INTEGRATED REPORT
2016

Sanlam
Wealthsmiths™

Insurance | Financial Planning | Retirement | Investments | Wealth

Introducing the 2016 reporting theme: resilience in uncertain times

In the past decade, we have experienced the ways in which systemic shocks such as the financial crisis of 2008, climate disasters and war, can disrupt and destroy value. We have also come to appreciate how a stable and strong financial system can absorb and mute these shocks.

Where a well-established infrastructure of insurance companies, banks, investment groups and stock exchanges exist, individuals and businesses are to some extent protected, and thus better able as a society to manage risks. In these markets, members of society have a choice of life and asset insurance, safe payments systems, access to credit and the ability to trade in any currency with a high level of trust.

South Africa is fortunate to have such a financial system: established and stable, well governed and respected. South Africa is, for example, a forerunner in corporate governance (King IV Report on Corporate Governance for South Africa™, 2016 (King IV™)) has been released on 1 November 2016 and will be effective from 1 April 2017) and the Johannesburg Stock Exchange has been rated as one of the top-ranking stock exchanges in the world. The quality and governance of the auditing profession in South Africa are also highly regarded globally. The recent World Economic Forum Global Competitiveness Report 2016/2017 ranks the strength of South Africa's auditing and reporting standards first out of 138 countries.

These grounded and respected systems have contributed to South Africa's ability to prevent a foreign sovereign ratings downgrade to junk status despite the political, economic and financial uncertainty.

This stands in sharp contrast to countries where citizens have to individually deal with systemic shocks, where they are hindered in access to finance, subject to the limitations caused by strained public finance – all leading to losses of jobs, income, wealth and security.

As one of the largest financial services groups in Africa, Sanlam is a key pillar within the financial infrastructure and our resilience and sustainability are therefore of utmost importance to maintain stability – a responsibility that is unremittingly recognised by the Sanlam Board and which underpins the Group's prudent management and financial reporting approach.

Sanlam's philosophy of Wealthsmiths™ means we are determined and resolute, solid and sensible and we take pride in our legacy as 'safe hands' to be in. It's an attitude that helps us navigate the ups and downs of the financial market and keeps us resilient in challenging times, acting with caution and always treating our clients' money with the respect it deserves to ensure they keep making the most of what they have.

From humble beginnings in 1918, Sanlam is today classified as an internationally active insurance group (IAIG). There are two criteria for an insurance group to be identified as an IAIG:

1. International activity – premiums are written in at least three jurisdictions, and the percentage of gross premiums written outside the home jurisdiction is not less than 10% of the Group's total gross written premium; and

2. Size – based on a rolling three-year average, total assets of not less than USD 50 billion, or gross written premiums of not less than USD 10 billion.

This positions Sanlam as one of the 50 biggest IAIGs in the world.

Sanlam is also classified as a domestically systemically important financial institution (D-SIFI) in South Africa. This means that it can have a significant impact on the economy in any material instance of failure or impairment. It is also the South African listed insurer with the highest exposure to emerging markets – a further perceived market sentiment risk.

Therefore, Sanlam's resilience is a priority beyond the financial results delivered to shareholders – it is a national and international imperative.

Sanlam has an institutional history of almost 100 years. It has proven its resilience by continuing to be a stable and growing investment. We continue to make good progress during tough times through the high premium we place on looking after our clients, diligently executing our strategy, and by further strengthening our position as a Pan-African diversified financial services group. Sanlam was the most sought-after share in the insurance sector in South Africa after the financial crisis in 2007 – evidence of investors' trust in the resilience of the Group.

The 2016 financial year tested our resilience in many ways. This report captures some of the events, challenges and opportunities that we continue to find, despite uncertain times.

Sanlam's resilience factors

- Clear, proven strategy with targets and progress measurement
- Diversity and innovation founded in a culture of client-centricity
- Strong management team with appropriate short and long-term incentives
- Large, stable South African base
- First-mover advantage in the rest of Africa – unmatched Pan-African presence
- Comprehensive and experienced governance structures and Board
- Geographical presence in 47 countries through a choice of distribution channels
- Mature book providing stable cash flow

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Contents

Integrated report

Sanlam is a key pillar within the financial infrastructure and our resilience and sustainability is therefore of utmost importance to maintain stability.

Navigational icons

The following navigational icons are featured throughout this report to improve usability, and to indicate where additional information can be found within this report or online.

Group strategic pillars

Earnings growth

Operational efficiencies

Optimal capital utilisation

Diversification

Transformation

Sustainability themes

Sound governance

People development

Responsible products and services

Prosperous society

Environmental impact

Supplementary information

This icon indicates where additional information can be found within this report.

