 416)	6 589
Cash paid for claims settled in the year	**(19 499)**	**3 934**	**(15 565)**	(18 180)	3 566	(14 614)
Increase in liabilities[(1)]	**21 663**	**(4 883)**	**16 780**	18 557[(1)]	(4 322)	14 235
Acquired through business combinations	**2**	**–**	**2**	13 611	(1 904)	11 707
Disposal of subsidiaries	**(23)**	**–**	**(23)**	–	–	–
Foreign currency translation difference	**(477)**	**117**	**(360)**	(204)	140	(64)
Other movements: transfer to cell owners	**–**	**529**	**529**	–	398	398
Balance at end of the year	**26 455**	**(6 841)**	**19 614**	24 789	(6 538)	18 251
Unearned premiums						
Balance at beginning of the year	**12 799**	**(2 345)**	**10 454**	7 335	(1 430)	5 905
Net increase/(release) in the period	**1 658**	**(737)**	**921**	1 564	(610)	954
Acquired through business combinations	**224**	**(1)**	**223**	3 875	(758)	3 117
Disposal of subsidiaries	**(2)**	**–**	**(2)**	–	–	–
Foreign currency translation difference	**(309)**	**137**	**(172)**	25	(36)	(11)
Other movements: transfer to cell owners	**–**	**394**	**394**	–	489	489
Balance at end of the year	**14 370**	**(2 552)**	**11 818**	12 799	(2 345)	10 454

(1) *Refer to note 36.3 for more information.*

11. Trade receivables and payables

11.1 Trade and other receivables

Trade and other receivables are measured in accordance with the classification categories below.

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

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.

Contract receivables are recognised when performance obligations are complete, but the compensation has not yet been received. Contract receivables are unconditional rights to consideration. A right to consideration is unconditional if only the passage of time is required before payment becomes due. Contract receivables are presented separately from contract assets and cannot be netted off against contract liabilities.

R million	2019					
	Fair value	Gross amortised cost	ECL on financial assets at amortised cost	Net amortised cost	Non-financial instrument[2]	Total
Trading account	9 541	9	–	9	–	9 550
Accounts receivable	2	16 325	(333)	15 992	635	16 629
Premiums receivable	–	13 082	(1 372)	11 710	–	11 710
Accrued investment income	2 798	1 057	–	1 057	–	3 855
Amounts due from reinsurers	–	3 703	–	3 703	–	3 703
Contract receivables	–	727	–	727	–	727
Contract assets	–	6	–	6	–	6
Total trade and other receivables	**12 341**	**34 909**	**(1 705)**	**33 204**	**635**	**46 180**

R million	2018 Restated					
	Fair value	Gross amortised cost	ECL on financial assets at amortised cost	Net amortised cost	Non-financial instrument[2], [3]	Total
Trading account[4]	10 176[4]	–	–	–	–	10 176
Accounts receivable[3], [4]	53	15 674[4]	(1 247)	14 427	1 020[3]	15 500
Premiums receivable	–	11 833	(341)	11 492	–	11 492
Accrued investment income	1 672	1 029	–	1 029	–	2 701
Amounts due from reinsurers	–	3 055	(13)	3 042	–	3 042
Contract receivables	–	742	–	742	–	742
Total trade and other receivables	11 901	32 333	(1 601)	30 732	1 020	43 653

R million	2019	Restated 2018
Classification of trade and other receivables:		
Mandatorily measured at fair value through profit or loss[4]	9 562	10 176
Designated at fair value through profit or loss[1]	2 779	1 725
Amortised cost[4]	33 204	30 732
Non-financial instrument[2]	635	1 020
	46 180	43 653

Trade and other receivables, excluding trading account, are receivable within one year. The estimated fair value of receivables at amortised cost approximate the carrying value. This valuation is based on a discounted cash flows and is classified as level 3.

[1] *The amount of change, during the period and cumulatively, in the fair value of financial assets designated at fair value through profit or loss 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 the benchmark rate. The impact of the changes in credit risk for 2019 and 2018 was not material.*

[2] *Non-financial instruments refer to prepaid expenses.*

[3] *Taxation receivable was previously included in trade and other receivables. The amount is now separately disclosed in the statement of financial position (2018: R1 059 million).*

[4] *Trading account assets to the amount of R4 607 million was incorrectly classified in the 2018 Annual Financial Statements and has been reclassified to Accounts receivable in the comparative note for the current financial year. It was also reclassified from Mandatorily measured at fair value through profit or loss to Amortised cost. The maturity analysis of the trading account assets have been amended accordingly. This had no impact on the Statements of Financial position, Comprehensive Income for the current or prior year or changes in equity.*

11. Trade receivables and payables (continued)
11.1 Trade and other receivables (continued)

R million	2019	Restated 2018
Maturity analysis of trading account – fair value		
Due within one year	2 598	2 660
Due within two to five years	3 826	3 703
Due after five years	2 620	2 928
On demand	497	885
Total trading account	9 541	10 176
Maturity analysis of trading account – undiscounted		
Due within one year	4 003	4 663
Due within two to five years	3 500	3 579
Due after five years	5 182	5 361
On demand	497	885
Total trading account	13 182	14 488
Reconciliation of contract receivables		
Balance at the beginning of the year	742	–
IFRS transitional reclassification[(1)]	–	619
Revenue recognised in the current reporting period[(2)]	15 407	12 619
Consideration received	(15 379)	(12 562)
Acquisition of subsidiaries	8	66
Impairments	(19)	–
Foreign currency translation reserve	(32)	–
Balance at the end of the year	727	742

(1) *With the adoption of IFRS 15, contract receivables (previously disclosed as accounts receivable) are now disclosed separately.*
(2) *Refer to note 18 for the disaggregation of revenue recognised in accordance with IFRS 15.*

R million	2019	Restated 2018
Reconciliation of expected credit losses		
Accounts receivable		
Balance at the beginning of year	342	–
IFRS transitional adjustments	–	82
Acquired through business combination[(3)]	–	291
Net remeasurement of loss allowance	18	(33)
Foreign currency translation differences	(27)	2
Balance at the end of the year	333	342
Premiums receivable		
Balance at the beginning of year	1 246	–
IFRS transitional adjustments	–	286
Acquired through business combinations[(3)]	–	905
Net remeasurement of loss allowance	145	50
Foreign currency translation differences	(19)	5
Balance at the end of the year	1 372	1 246
Amounts due from reinsurers		
Balance at the beginning of year	13	–
Net remeasurement of loss allowance	(13)	13
Balance at the end of the year	–	13

(3) *An amount of R905 million has been reclassified from Accounts receivable to Premiums receivable in the comparative note for the current financial year. This had no impact on the Statement of Financial position, Comprehensive Income for the current or prior year or changes in equity.*

General insurance related receivables:

Santam:

Provisions for impairment are based on the recoverability of individual loans and receivables. The impairment model is based on the study of historical data and the forward-looking information.

It is considered that there is evidence of impairment if any of the following indicators are present: Significant financial difficulties, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue). The loss rates are adjusted to reflect current and forward looking information on macro-economic factors, such as the socio-economic environment affecting the ability of the debtors to settle the receivables.

Saham Finances:

A provision matrix based on historical default rates adjusted for forward-looking information is used to estimate the amount of expected losses on receivables.

Unpaid premiums (excluding litigations) is analysed by homogeneous risk classes. Annual recovery rates are then estimated by homogeneous class of risk and seniority.

Expected recoveries are determined by applying the estimated recovery rates and then discounted accordingly. The expected credit losses comprise of the difference between the unpaid premiums and the sum of the discounted cash flows.

Contentious premiums and significant individual receivables are analysed on a case-by-case basis.

Other receivables:

Expected credit losses have been provided for as follows:

Premiums receivable: 100% of premiums receivable which has been outstanding for longer than 30 days.

Commission receivable (including accounts receivable):

- 50% of commission receivable in respect of active agents;
- 50% of commission receivable in respect of active sales representatives;
- 100% of commission receivable in respect of inactive sales representatives; and
- Broker commission receivable is based on the debtors of which the 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 net present value of unearned commission
  - 100% of the outstanding amount for terminated brokers with high risk assessment as determined by broker support.

11.2 Trade and other payables

Trade and other payables are measured in accordance with the classification categories below (refer to the description on the measurement of trading account assets in the accounting policy note for trade and other receivables, which also applies to trading account liabilities, adjusted for non-performance risk). Trading account liabilities consists of borrowings in terms of the commercial paper program to fund the activities in the Group, repurchase agreements which fund the long bond positions and which are also used as a source of funding using borrowed bond scrip, CSA collateral and margin received from clients or counterparties, short bond and equity positions and interest rate and equity derivative liabilities.

Life insurance policy claims recorded up to the last day of each financial period and claims incurred but not yet reported (IBNR) are included as part of trade and other payables (refer to note 15.5).

11. Trade receivables and payables (continued)

11.2 Trade and other payables (continued)

R million	2019	Restated 2018
Trading account[4]	12 012	11 987
Accounts payable[4]	30 880	25 488
Accrued interest payable[5]	662	97
Policy benefits payable	6 063	5 291
Amounts due to reinsurers	4 487	5 017
Bank overdrafts	2 031	964
Contract liabilities	1	–
Claims incurred but not reported	1 893	1 808
Operating lease creditor	33	109
Total trade and other payables	**58 062**	50 761
Classification of trade and other payables:		
Mandatorily measured at fair value through profit or loss[3], [4]	2 823	1 224
Designated at fair value through profit or loss[1], [3]	9 503	10 912
Other payables at amortised cost[4]	41 869	34 510
Non-financial instruments[2]	3 867	4 115
Total trade and other payables	**58 062**	50 761

Trade and other payables, excluding trading account, are payable within one year. The estimated fair value of other payables at amortised cost approximates the carrying value. The valuation is based on discounted cash flows and is classified as level 3.

[1] *For trade and other payables designated at fair value through profit or loss, the amount contractually payable at maturity is equivalent to the carrying amount of the financial liability.*

[2] *Non-financial instruments include amounts due to intermediaries, leave pay accrual, operating lease creditors, income received in advance and claims incurred but not reported.*

[3] *Trading account payables to the value of R10 763 million was previously included in Mandatorily measured at fair value through profit or loss. It has been reallocated to Designated at fair value through profit or loss.*

[4] *Trading account payables to the amount of R4 547 million was incorrectly classified in the 2018 Annual Financial Statements and has been reclassified to Accounts payable in the comparative note for the current financial year. It was also reclassified from Mandatorily measured at fair value through profit or loss to Amortised cost. The maturity analysis of the trading account payables has been amended accordingly. This had no impact on the Statement of Financial position, Statement of Comprehensive Income or Statement of Changes in Equity for the current or prior year.*

[5] *Accrued interest payable previously disclosed under Accounts payable is now separately presented in Trade and other payables.*

R million	2019	2018
Maturity analysis of trading account – fair value		
Due within one year	11 166	10 833
Due within two to five years	785	878
Due after five years	61	276
Total trading account	**12 012**	11 987
Maturity analysis of trading account – undiscounted		
Due within one year	11 312	10 954
Due within two to five years	874	983
Due after five years	4	383
Total	**12 190**	12 320

12. Share capital and premium

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

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

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

		2019	2018
Authorised share capital			
4 000 million ordinary shares of 1 cent each	R million	**40,0**	40,0
Issued share capital: ordinary shares			
Total shares in issue at beginning of the year	million	**2 232,0**	2 166,5
Shares issued during the year	million	**111,3**	65,5
Total shares in issue at end of the year[1]	million	**2 343,3**	2 232,0
Shares held by subsidiaries	million	**(274,2)**	(161,6)
Balance at end of the year	million	**2 069,1**	2 070,4
% of ordinary shares held by subsidiaries		**11,7%**	7,2%
Nominal value and share premium			
Nominal value of 1 cent per share	R million	**23,5**	22,3
Share premium	R million	**13 428,1**	5 634,8
Total nominal value and share premium	R million	**13 451,6**	5 657,1

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

(1) *Refer to the Analysis of shareholders on page 234 of the online Integrated Report for information on the distribution of shareholders (which has been audited).*

	Shares 2019 000s	Shares 2018 000s
Executive share incentive scheme[1]		
Total number of shares at beginning of the year	**23 419**	23 154
Unrestricted shares at beginning of the year	**(309)**	(603)
Restricted shares at beginning of the year	**23 110**	22 551
New restricted shares granted in terms of restricted share and deferred share plan schemes	**6 861**	6 230
Unconditional shares released, available for release, or taken up	**(4 370)**	(4 754)
Options and shares forfeited/transferred to new scheme	**(1 149)**	(917)
Restricted shares at end of the year	**24 452**	23 110
Unrestricted shares at end of the year[2]	**283**	309
Total equity participation by employees[3]	**24 735**	23 419

	2019	2018
Total equity participation by employees as a percentage of total issued ordinary shares	**1,1%**	1,0%
Approved maximum level of equity participation by employees (number of shares)	**160 000**	160 000

(1) *Refer to Remuneration Report online for further details of the schemes.*
(2) *372 715 shares became unrestricted during 2019 (2018: 317 920) in respect of the Restricted Share Plan.*
(3) *Refer to the online Remuneration Report on page 41 where the directors' interests in contracts and interests of directors and officers in share capital and changes in directors are disclosed (which have been audited).*

12. Share capital and premium (continued)

Details regarding the restricted shares outstanding on 31 December 2019 and the financial years during which they become unconditional, are as follows:

Unrestricted during year ending (subject to performance targets)	Number of shares 000s
31 December 2020	5 468
31 December 2021	5 245
31 December 2022	7 861
31 December 2023	3 393
31 December 2024	2 485
Total unrestricted shares	24 452

A total of 6,9 million (2018: 6,2 million) restricted shares were granted to staff and executive directors during 2019. The fair value of the grants on grant date, calculated in terms of IFRS 2, amounted to R434 million (2018: R427 million) and is expensed in the statement of comprehensive income over the vesting period of up to five years. The fair value is based on the Sanlam share price on grant date, adjusted for dividends not accruing to participants during the vesting period.

13. Other reserves

Non-distributable reserve

The reserve comprises the pre-acquisition reserve arising upon the demutualisation of Sanlam Life Insurance Limited and the regulatory non-distributable reserves of the Group's Botswana, as well as Kenya, Malaysia and Saham operations.

Foreign currency translation reserve

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

Cash flow hedge reserve

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

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

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

Consolidation reserve

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

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

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

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

R million	2019	2018
Non-distributable reserves	**9 979**	10 154
Pre-acquisition reserves upon demutualisation of Sanlam Life Insurance Limited	**9 414**	9 415
Regulatory reserves	**565**	739
Foreign currency translation reserve	**(2 642)**	1 210
Consolidation reserve	**(9 196)**	(869)
Policyholder fund investments in consolidated subsidiaries	**(5)**	(90)
Tax benefit in respect of the individual policyholders' tax fund (IPF) tax losses	**647**	1 017
Policyholder fund investment in Sanlam Limited shares	**(9 838)**	(1 796)
Total reserves other than retained earnings	**(1 859)**	10 495

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

14. Non-controlling interest

R million	2019	2018
Santam	**4 006**	3 523
Sanlam Emerging Markets	**7 277**	7 616
Botswana Insurance Holdings	**1 580**	1 506
MCIS Insurance	**679**	700
Sanlam Namibia Holdings	**214**	228
Saham	**4 588**	4 965
Saham Assurance Maroc	**2 886**	2 987
Other	**1 702**	1 978
Other	**216**	217
Sanlam Personal Finance: BrightRock Holdings	**139**	156
Sanlam UK: Nucleus Financial Group	**593**	597
Other	**12**	151
Non-controlling shareholders' interest	**12 027**	12 043
Non-controlling policyholders' interest	**16**	68
Total non-controlling interest	**12 043**	12 111

For additional financial information for subsidiaries with significant non-controlling interest refer to page 148.

15. Long-term policy liabilities

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

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

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

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

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

All investment contracts that fall within the scope of 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.

15.1 Analysis of movement in policy liabilities

		2019			2018		
R million	Notes	**Total**	**Insurance contracts**	**Investment contracts[2]**	Total	Insurance contracts	Investment contracts[2]
Income		**157 273**	**56 968**	**100 305**	97 195	40 434	56 761
Premium income)	15.3	**99 815**	**39 016**	**60 799**	92 518	32 758	59 760
Investment return after tax	15.5	**57 458**	**17 952**	**39 506**	4 677	7 676	(2 999)
Outflow		**(108 528)**	**(54 352)**	**(54 176)**	(96 033)	(48 832)	(47 201)
Policy benefits	15.4	**(64 553)**	**(23 839)**	**(40 714)**	(57 904)	(21 137)	(36 767)
Retirement fund terminations		**(6 884)**	**1**	**(6 885)**	(5 525)	(718)	(4 807)
Fees, risk premiums and other payments to shareholders' fund		**(37 091)**	**(30 514)**	**(6 577)**	(32 604)	(26 977)	(5 627)
Movement in policy loans		**37**	**–**	**37**	(20)	–	(20)
Other movements[1]		**(2)**	**(2)**	**–**	(3 797)	44	(3 841)
Net movement for the year		**48 780**	**2 614**	**46 166**	(2 655)	(8 354)	5 699
Liabilities acquired through business combinations		**129**	**11**	**118**	15 037	14 982	55
Disposal of subsidiaries		**(616)**	**–**	**(616)**	–	–	–
Foreign currency translation differences		**(910)**	**(1 386)**	**476**	6 962	2 952	4 010
Balance at beginning of the year		**543 785**	**188 448**	**355 337**	524 441	178 868	345 573
Balance at end of the year		**591 168**	**189 687**	**401 481**	543 785	188 448	355 337

[1] *Includes the derecognition of policy liabilities in respect of the cancellation of an insurance license in Botswana. Botswana Insurance Fund Management (BIFM) changed its classification and no longer has an insurance license.*

[2] *For investment contract liabilities, the amount contractually payable at maturity is equivalent to the carrying amount of the financial liability.*

15.2 Composition of policy liabilities

R million	2019	2018
Individual business	**476 157**	443 713
Risk business	**16 494**	15 250
Risk underwriting	**13 441**	12 279
Asset mismatch reserve	**3 053**	2 971
Investments	**348 610**	311 849
Linked business	**187 302**	166 542
Business with no investment guarantees	**99 901**	88 837
Business with minimum investment guarantees	**26 579**	13 354
Smoothed bonus	**23 589**	32 413
Market related and smoothed bonus	**3 209**	2 377
Non guaranteed investments	**420**	–
Fully guaranteed business	**7 610**	8 326
Life Annuities	**40 933**	38 867
Combined policies	**67 269**	70 458
Non-product/Other	**2 851**	7 289
Employee benefits business	**115 011**	100 072
Risk business	**7 225**	6 641
Risk underwriting	**6 851**	6 396
Asset mismatch reserve	**374**	245
Investments	**82 180**	67 287
Linked business	**61 084**	48 387
Smoothed bonus	**20 892**	18 695
Non guaranteed investments	**45**	47
Fully guaranteed business	**159**	158
Life Annuities	**23 598**	23 912
Non-product/Other	**2 008**	2 232
Total policy liabilities	**591 168**	543 785

The composition of policy liabilities have been aligned with the new solvency regime compositions.

15.3 Analysis of premium income

	2019	2018
Individual business	**69 271**	65 345
Recurring	**33 910**	30 386
Single	**32 555**	32 173
Continuations	**2 806**	2 786
Employee benefits business	**30 544**	27 173
Recurring	**14 293**	12 854
Single	**16 251**	14 319
Total premium income	**99 815**	92 518

15. Long-term policy liabilities (continued)
15.4 Analysis of long-term policy benefits

	2019	2018
Individual business	**55 428**	49 650
Maturity benefits	26 748	24 321
Surrenders	11 724	9 939
Life and term annuities	12 387	11 447
Death and disability benefits[1]	4 202	3 675
Cash bonuses[1]	367	268
Employee benefits business	**9 125**	8 254
Withdrawal benefits	3 748	3 557
Pensions	2 042	2 020
Lump-sum retirement benefits	2 423	1 839
Death and disability benefits[1]	912	831
Cash bonuses[1]	–	7
Total long-term policy benefits	**64 553**	57 904

[1] *Excludes death and disability benefits and cash bonuses underwritten by the shareholders (refer to note 15.5).*

15.5 Long-term insurance and investment contract benefits
Underwriting benefits

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

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

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

Other policy benefits

Other policy benefits are not recognised in the Group statement of comprehensive income but reflected as a reduction in long-term policy liabilities (refer note 15.4).

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

R million	Notes	2019	2018
Insurance contracts			
Underwriting policy benefits		12 850	10 890
After tax investment return attributable to insurance contract liabilities	15.1	17 952	7 676
Total long-term insurance contract benefits		**30 802**	18 566
Investment contracts			
After tax investment return attributable to investment contract liabilities	15.1	39 506	(2 999)
Total long-term investment contract benefits		**39 506**	(2 999)
Analysis of underwriting policy benefits			
Individual insurance		7 601	6 155
Employee benefits		5 249	4 735
Total underwriting policy benefits		**12 850**	10 890

15.6 Maturity analysis of investment policy contracts

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
2019					
Risk business	**176**	**943**	**1 543**	**26**	**2 688**
Risk underwriting	**176**	**943**	**1 543**	**26**	**2 688**
Investments	**9 519**	**48 142**	**68 524**	**258 776**	**384 961**
Linked business	**1 640**	**14 436**	**633**	**223 928**	**240 637**
Business with no investment guarantees	**4 417**	**23 171**	**57 471**	**9 265**	**94 324**
Business with minimum investment guarantees	**1 444**	**4 068**	**1 065**	**1 611**	**8 188**
Smoothed bonus	**179**	**299**	**9 355**	**21 302**	**31 135**
Market related and smoothed bonus	**–**	**–**	**–**	**2 477**	**2 477**
Non guaranteed investments	**–**	**420**	**–**	**45**	**465**
Fully guaranteed business	**1 839**	**5 748**	**–**	**148**	**7 735**
Life Annuities	**445**	**703**	**20**	**281**	**1 449**
Guaranteed annuities	**445**	**703**	**20**	**281**	**1 449**
Combined policies	**694**	**3 273**	**6 600**	**–**	**10 567**
Non-product/Other	**85**	**–**	**1 534**	**197**	**1 816**
Total investment policies	**10 919**	**53 061**	**78 221**	**259 280**	**401 481**
2018					
Risk business	158	835	1 366	19	2 378
Risk underwriting	158	835	1 366	19	2 378
Investments	8 050	45 599	61 604	224 147	339 400
Linked business	1 536	11 227	6	195 056	207 825
Business with no investment guarantees	4 322	20 270	51 625	7 428	83 645
Business with minimum investment guarantees	1 956	5 595	1 256	1 550	10 357
Smoothed bonus	165	287	8 717	18 159	27 328
Market related and smoothed bonus	–	–	–	1 756	1 756
Non guaranteed investments	–	–	–	47	47
Fully guaranteed business	71	8 220	–	151	8 442
Life Annuities	462	792	18	198	1 470
Guaranteed annuities	462	792	18	198	1 470
Combined policies	655	2 890	6 784	–	10 329
Non-product/Other	1 461	16	67	216	1 760
Total investment policies	10 786	50 132	69 839	224 580	355 337

The composition of policy liabilities have been aligned with the new solvency regime compositions.

Investment policy contracts are classified as at fair value through profit or loss. Refer to note 33 for additional fair value disclosures.

15. Long-term policy liabilities (continued)
15.7 Maturity analysis of insurance policy contracts

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
2019					
Risk business	745	1 447	5 604	13 235	21 031
Risk underwriting	742	1 447	5 604	9 811	17 604
Asset mismatch reserve	3	–	–	3 424	3 427
Investments	2 194	7 519	29 389	6 727	45 829
Linked business	278	1 134	2 819	3 518	7 749
Business with no investment guarantees	295	1 258	3 369	655	5 577
Business with minimum investment guarantees	522	2 642	14 855	372	18 391
Smoothed bonus	1 081	2 472	8 251	1 542	13 346
Market related and smoothed bonus	–	2	90	640	732
Fully guaranteed business	18	11	5	–	34
Life Annuities	152	460	13 055	49 415	63 082
Guaranteed annuities	144	460	11 087	40 982	52 673
Participating annuities	8	–	1 968	8 433	10 409
Combined policies	5 176	17 416	26 183	7 927	56 702
Non-product/Other	262	16	11	2 754	3 043
Total insurance policies	8 529	26 858	74 242	80 058	189 687
2018					
Risk business	572	1 421	5 312	12 208	19 513
Risk underwriting	553	1 421	5 312	9 011	16 297
Asset mismatch reserve	19	–	–	3 197	3 216
Investments	1 742	5 548	26 370	6 076	39 736
Linked business	242	1 096	2 379	3 387	7 104
Business with no investment guarantees	210	1 106	3 273	603	5 192
Business with minimum investment guarantees	130	650	1 870	347	2 997
Smoothed bonus	1 121	2 687	18 737	1 235	23 780
Market related and smoothed bonus	–	7	110	504	621
Fully guaranteed business	39	2	1	–	42
Life Annuities	144	443	12 978	47 744	61 309
Guaranteed annuities	136	443	11 007	39 586	51 172
Participating annuities	8	–	1 971	8 158	10 137
Combined policies	5 329	18 246	28 790	7 764	60 129
Non-product/Other	451	4 647	–	2 663	7 761
Total insurance policies	8 238	30 305	73 450	76 455	188 448

The composition of policy liabilities have been aligned with the new solvency regime compositions.