This icon indicates where additional information can be found in Sanlam's 2016 Annual Reporting Suite online.

This icon indicates where additional information can be found elsewhere online.

About this report continued

In this section:

- What is included/excluded in this report and how content was developed
- The process followed to determine materiality
- The regulatory and best practice frameworks that apply
- What the elements of the reporting suite are and who they are aimed at
- How content is assured
- How to assess forward looking information
- Highest body of approval for this report

Introducing the 2016 Integrated Report

Sanlam Limited (Sanlam) is the holding company of the Sanlam group of companies (or the Group). Sanlam is committed to transparent and relevant stakeholder reporting. The Group's Annual Reporting Suite constitutes a combination of reporting elements – including our Integrated Report – and is addressed primarily at our shareholders. It includes information relevant to other material stakeholders, including clients, employees, agents, brokers, regulators and the broader society in which Sanlam operates. In developing the content for the Annual Reporting Suite, these stakeholders' considerations and priorities were taken into account.

Sanlam's reporting practices continue to evolve in line with global trends and best practice, and is informed by feedback through our engagement with key users of our reports. In recent years, the Group produced separate Annual and Sustainability Reports with different focus areas, guiding frameworks and target audiences. This year, the content of the Annual and Sustainability Reports was fully integrated as part of a single Annual Reporting Suite, which is available on the website and includes the following components:

- This Sanlam Integrated Report that provides a review of the material aspects of the Group's performance in accordance with the International Integrated Reporting Council's International <IR> Framework;
- Corporate Governance Report, that provides detailed information on the Group's governance practices and the functioning of its Board and Board committees;
- Remuneration Report, that expands on the Group's remuneration policy and practices and provides an analysis of all payments made to Directors and members of the Executive committee;
- Annual financial statements for the Sanlam Group and Sanlam Limited; and
- Five supplementary reports, that more comprehensively report on non-financial aspects with a material impact on the sustainability of the business.

The Sanlam Integrated Report is the core of the Group's annual communication to shareholders, with the other reports expanding in more detail on the aspects covered in the Integrated Report. Feedback on this report and the Annual Reporting Suite is welcomed. Please contact Sanlam Investor Relations on IR@sanlam.co.za.

Scope and boundary of our reporting

Sanlam is a South African based diversified financial services group, originally established as a life insurance company in 1918. Sanlam is listed on the Johannesburg Stock Exchange (JSE) with a secondary listing on the Namibian Stock Exchange (NSX) since 1998. It operates through a number of subsidiaries, associated companies and joint ventures. Sanlam Life Insurance Limited (Sanlam Life) is the largest operating subsidiary of Sanlam and the holding company of most of the Group's operations in emerging markets. Sanlam and all of its subsidiaries, associated companies and joint ventures are referred to as the Sanlam Group or the Group.

The report relates to the financial year from 1 January 2016 to 31 December 2016. It covers the activities of the Group in South Africa, the Rest of Africa, India, Southeast Asia and selected developed markets, with the emphasis on South African operations, which contribute 77% to net result from financial services.

Refer to page 26 for the individual countries within these regions that are included in the scope of the report.

All subsidiaries, joint ventures and associated companies recognised in the annual financial statements are included in the report, apart from investments in consolidated funds (collective investment schemes and similar investment funds). These are consolidated in terms of IFRS by virtue of the Group's shareholding, but do not form part of the Group's strategic operations.

For some non-financial metrics, only the South African operations are included, based on their relative size. The metrics to which this limitation applies are indicated.

As a separately listed entity, Santam's employee data is not included in Group numbers, however, it is included in Financial Sector Charter (FSC) Scorecard reporting and where Group-wide programmes are discussed and in scope 1 and scope 2 carbon emissions.

There has been a slight change to the entities reported on with the addition of a fifth Group cluster, the Sanlam Corporate cluster. The clusters are responsible for the management of Sanlam's various operations. They are managed on a federal basis and have delegated authority levels, within the boundaries of governance principles and standards set by the Sanlam Limited Board and the respective regulatory regimes in which they operate. The clusters all have their own boards of directors governing the execution of these principles and standards. The clusters are supported by a shared Group office, which sets the tight standards within which the clusters must operate.

Refer to page 248 for a glossary of terms, definitions and major businesses referenced in the report.

The content development process

The content of this report is comparable to the 2015 report in terms of the entities covered, the measurement methods applied and time frames used for financial and non-financial data. However, readers should keep in mind that the contributions of Afrocentric (from 1 January 2016), Saham Finances (from 1 March 2016), the Zimbabwean operations (from 1 January 2016) and the additional 23% direct stakes in Shriram Life Insurance and Shriram General Insurance (from 1 October 2016) are included for the first time in the 2016 results.