15.8 Policy liabilities include the following:

R million	2019	2018
Provision for HIV/Aids and other pandemics	**3 452**	3 264
Asset mismatch reserve	**3 427**	3 216

16. Term finance

Term financial liabilities include:

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

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

16.1 Term finance comprises:

R million	2019	2018
Interest-bearing liabilities held in respect of margin business	**3 614**	3 654
Other interest-bearing liabilities	**7 573**	3 759
	11 187	7 413
Interest-bearing liabilities held in respect of margin business Redeemable cumulative non-voting preference shares issued by subsidiary companies, with dividend terms that range between 6% and 6.8% (2018: 6.4% and 6.9%) or linked to prime interest rates. The preference shares have different redemption dates up to 2022.	**3 614**	3 654
Other interest-bearing liabilities Unsecured subordinated bond, with interest payable at 9% (9.27% in 2018). The bond has a redemption call option at its nominal value of R1 billion, which the Group can exercise the first call on 15 August 2021. It is highly likely that the call option will be exercised.	**1 013**	1 013
Unsecured subordinated callable notes to the value of R1 billion (issued during 2016) in two equal tranches of fixed and floating rate notes. The effective rate for the floating rate notes represents the three-month JIBAR plus 245 basis points, while the rate for the fixed rate notes amounted to 11.77%. The floating rate notes have an optional redemption date of 12 April 2021 with a final maturity date of 12 April 2026, and the fixed rate notes an optional redemption date of 12 April 2023 with a final maturity date of 12 April 2028. During June 2017, the Group issued additional unsecured subordinated callable floating rate notes to the value of R1 billion in anticipation of the redemption of the R1 billion subordinated debt issued in 2007. The effective interest rate for the floating rate notes represents the three-month JIBAR plus 210 basis points. The notes have an optional redemption date of 27 June 2022 with a final maturity date of 27 June 2027.	**2 080**	2 072
Preference shares issued by the Group to the value of R2.4bn for funding of the B-BBEE transaction in 2019. The preference shares have an annual interest rate of 6.97% p.a and redemption date on 10 March 2024. The remaining R1.2bn relates to the Collar loan with annual interest rate of 8.59%. The loan is to be redeemed at maturity on 14 March 2024.	**3 617**	–
Mortgage bonds over properties held in unit-linked policyholder funds. The mortgage over each property is negotiated separately, varies in term from 5 to 20 years, with interest rates linked at a premium between 1.5% and 4% above the Bank of England base rate.	**10**	136
Other	**853**	538
	7 573	3 759

16. Term finance (continued)

16.2 Reconciliation of term finance (including interest accrued)

R million	Notes	2019	2018
Balance at the beginning of the year		**7 510**	6 660
Cash movements		**3 021**	(75)
New issuances		**4 126**	2 455
Acquired through business combinations		**46**	1 683
Capital repayment		**(299)**	(3 077)
Interest paid		**(852)**	(1 136)
Non-cash movements		**939**	925
Net fair value movements		**7**	30
Interest expense		**1 038**	999
Foreign currency translation differences		**(106)**	(104)
Balance at the end of the year (including interest accruals)		**11 470**	7 510
Balance comprises			
Term finance		**11 187**	7 413
Accrued interest (included in trade and other payables)		**283**	97
16.3 Maturity analysis of term finance			
Maturity analysis of term finance – fair value			
Due within one year		**621**	611
Due within two to five years		**10 426**	5 667
Due after more than five years		**140**	1 135
Total term finance liabilities		**11 187**	7 413
Maturity analysis of term finance – undiscounted			
Due within one year		**884**	791
Due within two to five years		**10 729**	6 162
Due after more than five years		**140**	1 829
Total term finance liabilities		**11 753**	8 782
16.4 Classification of term finance			
At fair value through profit or loss	16.4.1	**3 314**	3 085
Other financial liabilities	16.4.2	**7 873**	4 328
Total term finance liabilities		**11 187**	7 413
16.4.1 Term finance classified as at fair value through profit or loss			
Total designated as at fair value through profit or loss		**3 314**	3 085
Amount contractually payable at maturity		**3 222**	3 000
16.4.2 Term finance classified as other financial liabilities			
Estimated fair value of term finance liabilities measured at amortised cost		**7 873**	4 328

The valuation is based on a discounted cash flow and classified as a level 3 valuation. Refer to note 33 for additional fair value disclosures.

17. Provisions

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

Details of the different classes of provisions are as follows:

R million	Possible claims	Other	Total
Balance at 1 January 2018	129	204	333
Charged to the statement of comprehensive income	(1)	130	129
Additional provisions	1	149	150
Unused amounts reversed	(2)	(19)	(21)
Acquired through business combinations	30	134	164
Utilised during the year	(109)	(87)	(196)
Foreign currency translation reserve	3	17	20
Balance at 31 December 2018	52	398	450
Charged to the statement of comprehensive income	**8**	**156**	**164**
Additional provisions	**8**	**384**	**392**
Unused amounts reversed	**–**	**(228)**	**(228)**
Utilised during the year	**(3)**	**(71)**	**(74)**
Foreign currency translation reserve	**(4)**	**(13)**	**(17)**
Balance at 31 December 2019	**53**	**470**	**523**
Analysis of provisions			
Current	**14**	**368**	**382**
Non-current	**39**	**102**	**141**
Total provisions at 31 December 2019	**53**	**470**	**523**

Possible claims

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

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

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

Other

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

18. 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 general insurance business, such as general insurance premiums;
- Income from investments held for capital market activities, such as realised and unrealised gains or losses on trading accounts, unsecured corporate bonds and money market assets and liabilities.

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

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

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

IFRS 15 revenue disaggregation

Revenue from contracts with customers are disaggregated by geographic location and type of revenue. It is also split per the Group's key reporting segments. We believe it best depicts how the nature, amount, timing and uncertainty of the Group's revenue and cash flows are affected by economic factors.

Recognition of different sources of revenue:

Fees for investment management or administration services in respect of investment contracts are recognised as services are rendered. Initial fees that relate to the 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 a point in time or over time.

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

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.

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

Consulting fees are earned for advice and other services provided to clients of the Group's financial advisory businesses. For IFRS 15 purposes,these fees are accounted for either over time as the related services are rendered or at a point in time, depending on when the performance obligations are satisfied.

R million	2019	2018
Analysis per revenue source		
Long-term insurance	**36 912**	32 428
General insurance	**51 019**	34 818
Other financial services	**7 589**	6 373
Total financial services income	**95 520**	73 619

R million	2019	2018
Analysis per revenue category		
Long-term insurance fee income	36 912	32 428
Investment management fees	655	489
Risk benefit charges and other fee income*	36 257	31 939
General insurance premiums	51 019	34 818
Premiums receivable	52 538	36 535
Change in unearned premium provision	(1 519)	(1 717)
Other financial services fees and income	7 582	6 374
Trading profit	7	1
Foreign exchange gains	–	(2)
Total financial services income	**95 520**	**73 619**

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

Segment IFRS 15 revenue from contracts with customers		
Sanlam Personal Finance	6 895	3 874
Sanlam Emerging Markets	821	704
Sanlam Investment Group	5 856	6 060
Santam	270	234
Sanlam Corporate	1 565	1 747
Total IFRS 15 revenue	**15 407**	**12 619**

Disaggregation of revenue

According to primary geography

R million	South Africa	Other African operations	Other Inter-national	Total
31 December 2019				
IFRS 15 Revenue	11 576	851	2 980	15 407
Administration fees	8 091	557	479	9 127
Asset management and performance fees	2 300	206	1 965	4 471
Commissions	487	78	507	1 072
Consulting fees	212	10	22	244
Actuarial and risk management fees	204	–	–	204
Trust and estate fees	166	–	–	166
Other[1]	116	–	7	123
Revenue not within the scope of IFRS 15	55 143	23 704	1 266	80 113
Financial services income	**66 719**	**24 555**	**4 246**	**95 520**
31 December 2018				
IFRS 15 Revenue	9 148	738	2 733	12 619
Administration fees	5 093	438	498	6 029
Asset management and performance fees	2 832	228	1 744	4 804
Commissions	372	57	479	908
Consulting fees	367	12	1	380
Actuarial and risk management fees	198	–	–	198
Trust and estate fees	156	–	–	156
Other[1]	130	3	11	144
Revenue not within the scope of IFRS 15	51 710	8 217	1 073	61 000
Financial services income	**60 858**	**8 955**	**3 806**	**73 619**

[1] *Other IFRS 15 revenue includes to rebates and scrip lending fees received.*

18. Financial services income (continued)

According to timing of revenue recognition

R million	At a point in time	Over time[2]	Not in the scope of IFRS 15	Total
31 December 2019				
IFRS 15 Revenue	972	14 435	–	15 407
Administration fees	5	9 122	–	9 127
Asset management and performance fees	1	4 470	-	4 471
Commissions	780	292	-	1 072
Consulting fees	19	225	-	244
Actuarial and risk management fees	-	204	-	204
Trust and estate fees	99	67	-	166
Other[1]	68	55	-	123
Revenue not within the scope of IFRS 15	–	–	80 113	80 113
Financial services income	972	14 435	80 113	95 520
31 December 2018				
IFRS 15 Revenue	1 020	11 599	–	12 619
Administration fees	12	6 017	–	6 029
Asset management and performance fees	6	4 798	-	4 804
Commissions	725	183	–	908
Consulting fees	116	264	–	380
Actuarial and risk management fees	–	198	–	198
Trust and estate fees	93	63	–	156
Other[1]	68	76	–	144
Revenue not within the scope of IFRS 15	–	–	61 000	61 000
Financial services income	1 020	11 599	61 000	73 619

[1] *Other IFRS 15 revenue includes to rebates and scrip lending fees received.*
[2] *Performance fees subject to constraint on recognition of variable consideration.*

19. Reinsurance premiums paid

R million	2019	2018
Long-term insurance	2 721	2 359
General insurance	13 172	8 903
Premiums payable	13 760	9 634
Change in unearned premium provision	(588)	(731)
Total reinsurance premiums paid	15 893	11 262

20. Reinsurance income

R million	2019	2018
Reinsurance commission received		
Long-term insurance	47	82
General insurance	2 629	2 084
Total reinsurance commission received	2 676	2 166
Reinsurance claims received		
Long-term insurance	2 216	1 664
General insurance	6 212	5 041
Total reinsurance claims received	8 428	6 705

21. Expenses, amortisation and impairments

21.1 Expenses

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

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

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

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

Administration costs include, *inter alia*, indirect taxes such as VAT, property and administration expenses relating to owner-occupied property, property and investment expenses related to the management of the policyholders' investments, claims handling costs, product development and training costs. It also includes expected credit losses of financial assets at amortised cost.

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

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

For accounting periods on or after 1 January 2019, the group has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

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

In terms of these plans, Sanlam undertakes to deliver a fixed number of shares to selected employees on pre-determined dates in the future, on condition that the employee is still in the employment of Sanlam on those dates. Vesting can occur in three tranches over a period starting three years from the grant date and meet specified individual performance hurdles. Group and/or cluster hurdles are also applicable for some of the plans. Refer to the online Remuneration Report for information on these plans. The fair value of equity instruments granted is measured on grant date using an appropriate valuation model, which takes into account the market price on grant date, the fact that employees will not be entitled to dividends until the shares vest (as applicable), as well as an assumption on the actual percentage of shares that will be delivered. The fair value of the equity instruments granted on the date of grant is recognised in the statement of comprehensive income on a straight-line basis over the vesting period, adjusted to reflect actual levels of vesting.

Restricted Share Plan

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

21. Expenses, amortisation and impairments (continued)

21.1 Expenses (continued)

R million	Notes	2019	2018
Auditors' remuneration			
Audit fees: statutory audit		193	176
Other services provided by:		35	17
Subsidiaries' own auditors		32	14
Other Group auditors		3	3
Total auditors' remuneration		228	193
Depreciation			
Owned assets		523	357
Computer equipment		261	232
Furniture, equipment, vehicles and other		231	118
Owner-occupied properties		31	7
Leased assets		501	–
Computer equipment		5	–
Furniture, equipment, vehicles and other		17	–
Properties		479	–
Operating leases (IAS 17)		–	849
Lease expenses (IFRS 16)		442	–
Short-term leases		124	–
Leases of low value assets		243	–
Variable lease payments		75	–
Consultancy fees		1 467	1 317
Technical, administrative and secretarial fees		1 130	1 163
Employee benefits		13 289	11 073
Salaries and other short-term benefits		11 983	9 930
Pension costs – defined contribution plans		722	662
Pension costs – defined benefit plans		6	16
Share-based payments		422	385
Other long-term incentive schemes		156	80
Number of employees (excluding advisors)		20 787	20 588[1]

[1] *Prior year number of employees have been corrected from 21 267 to 20 588.*

21.2 Amortisation and impairments

R million	Notes	2019	2018
Amortisation of intangibles		1 405	662
Value of business acquired	4.2	1 155	545
Other intangible assets	5	250	117
Impairments		742	449
Investment in equity-accounted investments	8.2.2	337	376
Goodwill	4.1	26	–
Value of business acquired	4.2	–	2
Other intangible assets	5	33	35
Owner occupied properties	3	8	–
Financial assets at amortised cost (including loans and receivables)[1]	8.3.2	338	36

[1] *The majority of the remaining expected credit losses as per note 8.3.2 is included in administration costs.*

22. Finance cost

R million	2019	2018
Finance costs are recognised as an expense in the statement of comprehensive income on an accrual basis.		
Interest paid and term finance cost in respect of margin business	242	164
Finance cost – margin business	242	164
Interest-bearing liabilities designated as at fair value through profit or loss	732	836
Interest-bearing liabilities held at amortised cost	573	10
Lease liabilities at amortised cost	195	–
Finance cost – other	1 500	846

23 Earnings per share

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

For **diluted earnings per share** the weighted average number of ordinary shares is adjusted for the shares not yet issued under the Sanlam Share Incentive Scheme and treasury shares held by subsidiaries, consolidated investment vehicles (including the B-BBEE SPV) and policyholders. The shares held by the B-BBEE SPV is seen as an option for dilutive earnings per share purposes that will have an impact on the dilution as the Sanlam share price increases. Diluted earnings per share is calculated by dividing earnings by the adjusted diluted weighted average number of shares in issue.

Cents	2019	2018
Basic earnings per share:		
Headline earnings	361,8	445,6
Profit attributable to shareholders' fund	345,8	565,4
Diluted earnings per share:		
Headline earnings	357,9	441,1
Profit attributable to shareholders' fund	342,1	559,7

R million	2019	2018
Analysis of earnings:		
Profit attributable to shareholders' fund	7 150	11 627
Plus/(less): Net profit on disposal of subsidiaries	6	(13)
Profit on disposal of subsidiaries	9	(17)
Tax on profit on disposal of subsidiaries	–	4
Non-controlling interest	(3)	–
Less: Net profit on disposal of associated companies	–	(2 760)
Profit on disposal of associated companies	–	(3 095)
Tax on profit on disposal of associated companies	–	157
Non-controlling interest	–	178
Less: Equity-accounted non-headline earnings	–	(17)
Plus: Impairments	325	325
Gross Impairments	395	449
Tax on impairment	–	(3)
Non-controlling interest	(70)	(121)
Headline earnings	7 481	9 162

23. Earnings per share (continued)

Million	2019	2018
Number of shares:		
Weighted number of ordinary shares in issue	2 324,8	2 215,6
Less: Weighted Sanlam shares held by subsidiaries and consolidated investment funds (including policyholders)	(256,9)	(159,3)
Adjusted weighted average number of shares for basic earnings per share	2 067,9	2 056,3
Add: Total number of shares in respect of Sanlam Limited long-term incentive schemes	22,1	21,0
Adjusted weighted average number of shares for diluted earnings per share	2 090,0	2 077,3

24. Collateral

24.1 Collateral provided

R million	2019	2018
The following assets have been pledged as collateral for the Group's structured transactions, liabilities or contingent liabilities:		
Investments	1 232	1 552
Properties	460	669
Equities and similar securities	4	26
Interest-bearing investments	414	496
Cash, deposits and similar securities	354	361
Working capital assets	1 710	2 884
Trading account	985	2 207
Cash, deposits and similar securities	725	677
The transferee does not have the right to sell or repledge the assets.		
24.2 Collateral received		
The following collateral has been received in respect of securities lending activities conducted by the Group:		
Fair value of collateral accepted as security for these activities	16 967	17 271
Collateral of between 100% (2018: 100%) and 120% (2018: 120%) of the value of the loaned securities is held at 31 December 2019.		
Fair value of the collateral held that the Group is permitted to sell or repledge internally in the absence of default.	793	756

25. Critical accounting estimates and judgements

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

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

An important indicator of the accuracy of assumptions used by a life insurance company is the experience variances reflected in the embedded value earnings during a period. The experience variances reported by the Group to date have been reasonable compared to the embedded value of covered business, confirming the accuracy of assumptions used by the Group. Refer to the embedded value of covered business on page 178 of the online Integrated report for additional information.

25.1 Impairment of goodwill and value of business acquired

The recoverable amount of goodwill, value of business acquired and other intangible assets for impairment testing purposes has been determined based on the embedded value of life insurance businesses (plus a value of new life insurance business multiple) and the fair value of other businesses, as applicable, less the consolidated net asset value of the respective businesses. The embedded value or fair value of a business therefore has a significant impact on whether an impairment of goodwill and/or value of business acquired is required. Refer to pages 193 to 195 of the online Integrated report respectively for the main assumptions applied in determining the embedded value of covered business and the fair value of other Group businesses. Embedded value of covered business and fair value sensitivity analyses are provided on pages 191 and 192 of the online Integrated report respectively.

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

This disclosure should be read in conjunction with the valuation methodology as described on pages 63 to 65.

The following process is followed to determine the valuation assumptions:

- Determine the best estimate for a particular assumption.
- Prescribed margins are then applied as required by actuarial guidance notes.
- Discretionary margins may be applied as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

The best estimate of future experience is determined as follows:

Investment return

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

	Sanlam Life		Sanlam Developing Markets		Sanlam Life Namibia		Sanlam Life and Pensions UK	
%	2019	2018	2019	2018	2019	2018	2019	2018
Reversionary bonus business								
Retirement annuity business	10,8	10,9	n/a	n/a	10,8	11,1	n/a	n/a
Individual policyholder business	8,8	8,9	6,9	7,1	10,1	10,4	n/a	n/a
Individual stable bonus business								
Retirement annuity business	10,5	10,6	8,9	9,3	10,5	10,7	n/a	n/a
Individual policyholder business	8,5	8,6	6,9	7,1	9,8	10,1	n/a	n/a
Non-taxable business	10,5	10,6	n/a	n/a	10,5	10,7	n/a	n/a
Corporate policyholder business	7,9	8,0	n/a	n/a	9,8	10,1	n/a	n/a
Individual market-related business								
Retirement annuity business	10,8	10,9	8,9	9,3	10,8	11,1	1,0	1,6
Individual policyholder business	8,8	8,9	6,9	7,1	10,1	10,4	0,7	1,2
Non-taxable business	10,8	10,9	n/a	n/a	10,8	11,1	n/a	n/a
Corporate policyholder business	8,2	8,3	n/a	n/a	10,1	10,4	n/a	n/a
Participating annuity business	9,3	9,4	n/a	n/a	8,9	9,1	n/a	n/a
Non-participating annuity business(1)	10,0	9,9	10,6	10,5	10,0	9,9	1,7	2,4
Guarantee plans(1)	5,1	6,7	4,3	4,3	n/a	n/a	n/a	n/a

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

25. Critical accounting estimates and judgements (continued)

25.2 Policy liabilities in respect of long-term insurance contracts and investment contracts other than those with investment management services (continued)

Future bonus rates for participating business

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

Decrements

Assumptions with regard to future mortality, disability and disability payment termination are consistent with the experience for the 4,5 years up to 30 June 2019. Mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of Aids and for expected improvements in mortality rates in the case of annuity business. Assumptions with regard to future surrender, lapse and paid-up rates are based on the experience for the 4,75 years ending 30 September 2019.

Expenses

Unit expenses are based on 31 October 2019 actual figures plus estimates for the last two months of the year (adjusted for significant differences from actual) and escalated at estimated expense inflation rates per annum.

Refer to note 2 on page 191 of the online Integrated report for a sensitivity analysis of the value of in-force covered business to the main valuation assumptions.

25.3 Policy liabilities for investment contracts with investment management services

The valuation of these contracts is linked to the fair value of the supporting assets and deviations from future investment return assumptions will therefore not have a material impact. The recoverability of the DAC asset is not significantly impacted by changes in lapse experience; if future lapse experience was to differ by 10% (2018: 10%) from management's estimates, no impairment of the DAC asset would be required.

25.4 The ultimate liability arising from claims under general insurance contracts

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

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

Refer to the Capital and Risk Management Report on page 12 for further information on the estimation of the claims liability.

25.5 Valuation of unlisted investments

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

Refer to note 33 for additional information.

25.6 Consolidation of investment funds

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

25.7 Deferred tax assets

During 2016, changes to South Africa insurance tax legislation gave rise to a change in the probability and timing of utilisations of historic losses in certain tax funds. As a result, management determined that it is now probable that these losses will be utilised and therefore that a deferred tax asset should be raised. In determining the extent to which these losses should be recognised, management forecast future profits, including the impact of new business, where applicable, as well as other business decisions that may affect future profits. Changes in these assumptions, as well as decisions made by the Group in future may affect the extent to which these losses are utilised.

25.8 Business model assessment

Classification and measurement of financial assets depends on the results of the Solely Payments of Principal and Interest and the business model test (refer to Investment note 8). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed. Monitoring is part of the group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

25.9 Financial assets: Impairment

The measurement of impairment losses under IFRS 9 across relevant financial assets requires judgement, in particular for the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by the outcome of modelled ECL scenarios and the relevant inputs used.

Refer to Investments note 8.3.2 and Trade receivable note 11.1.

25.10 Cash flow hedging instruments

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

The hedge was closed out on the effective date, and remained effective throughout the hedging period.

26. Retirement benefits for employees

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

Defined benefit plans

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

Defined contribution plans

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

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

At 31 December 2019, 100% of employees were covered by defined contribution funds and none by defined benefit funds (2018: 100%).

26.1 Defined contribution pension funds

There are separate defined contribution funds for advisers, full-time and part-time office staff. The Sanlam Group contributed 722 million to these funds during 2019 (2018: 662 million).

26. Retirement benefits for employees (continued)

26.2 Defined benefit pension funds

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

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

The Sanlam Office Personnel fund does not have any active members or pensioners at the end of 2019.

The current insurance policy between the Sanlam Office Personnel fund and Sanlam Life Insurance Limited has been replaced with individual policies between the pensioners and Sanlam Life Insurance Limited during 2019. The value of the fund is RNil (2018: R776 million) and in the process of being liquidated.

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

Both the Sanlam Investments and Pensions as well as Sanlam Developing Markets SA funds were in materially sound positions at 31 December 2019.

Principal actuarial assumptions:		Sanlam Investments and Pensions	Sanlam Developing Markets SA
2019			
Valuation date		**31 Dec 2019**	**31 Dec 2019**
Pre-retirement discount rate	**% pa**	**2,0%**	**10,2%**
Post-retirement discount rate	**% pa**	**2,0%**	**5,0%**
Future pension increases	**% pa**	**2,9%**	**5,0%**
Actual experience:			
Actual return on assets	**% pa**	**(1,0%)**	**8,5%**
2018			
Valuation date		31 Dec 2018	31 Dec 2018
Pre-retirement discount rate	% pa	2,8%	10,1%
Post-retirement discount rate	% pa	2,8%	4,9%
Future pension increases	% pa	3,1%	5,0%
Actual experience:			
Actual return on assets	% pa	(0,4%)	(3,9%)

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

R million	2019	2018	2017	2016	2015
Net liability recognised in statement of financial position:					
Present value of fund obligations	1 144	1 740	1 774	1 656	1 714
Actuarial value of fund assets	(1 071)	(1 741)	(1 779)	(1 721)	(1 800)
Net present value of funded obligations	73	(1)	(5)	(65)	(86)
Effect of limiting defined benefit asset to amount available to employer (asset ceiling)	(73)	1	5	65	86
Net asset recognised in statement of financial position	–	–	–	–	–

R million	Fund assets	Fund liabilities	Asset ceiling	Net asset/ (liability)
2019				
Balance at beginning of the year	1 741	(1 740)	(1)	–
Contributions				
Employer	42	–	–	42
Benefit payments	(49)	48	–	(1)
Interest income/(expense)	34	(33)	(1)	–
Actuarial gains and losses: change in financial assumptions	–	(112)	–	(112)
Returns from plan assets (excluding amounts included in interest)	147	–	–	147
Foreign exchange gains and (losses)	11	(10)	–	1
Effect of limiting defined benefit asset to amount available to employer	–	–	(70)	(70)
Other[1]	(782)	776	(1)	(7)
Balance at end of the year	1 144	(1 071)	(73)	–

[1] *The effect of the transfer of the Sanlam Office Personnel's Life Insurance Limited insurance policies is included in Other.*

2018				
Balance at beginning of the year	1 779	(1 774)	(5)	–
Past service cost	–	(9)	–	(9)
Contributions				
Employer	77	–	–	77
Benefit payments	(169)	170	–	1
Interest income/(expense)	32	(31)	(1)	–
Actuarial gains and losses: change in financial assumptions	–	(14)	–	(14)
Returns from plan assets (excluding amounts included in interest)	(51)	–	–	(51)
Foreign exchange gains and (losses)	80	(82)	–	(2)
Effect of limiting defined benefit asset to amount available to employer	–	–	5	5
Other	(7)	–	–	(7)
Balance at end of the year	1 741	(1 740)	(1)	–

26. Retirement benefits for employees (continued)

26.2 Defined benefit pension funds (continued)

	2019 R million	2018 R million	2019 %	2018 %
Fund assets comprise:				
Equities and similar securities	**252**	279	**22%**	16%
Interest-bearing investments	**891**	688	**77%**	39%
Cash, deposits and similar securities	**1**	8	**1%**	1%
Insurance policy	**–**	766	**0%**	44%
	1 144	1 741	**100%**	100%

The above value of fund assets includes an investment of Rnil (2018: Rnil) in Sanlam shares.

R million	2019	2018
Net expense recognised in the statement of comprehensive income (included in administration costs):		
Past service cost	**–**	9
Other	**7**	7
Total included in staff costs	**7**	16
The following discounted benefits are expected payments to be made in future years out of the defined benefit plan:		
<1 year	**(560)**	(1 266)
1 – 5 years	**(13)**	(15)
>5 years	**(498)**	(459)
Total expected payments	**(1 071)**	(1 740)

26.3 Medical aid funds

The actuarially determined present value of medical aid obligations for disabled members and certain pensioners is fully provided for at year-end and is considered to be immaterial. The Group has no further unprovided post-retirement medical aid obligations for current or retired employees.

27. Borrowing powers

In terms of the Memorandum of Incorporation of Sanlam Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the Company without limitation.

Material borrowings of the Sanlam Group are disclosed in note 16.

28. Commitments and contingencies

Possible obligations of the Group, the existence of which will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group and present obligations of the Group where it is not probable that an outflow of economic benefits will be required to settle the obligation or where the amount of the obligation cannot be measured reliably, are not recognised in the Group statement of financial position but are disclosed in the notes to the financial statements.

Possible assets of the Group, the existence of which will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group, are not recognised in the Group statement of financial position and are only disclosed in the notes to the financial statements where an inflow of economic benefits is probable.

28.1 Leasing commitments

R million	2019	2018
Future operating lease commitments:		
Lease rentals due within one year	50	740
Lease rentals due within two to five years	149	1 493
Lease rentals due within more than five years	81	532
Total operating lease commitments	**280**	2 765

Prior year amounts relate to IAS 17 future operating lease commitments, whilst 2019 amounts relate to short term leases, low value asset leases as well as variable lease payments.

28.2 Guarantees provided in favour of Sanlam Capital Markets (SCM) and others

Guarantees are monitored on a monthly basis in accordance with the enterprise risk management framework.

Sanlam has guaranteed obligations that may arise under SCM's unlisted commercial paper programme, as well as SCM's obligations arising from transactions with approved, specified counterparties through direct guarantees. The total limit for the unlisted commercial paper programme is R20 billion, but both these and the direct guarantees are subject to an overall R7 billion guarantee utilisation limit in terms of the Group governance processes. At 31 December 2018 the utilisation of guarantees by SCM amounted to R3.7 billion (2018: R4 billion).

Sanlam has provided a performance guarantee facility to third parties in respect of the business operations of Letshego Holdings, which is subject to an overall limit of R500 million in terms of the Group's governance processes. An amount of R84.2 million was utilised at 31 December 2019 (2018: R138 million).

Security to third parties in respect of the preference share business subject to and within the overall approved limit of R3,5 billion (2018: R3,5 billion).

Sanlam has also issued letters of support, in the ordinary course of business, for the activities of certain subsidiaries in the Group.

Sanlam has approved a guarantee facility, in March 2018 in respect of securities issued by Centrique pursuant to the distribution agreement between SPF and Capitec, which has been launched during 2018. The facility is subject to an internal limit of R500 million. Performance guarantees of R129 million (2018: R300 million) have been issued in respect of the sales up to 31 December 2019.

Sanlam Pan Africa (previously Saham Finances S.A.) issued a five-year guarantee of up to R500 million to the Bank of Africa in respect of Colina business operations and expires in April 2021. An amount of R225 million was utilised at 31 December 2019.

28. Commitments and contingencies (continued)

28.3 Guarantees provided in favour of Sanlam Capital Markets (SCM) and others

Financial claims are lodged against the Group from time to time. Provisions are recognised for claims based on best estimates of the expected outcome of the claims (refer to note 17). Given the high degree of uncertainty involved in determining the expected outcome, it is reasonably possible that outcomes in future financial years will be different to the current estimates.

There are no material commitments or contingencies that have not been provided for or fully disclosed, unless additional disclosures may potentially prejudice the legal arguments of the Group.

29. Related parties

29.1 Major shareholders

Sanlam Limited is the ultimate holding company in the Group.
By virtue of its relationship with Sanlam Limited, Ubuntu-Botho Investments is considered to be a related party to the Group. Apart from Ubuntu-Botho Investments' (UB) role as the Group's broad-based black economic empowerment partner and jointly pursuing investments in complimentary financial services businesses, the Group does not enter into transactions with Ubuntu-Botho Investments in the normal course of business. During 2017, the Group provided preference share funding of R500 million (carrying value at 31 December 2018: R540 million and 31 December 2019: R580 million) to a Special Purpose Vehicle (SPV) co-owned by UB and the Sanlam Ubuntu-Botho Community Development Trust on arms' length terms. The preference shares are redeemable after 10 years, carry a dividend rate of 72.5% of the prime lending rate and are secured by Sanlam shares at a 1,5 times cover ratio. The preference shares will participate in 10% of the net asset value of the SPV at the time of redemption.

During 2019, Sanlam Limited issued 111 349 000 shares at a price of R70 per share to a new Broad-Based Black Economic Empowerment (B-BBEE) special purpose vehicle (SPV). The shares were issued at a price of R70 per share, representing a discount of some 10% to the three-day volume-weighted average price (VWAP) at the time. Sanlam provided vendor funding to the amount of R3.7 billion to the B-BBEE entity. Sanlam's empowerment partner, Ubunto Botho (UB) and Sanlam Ubuntu-Botho Community Development trust participate in 20% of the B-BBEE SPV and five other targeted beneficiary groups sharing the remaining 80%. A one-off expense of R1,686 billion was recognised in terms of International Financial Reporting Standards (IFRS) 2 Share-Based Payment in respect of the B-BBEE share issuance.

During 2019, Sanlam Limited provided a back-to-back financing facility of R2 billion to Ubuntu-Botho. The facility was approved by the Board in 2018 and granted in 2019. An amount of R360 million was utilised at 31 December 2019.

No other Sanlam shareholders have a significant influence and thus no other shareholder is a related party. The shares are widely held by public and non-public shareholders.

Details of transactions between the policyholders' and shareholders' funds of the Sanlam Group are disclosed in note 15.

The shareholder spread is presented on page 234 of the online Integrated Report.

29.2 Transactions with post-employment benefit plans

Contributions to the post-employment benefit plans were R1 351 million in 2019 (2018: R739 million). There are no amounts outstanding at year-end.

The trustees of the Sanlam Office Personnel Fund insured the pension fund obligations through a policy with Sanlam Life Insurance Limited during 2017 (refer to note 26).

29.3 Transactions with directors

Remuneration is paid to directors in the form of fees to non-executive directors and remuneration to executive directors of the Company. All directors of Sanlam Limited have notified that they did not have a material interest in any contract of significance with the Company or any of its subsidiaries, which could have given rise to a conflict of interest during the year. Details relating to directors' emoluments and their shareholdings and share participation in the Company are disclosed as part of the online Remuneration Report.

29.4 Transactions with entities in the Group

During the year the Company and its subsidiaries, in the ordinary course of business, entered into various transactions with other Group companies, associated companies, joint ventures and other stakeholders.

Included in note 8.3.2 under Corporate interest-bearing investment is R1 113 million (2018: R1 372 million) which relates to the corporate interest-bearing investments in Bank Windhoek Limited and Letshego Holdings Limited.

The Group provides financing for the loans granted to Sanlam Personal Loans. The carrying value of these loans amounts to R 3 659 million. Most of these loans earn interest of the asset swap rate plus a premium of between 1,4% and 1,92% and will mature in tranches over a period of 3 years up to 30 November 2022.

Sanlam authorised funding of up to R2 billion to Sanlam Private Wealth (SPW) to facilitate funding for equity-backed loans provided to SPW clients. Utilisation at 31 December 2019 amounted to R850 million

29.5 Policy administration

Certain companies in the Group carry out third-party policy and other administration activities for other related parties in the Group. These transactions are entered into in the normal course of business.

29.6 Key management personnel compensation

R million	Note	2019	2018
Compensation paid to the Group's key management personnel is as follows:			
Short-term employee benefits		723	723
Share-based payments[1]		194	151
Termination benefits		14	14
Other long-term benefits and incentive schemes		41	67
Total key management personnel compensation		972	955

[1] *Consists of redemption of shares in respect of share-based payment schemes.*

30. Notes to the cash flow statement

30.1 Cash generated/(utilised) in operations

R million	Note	2019	2018
Profit before tax per statement of comprehensive income		14 561	16 966
Net movement in policy liabilities	15.1	48 780	(2 655)
Non-cash flow items		(40 459)	16 017
Depreciation		1 024	357
Bad debts written off		313	145
Share-based payments		424	385
Profit on disposal of subsidiaries and associates		8	(3 112)
Fair value adjustments		(43 072)	19 558
Impairment of investments and goodwill		742	449
Amortisation of intangibles		1 405	659
Equity-accounted earnings		(2 989)	(2 424)
IFRS 2 B-BBEE cost		1 686	–
Items excluded from cash utilised in operations		(30 151)	(29 205)
Interest and preference share dividends received		(18 695)	(18 034)
Interest paid		1 742	1 136
Dividends received		(13 198)	(12 307)
Net acquistion of investments		(18 815)	(7 323)
Increase/(decrease) in net working capital assets and liabilities		16 174	(1 086)
Cash utilised in operations		(9 910)	(7 286)

30. Notes to the cash flow statement (continued)

30.2 Acquisition of subsidiaries and associated companies

R million	2019	Restated[1] 2018
During the year, various interests in subsidiaries were acquired within the Group.		
Investments in associated companies	**(158)**	(28)
The fair value of assets acquired via business combinations is as follows:		
Equipment	**(30)**	(735)
Owner occupied properties	**–**	(971)
Goodwill[1]	**(361)**	(16 924)
Value of business acquired[1]	**(786)**	(8 322)
Other Intangible assets	**–**	(684)
Deferred acquisition cost	**–**	(170)
Long-term reinsurance assets	**–**	(832)
Investments	**(181)**	(29 377)
Deferred tax assets	**–**	(567)
General insurance technical assets	**–**	(2 662)
Trade and other receivables	**(55)**	(14 383)
Cash, deposits and similar securities	**(40)**	(9 018)
Long-term policy liabilities	**129**	15 037
Term finance	**46**	1 683
Deferred tax liabilities[1]	**299**	4 154
General insurance technical provisions[1]	**226**	17 569
Working capital liabilities	**38**	10 571
Non-controlling interest	**2**	6 184
Total purchase consideration (including hedge adjustment)	**(871)**	(29 475)
Cash flow hedge adjustment	**–**	(1 500)
Total purchase consideration (excluding hedge adjustment)	**(871)**	(30 975)
Less: Previously held interest at fair value	**18**	14 703
Cash element consideration	**(853)**	(16 272)
Less: Cash, deposits and similar securities acquired	**40**	9 018
Less: Contingent liability	**128**	–
Cash component of acquisition of subsidiaries and associated companies	**(685)**	(7 254)

[1] *Refer to note 36.3 for more information.*

30.3 Disposal of subsidiaries and associated companies

R million	2019	2018
The fair value of assets disposed of were as follows:		
Owner occupied properties	**113**	–
Investments in associated companies	**71**	158
Equipment	**10**	
Goodwill	**33**	–
Investments	**12**	–
Deferred tax assets	**4**	–
Trade and other receivables	**9**	–
Cash, deposits and similar securities	**80**	–
Deferred tax liabilities	**(9)**	–
General insurance technical provisions	**(25)**	–
Working capital liabilities	**(32)**	–
Non-controlling interest	**(2)**	–
(Loss)/profit on disposal of subsidiaries and associates	**(8)**	3 112
Total disposal price	**256**	3 270
Less: Cash and cash equivalents disposed of	**(80)**	–
Less: deemed disposal adjustment	**–**	(2 780)
Cash component of disposal of subsidiaries and associated companies	**176**	490

30.4 Cash and cash equivalents

R million	2019	2018
Working capital: Cash and cash equivalents	**30 369**	28 151
Investment cash	**43 319**	36 156
Bank overdrafts	**(2 031)**	(964)
Total cash and cash equivalents	**71 657**	63 343

Included in cash and cash equivalents are restricted cash balances of R1 740 million (2018: R3 136 million) relating mainly to Credit Support Agreements (CSA) with derivative counterparties as well as initial margins with JSE in respect of exchange traded derivatives.

31. Business combinations

Material acquisitions of the Group consolidated in the 2019 financial year

There were no material acquisitions during the 2019 financial year. The company acquired Sanlam Private Wealth South Limited (formerly Thesis Private Office Limited), Blackett Walker, Avidus Scott Lang and Netis Holdings Ltd.

The goodwill arising on the acquisition is attributable to synergies.

The acquisition accounting of the above acquisitions has been based on provisional estimates, which might result in adjustments to goodwill during 2020. Refer to Goodwill note 4.1

32. Disposal groups and assets held for sale

Assets of disposal group classified as held for sale comprise non-current assets for which the carrying value will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of their carrying value and their fair value less costs to sell, unless they are specifically excluded from the measurement provisions of IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, in which case they are measured in accordance with the applicable IFRS. Immediately before initial classification as held for sale, the assets to be reclassified are measured in accordance with applicable IFRS. When the sale of such non-current assets held for sale is expected to occur beyond one year, costs to sell are measured at their present value. Any increase in the present value of the costs to sell arising from the passage of time is presented in profit and loss as a financing cost.

Investment properties

During 2019, management approved the sale of 6 MCIS properties to the total amount of R30 million. As at 31 December 2019 contracts of sale were not entered into yet, but is expected to occur during 2020.

During 2018, management approved the sale of 3 properties of Sanlam General Insurance Kenya. As at 31 December 2019 contracts for sale of one of the properties have been entered into.

R million	2019	2018
Assets of disposal groups classified as held for sale		
Investment properties	159	139

33. Fair value disclosures

Financial instruments

Financial instruments carried on the statement of financial position include investments (excluding investment properties, associates and joint ventures), receivables, cash, deposits and similar securities, investment policy contracts, term finance liabilities, liabilities in respect of external investors in consolidated funds and payables.

Recognition and derecognition

Financial instruments are recognised when the Group becomes party to a contractual arrangement that constitutes a financial asset or financial liability for the Group that is not subject to suspensive conditions. Regular way investment transactions are recognised by using trade date accounting.

Financial assets are derecognised when the contractual rights 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 counter-parties as part of the Group's capital market activities are not derecognised. No transfer of ownership takes place in respect of collateral other than cash and any such collateral accepted by counter-parties may not be used for any purpose other than being held as security for the trades to which such security relates. In respect of cash security, ownership transfers in law. However, the counterparty has an obligation to refund the same amount of cash, together with interest, if no default has occurred in respect of the trades to which such cash security relates. Cash collateral is accordingly also not derecognised.

33. Fair value disclosures (continued)

Classification

Financial assets

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

- Amortised cost;
- 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 of 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 principal and interest on the principal 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 principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are mandatorily measured at fair value through profit or loss. In addition, the group designates certain financial assets that would otherwise 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.

Financial liabilities

On initial recognition, the Group 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 Group 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 losses on them on different basis; or
- a Group of financial liabilities; or a group of financial assets and liabilities is 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 Group designates financial instruments as at fair value through profit or loss in line with its risk management policies and procedures that are based on the management of the Group's capital and activities on a fair value basis. The Group's internal management reporting basis is consistent with the classification of its financial instruments.

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.

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 (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 are 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.

Impairment
The Group recognises loss allowances for expected credit losses on:

- Financial assets measured at amortised cost (including contract assets/contract receivables); and
- Financial guarantee contracts

At each reporting date, the loss allowances 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.

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 Group 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 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. 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 allowances 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.

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 loss allowance at the reporting date.

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 (the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

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.

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.

Offsetting
Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Other financial liabilities
Other financial liabilities include:

- Term finance liabilities incurred as part of interest margin business and matched by specific financial assets measured at amortised cost;
- Other term finance liabilities measured at stock exchange prices or amortised cost as applicable;
- Investment contract liabilities measured at fair value, determined on the bases as disclosed in the section on Policy Liabilities and Profit Entitlement; and
- External investors in consolidated funds measured at the attributable net asset value of the respective funds.

Determination of fair value and fair value hierarchy
Below follows required disclosure of fair value measurements, using a three-level fair value hierarchy that reflects the significance of the inputs used in determining the measurements. It should be noted that these disclosure only cover assets and liabilities measured at fair value.

Included in **level 1** category are assets and liabilities that are measured by reference to unadjusted, quoted prices in an active market for identical assets and liabilities.

Included in **level 2** category are assets and liabilities measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are categorised as level 2.

Assets and liabilities measured using inputs that are not based on observable market data are categorised as **level 3**.

33. Fair value disclosures (continued)

R million	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
31 December 2019				
Non-financial instruments	–	–	21 565	21 565
Properties	–	–	21 565	21 565
Financial instruments	478 583	255 866	2 808	737 257
Equities and similar securities	195 603	4 764	1 134	201 501
Interest-bearing investments	77 456	147 811	498	225 765
Investment in joint ventures	–	–	400	400
Structured transactions	862	22 228	–	23 090
Investment funds	200 354	21 073	714	222 141
Trade and other receivables	4 308	7 971	62	12 341
Cash deposits and similar securities: Investments	–	48 504	–	48 504
Cash deposits and similar securities: Working capital assets	–	3 515	–	3 515
Total assets at fair value	478 583	255 866	24 373	758 822
Financial instruments	84 903	434 493	2 184	521 580
External investors in consolidated funds	84 247	397	543	85 187
Investment contract liabilities	–	399 840	1 641	401 481
Term finance		3 314	–	3 314
Structured transactions liabilities	–	19 272	–	19 272
Trade and other payables	656	11 670	–	12 326
Total liabilities at fair value	84 903	434 493	2 184	521 580

R million	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
31 December 2018 (Restated)				
Non-financial instruments	–	–	21 349	21 349
Properties	–	–	21 349	21 349
Financial instruments	406 689	249 119	1 844	657 652
Equities and similar securities	179 365	4 918	504	184 787
Interest-bearing investments	30 137	174 617	69	204 823
Investment in joint ventures	–	–	539	539
Structured transactions	8 013	13 328	–	21 341
Investment funds	182 926	6 347	732	190 005
Trade and other receivables[(1)]	6 248	5 653	–	11 901
Cash deposits and similar securities: Investments[(2)]	–	41 897	–	41 897
Cash deposits and similar securities: Working capital assets	–	2 359	–	2 359
Total assets at fair value	406 689	249 119	23 193	679 001
Financial instruments	62 621	387 434	2 278	452 333
External investors in consolidated funds	61 573	3 960	613	66 146
Investment contract liabilities	–	353 672	1 665	355 337
Term finance	–	3 085	–	3 085
Structured transactions liabilities	–	15 629	–	15 629
Trade and other payables[(1)]	1 048	11 088	–	12 136
Total liabilities at fair value	62 621	387 434	2 278	452 333

(1) *Trading account assets and liability to the amounts of R4 607 million and R4 547 million has been reclassified to amortised cost respectively.*
(2) *Cash deposits and similar securities to the amount of R1 234 million has been reclassified to amortised cost.*

Reconciliation of movements in level 3 assets and liabilities measured at fair value

R million	Properties	Investment in joint ventures	Equities and similar securities	Interest-bearing investments	Investment funds	Trade and other receivables	Total assets
2019							
Assets							
Balance at 1 January 2019	**21 349**	**539**	**504**	**69**	**732**	**–**	**23 193**
Net gains/(losses) in statement of comprehensive income	**847**	**(139)**	**100**	**(2)**	**(68)**	**–**	**738**
Acquired through business combinations	**71**	**–**	**–**	**–**	**–**	**–**	**71**
Acquisitions	**469**	**–**	**175**	**437**	**56**	**–**	**1 137**
Disposals	**(698)**	**–**	**(86)**	**(6)**	**(5)**	**–**	**(795)**
Foreign exchange movements	**(263)**	**–**	**(15)**	**–**	**(1)**	**–**	**(279)**
Reclassified from disposal groups classified as held for sale	**(2)**	**–**	**–**	**–**	**–**	**–**	**(2)**
Transfers from owner-occupied property	**(208)**	**–**	**–**	**–**	**–**	**–**	**(208)**
Transfers from level 2	**–**	**–**	**456**	**–**	**–**	**62**	**518**
Balance at 31 December 2019	**21 565**	**400**	**1 134**	**498**	**714**	**62**	**24 373**
2018							
Balance at 1 January 2018	11 505	359	433	30	330	–	12 657
Net gains in statement of comprehensive income	309	180	20	3	33	–	545
Acquired through business combinations	7 446	–	–	–	–	–	7 446
Acquisitions	2 165	–	131	36	368	–	2 700
Disposals	(171)	–	(100)	–	–	–	(271)
Foreign exchange movements	224	–	20	–	1	–	245
Reclassified from disposal groups classified as held for sale	(128)	–	–	–	–	–	(128)
Transfers to owner-occupied properties	(1)	–	–	–	–	–	(1)
Balance at 31 December 2018	21 349	539	504	69	732	–	23 193

33. Fair value disclosures (continued)

R million	Investment contract liabilities	External investors in consolidated funds	Total liabilities
2019			
Liabilities			
Balance at 1 January 2019	**1 665**	**613**	**2 278**
Net loss/(gains) in statement of comprehensive income	**49**	**(55)**	**(6)**
Acquisitions	**50**	**-**	**50**
Disposals	**(141)**	**-**	**(141)**
Foreign exchange movements	**18**	**(15)**	**3**
Balance at 31 December 2019	**1 641**	**543**	**2 184**
2018			
Balance at 1 January 2018	2 205	527	2 732
Net loss in statement of comprehensive income	25	1	26
Acquisitions	65	-	65
Disposals	(797)	-	(797)
Foreign exchange movements	167	85	252
Balance at 31 December 2018	1 665	613	2 278

R million	2019	2018
Gains and losses (realised and unrealised) included in profit or loss		
Total gains or losses included in profit or loss for the period	**(804)**	519
Total unrealised gains or losses included in profit or loss for the period for assets held at the end of the reporting period	**(112)**	89

Transfers between levels

R million	Equities and similar securities	Interest-bearing invest-ments[1]	Structured transactions	Cash, deposits and similar securities	Total assets
2019					
Assets					
Transfer from level 1 to level 2	**(172)**	**(2 043)**	**(4 291)**	**–**	**(6 506)**
2018					
Transfer from level 1 to level 2	–	142	–	–	142

[1] *Instruments that were not actively traded in the market have been transferred from level 1 to level 2. Conversely, instruments that have become actively traded in the market have been transferred from level 2 to level 1.*

Valuation techniques used in determining the fair value of assets and liabilities

Instrument	Applicable to level	Valuation basis	Main assumptions	Significant unobservable input
Properties	3	Recently contracted prices, discounted cash flow model (DCF), Earnings multiple	Bond and interbank swap interest rate curve, Capitalisation rate, Cost of Capital, Consumer price index, Cash flow forecasts (including vacancy rates).	Capitalisation rate Discount rate Cash flow forecasts (including vacancy rates)
Equities and similar securities	2 and 3	Discounted cash flow model (DCF), Earnings multiple	Cost of Capital, Consumer price index	Cost of Capital Adjusted earnings multiple Budgets Forecasts
Interest-bearing investments	2 and 3	DCF, Quoted put/ surrender price by issuer	Bond and interbank swap interest rate curve, Cost of Capital, Consumer price index	Discount rate
Structured transactions assets and liabilities	2	Option pricing models DCF	Bond and interbank swap interest rate curve. Forward equity and currency rates Volatility risk adjustments	n/a
Investment contract liabilities and investment funds	2 and 3	Current unit price of underlying unitised asset, multiplied by the number of units held. Earnings multiple DCF	Bond and interbank swap interest rate curve, Cost of Capital, Consumer price index Bond interest rate curve	Earnings multiple
Trade and other receivables/payables	2 and 3	DCF, Earnings multiple, Quoted put/ surrender price by issuer, Option pricing models	Bond and interbank swap interest rate curve, Cost of Capital, Consumer price index, Forward rate, Credit risk spread, Liquidity spread	n/a
Cash, deposits and similar securities	2	Mark-to-market Yield curve	Bond and interbank swap interest rate curve Credit spread	n/a
Investment in joint ventures	3	Earnings multiple	Earnings Multiple Country risk, size of the business and marketability	Adjusted earnings multiple Sustainable EBITDA
Term finance	2	DCF	Bond & forward rate Credit ratings of issuer Liquidity spread Agreement interest curves	n/a
External investors in consolidated funds	2 and 3	Current unit price of underlying unitised asset, multiplied by the number of units held	Bond and interbank swap interest rate curve, Cost of Capital, Consumer price index Unit prices	Based on underlying assets

33. Fair value disclosures (continued)

Sensitivity of level 3 assets and liabilities measured at fair value to changes in key assumptions

Assets

R million	Carrying amount	Effect of a 10% increase in risk adjustments	Effect of a 10% decrease in risk adjustments	Carrying amount	Effect of a 1% increase in base/ capitalisation rate	Effect of a 1% decrease in base/ capitalisation rate
Properties						
2019						
Cash flow risk adjustments	21 565	(2 157)	2 157	–	–	–
Base rate	–	–	–	11 464	(436)	473
Capitalisation	–	–	–	11 464	(479)	582

R million	Carrying amount	Effect of a 10% increase in earnings	Effect of a 10% decrease in earnings
2019			
Earnings multiple	10 101	936	(930)

R million	Carrying amount	Effect of a 10% increase in risk adjustments	Effect of a 10% decrease in risk adjustments	Carrying amount	Effect of a 1% increase in base/ capitalisation rate	Effect of a 1% decrease in base/ capitalisation rate
2018						
Cash flow risk adjustments	21 349	(2 135)	2 135	–	–	–
Base rate	–	–	–	9 864	(240)	258
Capitalisation	–	–	–	9 864	(297)	364

R million	Carrying amount	Effect of a 10% increase in earnings	Effect of a 10% decrease in earnings
2018			
Earnings multiple	11 477	1 002	(969)

R million	Carrying amount	Effect of a 10% increase in multiple	Effect of a 10% decrease in multiple	Carrying amount	Effect of a 1% increase in discount rate	Effect of a 1% decrease in discount rate
Other investments						
2019						
Equities and similar securities	**1 134**	**113**	**(113)**	**–**	**–**	**–**
Interest bearing investments	**–**	**–**	**–**	**498**	**(23)**	**14**
Investment funds	**714**	**71**	**(71)**	**–**	**–**	**–**
Investment in joint ventures[(3)]	**400**	**40**	**(40)**	**–**	**–**	**–**
Trade and other receivables	**–**	**–**	**–**	**62**	**(20)**	**21**
Total	**2 248**	**224**	**(224)**	**560**	**(43)**	**35**
Other investments						
2018						
Equities and similar securities	504	50	(50)	–	–	–
Interest bearing investments	–	–	–	69	(1)	2
Investment funds	732	73	(73)	–	–	–
Investment in joint ventures[(3)]	–	–	–	539	(44)	50
Total	1 236	123	(123)	608	(45)	52

Liabilities

R million	Carrying amount[(2)]	Effect of a 10% increase in value	Effect of a 10% decrease in value
2019			
Investment contract liabilities	**1 641**	**164**	**(164)**
External investors in consolidated funds	**543**	**54**	**(54)**
Total liabilities	**2 184**	**218**	**(218)**
2018			
Investment contract liabilities	1 665	167	(167)
External investors in consolidated funds	613	61	(61)
Total liabilities	2 278	228	(228)

(1) *Investment Properties comprise of Sanlam Life properties valued using capitalisation and discount rates, with sensitivities based on these two unobservable inputs. It also comprises of Saham Finances properties valued using a multiple of earnings.*
(2) *Represents mainly private equity investments valued on earnings multiple, with sensitivities based on the full valuation.*
(3) *The valuation methodology applied to the underlying investment changed from a discounted cash flow based methodology to an earnings multiple methodology.*

34. Assets subject to offsetting, enforceable master netting arrangements and similar agreements

R million	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position
31 December 2019			
Assets			
Working capital cash	**811**	**–**	**811**
Trading account assets	**1 398**	**(62)**	**1 336**
Structured transactions assets	**2 722**	**(2 523)**	**199**
Liabilities			
Trading account liabilities	**3 221**	**(62)**	**3 159**
Structured transactions liabilities[4]	**8 762**	**(5 936)**	**2 826**
31 December 2018 (Restated)			
Assets			
Working capital cash	564	–	564
Trading account assets[5]	2 265	(270)	1 995
Structured transactions assets	2 386	(2 115)	271
Liabilities			
Trading account liabilities[5]	3 725	(270)	3 455
Structured transactions liabilities[4]	6 229	(3 362)	2 867

(1) *The figures for other financial instruments column are made up of ISDA netting, CSA collateral, Repo's and scrip received. These amounts have been limited to the net amount recognised on the statement of financial position.*

(2) *Amount used is the lower of collateral received or the value of the financial assets (normally the latter due to over-collateralisation) ISDA netting refers to the netting of derivative exposures to arrive at the net amount owed to and by each counterparty as envisaged in the ISDA agreements with these counterparties.*
Credit Support Agreements (CSA) have been signed with derivative counterparties to place collateral to offset the net exposures in footnote 1.
Scrip lending agreements are governed by GMSLA agreements in terms of which the collateral provided and the scrip received can be netted.
Security/collateral received refers to equity collateral that has been pledged to SCM to cover events of default.

(3) *Excludes enforceable netting arrangements.*

(4) *Structured transactions liabilities include derivative liabilities.*

(5) *Trading account assets and liabilities to the amounts of R4 607 million and R4 547 million have been reclassified to trade receivables and payables respectively.*

Related amounts not set off in the statement of financial position				
Other financial instruments[1]	Cash collateral received[2]	Net amount	Amounts not set off in the statement of financial position[3]	Total amounts recognised in the statement of financial position
(507)	**(104)**	**200**	**30 169**	**30 369**
(1 304)	**–**	**32**	**9 518**	**9 550**
–	**–**	**199**	**22 891**	**23 090**
(3 041)	**(104)**	**14**	**11 998**	**12 012**
–	**–**	**2 826**	**16 446**	**19 272**
(252)	(173)	139	28 012	28 151
(1 900)	–	95	10 081	10 176
–	–	271	21 070	21 341
(3 254)	(173)	28	11 959	11 987
–	–	2 867	12 762	15 629

35. Classification of other financial instruments

35.1 Working capital cash: Cash, deposits and similar securities

Working capital cash: Cash, deposits and similar securities are classified as follows:

R million	2019	2018
Amortised cost[1]	26 854	25 792
Fair value through other comprehensive income[2]	3 515	2 359
Total working capital assets: Cash, deposits and similar securities	**30 369**	28 151

[1] *Working capital assets: Cash, deposits and similar securities that are classified at amortised cost carrying values approximates fair value. These are classified as level 2 instruments and the valuation is based on discounted cash flows.*

[2] *Refer to note 33 for the fair value levels. No material adjustments to fair value occurred during the accounting period.*

35.2 External investors in consolidated funds

These are designated at fair value through profit and loss. Refer to note 33 for the fair value levels.

36. Adoption of new standards and restatements

36.1 IFRS transitional adjustments

IFRS 16 – Leases

IFRS 16 – Leases replaces IAS 17 – Leases along with three interpretations (IFRIC 4 – Determining Whether an Arrangement Contains a Lease, SIC 15 – Operating Leases – Incentives and SIC 27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease).

Until the 2018 financial year, the majority of leases were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 – Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. There was no impact on retained earnings on 1 January 2019.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The Group elected to make use of a single discount rate for portfolios of leases with reasonably similar characteristics.
- The Group elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.
- On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining term.
- Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.
- The Group benefited from the use of hindsight for determining lease terms when considering options to extend and terminate leases.

The Group elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and IFRIC 4.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 8,6%.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	R million
Total operating lease commitments disclosed at 31 December 2018	2 765
Recognition exemptions:	(80)
Leases of low value assets	(4)
Leases with remaining terms of less than 12 months	(76)
Other adjustments relating to commitment disclosures	(202)
Operating lease liabilities before discounting	2 483
Discounting using incremental borrowing rate	(592)
Operating lease liabilities	1 891
Extension and termination options reasonably certain to be exercised	175
Total lease liabilities recognised under IFRS 16 at 1 January 2019	2 066

The recognised right-of-use assets relate to the following types of assets:

R million	1 January 2019
Properties	1 932
Furniture, equipment and vehicles	53
Total right-of-use assets	1 985

Statement of financial position

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 January 2019:

STATEMENT OF FINANCIAL POSITION
at 1 January 2019

R million	Previously reported Audited	Reclassi-fications	Remeasure-ments	Restated Audited
ASSETS				
Equipment	1 587	–	–	1 587
Right-of-use assets	–	(81)	2 066	1 985
Owner-occupied properties	2 010	–	–	2 010
Investments	690 744	–	–	690 744
Deferred tax asset	2 249	–	–	2 249
Working capital assets	72 863	–	–	72 863
Other assets	46 123	–	–	46 123
Total assets	815 576	(81)	2 066	817 561
EQUITY AND LIABILITIES				
Capital and reserves	81 617	–	–	81 617
Term finance	7 413	–	–	7 413
Lease liabilities	–	–	2 066	2 066
Deferred tax liability	5 352	–	–	5 352
Working capital liabilities	54 296	(81)	–	54 215
Trade and other payables	50 761	(81)	–	50 680
Provisions	450	–	–	450
Taxation	3 085	–	–	3 085
Other liabilities	666 898	–	–	666 898
Total liabilities	733 959	(81)	2 066	735 944
Total equity and liabilities	815 576	(81)	2 066	817 561

36. Adoption of new standards and restatements (continued)

36.2 IFRIC 23 – Uncertainty over Income Tax Treatments

This interpretation addresses the accounting for income taxes when the tax treatment involves uncertainty. The interpretation does not apply to taxes or levies outside the scope of IAS 12. The interpretation also does not specifically include requirements relating to interest and penalties associated with the uncertain tax treatments. In addition, the interpretation applies when there is uncertainty over income tax affecting both current tax and deferred tax.

The interpretation specifically addresses the following:

- Whether to consider uncertain tax treatment separately
- The assumptions to be made about the examination of tax treatments by the tax authorities
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- Consideration for changes in facts and circumstances on which judgements and estimates are based

Changes in facts and circumstances have been reassessed on which judgements and estimates are based. The adoption of IFRIC 23 did not have any impact on the statement of financial position or opening retained earnings as at 1 January 2019.

36.3 Restatements of Statement of Financial Position

36.3.1 Saham Finances business acquisition

During the 2019 financial year additional information came to light on the purchase price allocation performed for Saham in 2018. The Statement of Financial Position and relevant notes have been restated to reflect the changes in measurement. The restatement has no impact on the Statement of Comprehensive Income.

The acquisition balances for Saham have been restated in the Group Statement of Financial position by amending each of the financial statement line items for the prior period as follows:

	2018		
R million	**Previously reported**	**Adjustments**	**Restated**
ASSETS			
Goodwill	19 985	407	20 392
Value of business acquired	9 985	(432)	9 553
Other assets	785 631	–	785 631
Total assets	815 601	(25)	815 576
EQUITY AND LIABILITIES			
Capital and reserves	81 617	–	81 617
Deferred tax	5 460	(108)	5 352
General insurance technical provisions	37 950	83	38 033
Other liabilities	690 574	–	690 574
Total liabilities	733 984	(25)	733 959
Total equity and liabilities	815 601	(25)	815 576

36.3.2 Notes to the financial statements

On further integration of Saham into the Sanlam Group during the 2019 financial year, certain classification errors were identified. These did not affect the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity or the Statement of Cash flows. These classification changes affect certain notes to the financial statements only.

The prior year numbers have been restated to reflect the reclassification and disclosures provided within the relevant notes.

36.3.3 Current tax

IAS 1 requires current tax assets to be disclosed on the face of the statement of financial position. The Group has reclassified current tax receivable to the amount of R1 059 million from Trade and Other receivables to Taxation in the Group Statement of financial position in the current financial statements for the comparative period.

SANLAM LIMITED STATEMENT OF FINANCIAL POSITION

at 31 December 2019

R million	Note	2019	2018
ASSETS			
Investment in Group companies: Subsidiaries	2	19 696	18 637
Working capital assets		7 324	5 462
Cash and Bank		2	2
Loans to Group companies	2	7 322	5 460
Total assets		27 020	24 099
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital and premium	3	13 451	5 657
Non-distributable reserves		9 342	9 342
Retained earnings		544	5 551
Shareholders' funds		23 337	20 550
Working capital liabilities		3 683	3 549
Accounts payable		879	845
Taxation payable		2	2
Loans from Group companies	2	2 802	2 702
Total equity and liabilities		27 020	24 099

SANLAM LIMITED STATEMENT OF COMPREHENSIVE INCOME

for the year 31 December 2019

R million	Note	2019	2018
Net income		2 297	6 129
Dividend income		2 183	6 085
Interest income[1]		14	6
Other income		100	38
Expenses			
Administration costs	4	(1 705)	(16)
Net reversal of impairment of investments	2	29	362
Profit before tax		621	6 475
Taxation		(3)	(2)
Profit for the year		618	6 473

[1] *Interest income previously disclosed under Other income is now seperately presented in the Statement of Comprehensive Income.*

SANLAM LIMITED CASH FLOW STATEMENT

for the year ended 31 December 2019

R million	Note	2019	2018
Cash flow from operating activities		**(5 002)**	(287)
Cash (utilised)/generated in operations	9	**(46)**	21
Dividends received		**2 183**	6 085
Dividends paid		**(7 150)**	(6 398)
Interest income		**14**	7
Taxation paid		**(3)**	(2)
Cash flow from investment activities			
Investment in subsidiaries		**(1 030)**	–
Cash flow from financing activities			
Shares issued		**7 794**	5 635
Increase in cash and cash equivalents		**1 762**	5 348
Cash and cash equivalents – beginning of the year		**2 760**	(2 588)
Cash and cash equivalents – end of the year		**4 522**	2 760

SANLAM LIMITED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

R million	Share capital	Share premium	Non-distributable reserve[1]	Retained income	Total
Balance at 1 January 2018	21	1	9 342	5 550	14 914
Profit for the year	–	–	–	6 473	6 473
Dividends declared	–	–	–	(6 472)	(6 472)
Shares issued	1	5 634	–	–	5 635
Balance at 31 December 2018	**22**	**5 635**	**9 342**	**5 551**	**20 550**
Profit for the year	**–**	**–**	**–**	**618**	**618**
Dividends declared	**–**	**–**	**–**	**(7 311)**	**(7 311)**
Shares issued	**1**	**7 793**	**–**	**–**	**7 794**
B-BBEE IFRS 2 costs[2]	**–**	**–**	**–**	**1 686**	**1 686**
Balance at 31 December 2019	**23**	**13 428**	**9 342**	**544**	**23 337**

(1) *Pre-acquisition reserves arising from the demutualisation of Sanlam Life Insurance Limited in 1998.*
(2) *A one-off expense of R1 686 billion was recognised in terms of International Financial Reporting Standards (IFRS) 2 Share-Based Payment in respect of the Broad-Based Black Economic Empowerment (B-BBEE) share issuance to the new B-BBEE special purpose vehicle (SPV).*

SANLAM LIMITED NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. Accounting policies

The accounting policies of the Sanlam Limited Group as set out on pages 59 to 142 are also applicable to Sanlam Limited except for investments in Group companies which are reflected at cost or at a lower value if there is an impairment in value.

The following new or revised IFRS and interpretations became effective in the current financial year:

- IFRS 16 Leases (effective 1 January 2019)
- IFRIC 23 Uncertainty over Income Tax Treatments (effective 1 January 2019)

IFRS 16 and IFRIC 23 do not have an impact on the separate financial statements.

R million	2019	2018
2. Group companies		
Investment in Group companies – shares at cost less impairments	**19 696**	18 637
Current loans with Group companies	**4 520**	2 758
Loans to Group companies	**7 322**	5 460
Loans from Group companies	**(2 802)**	(2 702)
Book value of interest in Group companies	**24 216**	21 395
Net (impairment)/reversal of impairment of investments in Group companies		
Genbel Securities Limited	**141**	405
Sanlam Investments Proprietary Limited	**(104)**	(19)
Sanlam PrefCo Proprietary Limited	**(8)**	(24)
Total net reversal of impairment of investment in Group companies	**29**	362
Fair value of net investment in Group companies	**171 400**	160 047

Loans: Group companies

The loans to/from Group companies are unsecured and repayable on demand. No interest is charged but these arrangements are subject to revision from time to time. Details regarding the principal subsidiaries of Sanlam Limited are set out on page 148.

Investment in Group companies are carried at cost less accumulated impairment. The fair value disclosed are classified level 3 instruments in terms of IFRS 13. Investment management subsidiaries are valued on a discounted cash flow (DCF) basis, subsidiaries that conduct life insurance business are valued at embedded value plus a multiple of new life insurance business and other subsidiaries and loans are valued at DCF. For a description of the valuation methodology used and sensitivities of main assumptions, refer to note 5 on page 196 of the Integrated Report.

All cash receipts and payments of Sanlam Limited are processed out of centrally controlled funds by way of the Company's Subsidiaries who account for the receipts and payments in the loans to/from Group companies. The statement of cash flows has been prepared based upon the actual cash flows during the period regardless of cash and cash equivalents balance held directly by the Company.

R million (At amortised cost)	2019	2018
Loans to Group companies		
Sanpref Proprietary Limited[1]	**3 897**	–
Sanlam Life Insurance Limited	**3 419**	5 460
Loans to other		
Sanlam Foundation	**6**	–
	7 322	5 460
Loans from Group companies		
Sanlam Investment Proprietary Limited	**11**	11
Sanpref Proprietary Limited	**–**	5
Sanlam PrefCo Proprietary Limited	**2 310**	2 310
Sanlam Investment Management Holdings Proprietary Limited	**105**	–
Sanlam Investment Holdings UK Limited	**112**	112
Genbel Securities Limited	**264**	264
	2 802	2 702

The carrying value of loans to Group and other companies approximates fair value.

[1] *Refer to note 29.1 of Sanlam Group Limited Annual Financial Statements.*

3. Share capital and premium

Details of share capital and premium are reflected in note 12 on page 101 of the Sanlam Limited Group financial statements.

4. Administration costs include:

Directors' remuneration

Detail of the directors' remuneration are reflected in the Remuneration Report.

Auditors' remuneration

R million	2019	2018
Audit fees: statutory audit	7	5
B-BBEE IFRS 2 costs	**1 686**	–

5. Dividends

Details of the dividends declared are disclosed on page 68 of the Sanlam Limited Group financial statements.

6. Borrowing powers

In terms of the articles of association of Sanlam Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the Company without limitation.

7. Commitments and contingencies

Details of commitments and contingencies are reflected in note 28 on page 125 of the Sanlam Limited Group financial statements. The maximum utilisation under all of the guarantees granted in favour of Sanlam Capital Markets is R7 billion (2018: R7 billion).

8. Related parties

Details of related parties are reflected in note 29 on page 126 of the Sanlam Limited Group financial statements.

9. Notes to the cash flow statement

R million	2019	2018
Cash utilised in operations		
Profit before tax	621	6 475
Non-cash flow items		
Net reversal of impairment of investments in Group companies	(29)	(362)
Net reversal of gross equity participation costs and fund transfers (IFRS 2)	1 686	–
Items disclosed separately		
Dividends received	(2 183)	(6 085)
Interest income	(14)	(7)
(Decrease) in net working capital liabilities	(127)	–
Cash generated from operations	**(46)**	**21**

10. Tax rate reconciliation

The effective tax rate of Sanlam Limited of 0,56% (2018: 0,03%) differs from the standard rate of taxation of 28% (2018: 28%) due to the effects of non-taxable income: -104,21% (2018: -28,04%), non-deductible expenses 76.85% (2018: 0,07%) and other differences -0,08% (2018: -0,0%). The expenses are incurred in the production of non taxable income, and are therefore non-deductable for income tax purposes.

11. Capital and risk management

The main financial instrument risk that Sanlam Limited is exposed to is credit risk in respect of its loans to Group companies. These loans are tested for impairment in terms of IFRS 9, by establishing whether the borrowing Group company has sufficient accessible liquid assets in order to repay the loan if demanded at the reporting date. If the borrowing Group company is not able to repay the loan if demanded at the reporting date, then Sanlam Limited considers the expected manner of recovery to measure expected credit losses. The credit quality of the loans receivable has been assessed as acceptable within the parameters used to measure and monitor credit risk. The circumstances as at the statement of financial position date is not expected to change in the foreseeable future.

R million	2019	2018
Sanlam Limited's maximum exposure to credit risk is calculated as follows:		
Carrying value of loans granted	**7 322**	5 460

Further details of risk management are disclosed in the Capital and Risk Management Report on page 12.

PRINCIPAL SUBSIDIARIES

at 31 December 2019

R million	% Interest	Issued ordinary capital 2019	Fair value of interest in subsidiaries: Shares 2019	Shares 2018	Loans 2019	Loans 2018
Long-term insurance						
Sanlam Life Insurance Limited	100	**4 999**	**146 708**	140 507	**3 419**	5 460
Investment and capital markets						
Genbel Securities Limited	100	**255**	**4 275**	4 134	**(264)**	(264)
Investment management and consulting						
Sanlam Independent Financial Services (Pty) Limited[2]	100	[1]	[1]	[1]		
Sanlam Investment Holdings Limited[2]	100	[1]	**4 619**	3 948[4]		
Sanlam Investment Holdings (UK) Limited	100	**787**	**5 666**	3 831	**(112)**	(112)
Sanlam Investment Management Holdings Proprietary Limited	100	**2 041**	**3 015**	2 159[4]	**(105)**	–
Investment companies						
Sanlam Spec Proprietary Limited[2][3]	100	[1]	[1]	[1]	**–**	–
Sanlam Investments Proprietary Limited	100	**500**	**165**	270	**(11)**	(11)
Sanlam Share Incentive Trust	100	[1]	[1]	[1]		
Sanpref Proprietary Limited	100	[1]	[1]	[1]	**3 897**	(5)
Sanlam PrefCo Proprietary Limited	100	[1]	**2 432**	2 440	**(2 310)**	(2 310)
Other						
Sanlam Foundation		**n/a**	**n/a**	n/a	**6**	–
Total			**166 880**	157 289	**4 520**	2 758

[1] *Issued share capital is less than R1 000 000.*
[2] *Sanlam Limited provided a letter of guarantee to Sanlam Investment Holdings Limited, Sanlam Spec Proprietary Limited and Sanlam Independent Financial Services (Pty) Limited.*
[3] *Sanlam Limited, with Sanlam Spec Proprietary Limited, provided a letter of guarantee to Real Futures Proprietary Limited.*
[4] *Figures have been restated to reflect the sale of Sanlam Asset Management (Ireland) Limited and Centre Asset Management LLC, previously held by Sanlam Investment Holdings (UK) Limited, to Sanlam Investment Management Holding (Pty) Ltd.*

A register of all subsidiary companies is available for inspection at the registered office of Sanlam Limited. All investments above are unlisted and incorporated in South Africa unless otherwise indicated. Sanlam Limited, via its investment in Sanlam Life Insurance Limited, has the following subsidiaries with material non-controlling interests.

Analysis of the Group's holding in material subsidiaries:

%	Santam Limited[1] 2019	Santam Limited[1] 2018	Botswana Insurance Holdings Limited[2] 2019	Botswana Insurance Holdings Limited[2] 2018	MCIS Insurance[3] 2019	MCIS Insurance[3] 2018	Saham Assurance Maroc[4] 2019	Saham Assurance Maroc[4] 2018
Shareholders' fund	**61,49**	61,39	**59,39**	60,34	**51,00**	51,00	**61,90**	58,48
Policyholders' fund	**0,21**	0,38	**0,80**	2,27	**–**	–	**–**	–
Non-controlling Interest	**38,30**	38,23	**39,81**	37,39	**49,00**	49,00	**38,10**	41,52
Total	**100,00**	100,00	**100,00**	100,00	**100,00**	100,00	**100,00**	100,00

[1] *The financial information of Santam Limited, incorporated and operating mainly in South Africa, which has a material non-controlling interest, has been presented in the Shareholders Fund section on page 182 and page 184 of the online Integrated Report. The carrying amount of the non-controlling interest is presented in note 14 of the Group financial statements on page 103.*
[2] *The financial information of Botswana Insurance Holdings Limited, incorporated and operating mainly in Botswana, which has a material non-controlling interest has "been" summarised below. This information provided is based on amounts before inter-company eliminations.*
[3] *The financial information of MCIS Insurance, incorporated and operating mainly in Malaysia, which has a material non-controlling interest has been summarised below. This information provided is based on amounts before inter-company eliminations.*
[4] *The financial information of Saham Assurance Maroc, incorporated and operating mainly in Morocco which has a material non-controlling interest, has been summarised below. This information provided is based on amounts before inter-company eliminations.*

R million	2019	2018
Santam summarised statement of cash flows for the year ending 31 December 2019:		
Operating	**2 897**	1 136
Investing	**(281)**	(685)
Financing	**(1 559)**	(1 277)
Net increase in cash and cash equivalents	**1 057**	(826)
Dividends paid out to non-controlling interests	**109**	100

Financial information of Botswana Insurance Holdings Limited

Summarised statement of profit or loss: R million	2019	2018
Net income	**5 097**	3 000
Net insurance and investment contract benefits and claims	**(3 577)**	(1 573)
Expenses	**(981)**	(1 106)
Share of profit of associates and joint ventures	**194**	211
Profit before tax	**733**	532
Income tax	**(135)**	(131)
Discontinued operations	**3**	–
Profit for the year	**601**	401
Total comprehensive income	**592**	638
Attributable to non-controlling interests	**236**	251
Dividends paid to non-controlling interests	**203**	232
Summarised statement of financial position as at 31 December 2019:		
Assets		
Investments	**21 174**	21 090
Other non-current assets	**385**	350
Cash and cash equivalents (working capital)	**217**	69
Trade and other receivables	**338**	521
Liabilities		
Policyholder liabilities	**(17 581)**	(13 499)
Other non-current liabilities	**(37)**	(3 960)
Deferred tax (non-current)	**(29)**	(20)
Other current liabilities	**(21)**	(26)
Trade and other payables	**(522)**	(760)
Total equity	**3 924**	3 765
Attributable to:		
Equity holders of the parent	**2 362**	2 357
Non-controlling interest	**1 562**	1 408
Summarised statement of cash flows for the year ending 31 December 2019:		
Operating	**788**	(3 657)
Investing	**(715)**	4 069
Financing	**(5)**	4
Net increase/(decrease) in cash and cash equivalents	**68**	416

Financial information of MCIS Insurance

Summarised statement of profit or loss:

R million	2019	2018
Net income	2 547	1 426
Net insurance and investment contract benefits and claims	(1 645)	(762)
Expenses	(678)	(547)
Profit before tax	224	117
Income tax	(125)	(53)
Profit for the year	99	64
Total comprehensive income	80	196
Attributable to non-controlling interests	39	96
Dividends paid to non-controlling interests	29	11
Summarised statement of financial position as at 31 December 2019:		
Assets		
Investments	15 496	15 226
Other non-current assets	318	231
Cash and cash equivalents (working capital)	117	142
Trade and other receivables	422	453
Liabilities		
Policyholder liabilities	(13 719)	(13 642)
Other non-current liabilities	(60)	–
Deferred tax (non-current)	(116)	(65)
Other current liabilities	(22)	(23)
Trade and other payables	(1 330)	(1 239)
Total equity	1 106	1 083
Attributable to:		
Equity holders of the parent	564	552
Non-controlling interest	542	531
Summarised statement of cash flows for the year ending 31 December 2019:		
Operating	(328)	1 801
Investing	1 887	(1 614)
Net increase in cash and cash equivalents	1 559	187

Financial information of Saham Assurance Maroc:

Summarised statement of profit or loss:

R million	2019	2018
Net income	8 378	1 841
Net insurance and investment contract benefits and claims	(5 490)	(1 014)
Expenses	(1 948)	(509)
Profit before tax	940	318
Income tax	(263)	5
Profit for the year	677	323
Total comprehensive income	677	671
Attributable to non-controlling interests	258	278

Summarised statement of financial position as at 31 December 2019:

R million	2019	2018
Assets		
Investments	23 003	17 803
Other non-current assets	4 251	4 149
Cash and cash equivalents (working capital)	485	1 183
Trade and other receivables	4 471	4 461
Liabilities		
Policyholder liabilities	(9 325)	(8 499)
Other non-current liabilities	(12 205)	(11 246)
Deferred tax (non-current)	(1 031)	(1 243)
Other current liabilities	(129)	(282)
Trade and other payables	(2 684)	(1 246)
Total equity	6 836	5 080
Attributable to:		
Equity holders of the parent	4 232	2 971
Non-controlling interest	2 604	2 109

Summarised statement of cash flows for the year ending 31 December 2019:

R million	2019	2018
Operating	2 142	409
Investing	(2 178)	(58)
Financing	209	(137)
Net increase in cash and cash equivalents	173	214

20