The information provided covers all material matters relating to business strategy, risks and areas of importance to stakeholders. Materiality was determined taking quantitative and qualitative aspects into account:

- For financial information, materiality is based on whether the item is of such significance that it could affect financial decisions made by shareholders of the Group (current and potential). The amount and nature of an item is considered. In general, materiality for financial information is set equal to that of the Shareholders' information and Annual Financial Statements.
- For all other information, materiality is based on whether an item, resource or stakeholder is of such significance that it can prevent the Group from achieving its Return on Group Equity Value (RoGEV) target over the short, medium and long term.

Materiality was determined during a process that included focus groups and individual interviews with a range of internal stakeholders and executives. This was aimed at identifying content for the Integrated and Supplementary Reports. The determination of materiality was further informed by the Group's enterprise risk management and Own Risk and Solvency Assessment (ORSA) reporting processes. Sanlam continuously strives to achieve full alignment between internal and external reporting in content and format of reporting – this also ensures that all matters that are considered material from an internal management perspective are included in the external reporting framework.

Five sustainability themes were confirmed as focus areas for Sanlam to ensure value creation over the short, medium and long term. For each sustainability theme a set of enablers were identified according to the "core" reporting requirements of the Global Reporting Initiative's (GRI) G4 guidelines. The G4 aspects were expanded to include matters that are unique and pertinent to Sanlam and South Africa at present.

The sustainability themes provide a framework to establish concrete links between non-financial and financial performance.

A supplementary report for each sustainability theme is available in the Annual Reporting Suite on the website, with summarised reporting for the material themes included in this report from pages 52 to 67.

About this report continued

Sustainability themes	Sustainability enablers
Sound governance	Business integrity and ethical leadership Regulatory and legislative compliance Risk management
People development	Attraction, recruitment and retention of key talent Training and skills development Transformation and employment equity Organisational culture and employee commitment
Responsible products and services	Ensuring the fair treatment of customers Ensuring that products meet the needs of identified customer groups Ensuring access to clear information Ensuring suitable advice Ensuring access to products that perform Ensuring that there are no unreasonable post-sale barriers
Prosperous society	The Sanlam Foundation Consumer financial education Socio-economic development Enterprise and supplier development Sanlam's BBBEE contribution
Environmental impact	Carbon footprint and electricity Environmental resource conservation Environmentally responsible investing

Managing the Group's impact on the environment is an important part of being a responsible corporate citizen, in particular through environmentally responsible investing as custodian of our clients' and shareholders' wealth. However, it does not materially affect the Group's ability to create value for shareholders given the financial services industry's relatively lighter direct environmental impact, and is therefore not covered in the Integrated Report. Detailed information is available in the supplementary report online, for interested stakeholders.

How useful is the integrated report for Sanlam's providers of capital?

Feedback from our largest shareholders

During the year, Sanlam requested feedback from the Group's largest local and international shareholders (with a combined shareholding of 48%) on the content of the Integrated Report and supplementary information. Summarised feedback per topic indicated the following (Sanlam response in [brackets]):

- **Understanding the strategy of the Group after reading the report:** the respondents were positive, with one request for more information per cluster. [Strategic initiatives per cluster expanded on in the Group Chief Executive's strategic review.]
- **Priority given to sections when reading:** the financials were the most visited section, followed by the Chairman and Group Chief Executive's reports, with less attention on corporate governance and remuneration.
- **The materiality of reporting content:** satisfied, with suggestions to include, for example, quantification of long term opportunities and risks, more granular detail per country and performance tracking per investment. [Disclosure expanded. Performance per key business provided in the Shareholders' information chapter – disclosure per investment not feasible due to restructuring of businesses over time.]
- **The importance of environmental, social and governance factors:** all indicated that these are very important, with dedicated teams assessing content and sourcing detail not included in the integrated report.
- **Forward orientation of the report:** fairly satisfied although in one instance perceived as too high level. [Detailed financial forecasts not provided due to the sensitivity of key performance indicators to operating environment, interest rates, investment market returns and currency exchange rates.]
- **Balanced reporting:** all respondents were in agreement that content is balanced (containing positive and negative aspects).
- **The quality and usefulness of the report compared to peers:** respondents indicated that the report is above average, and in one instance: "the best of the insurers which I look at".

Reporting elements and guiding frameworks

Element and focus	Target audience	Guiding frameworks, legislation and standards	Distribution/availability
The Integrated Report provides a review of the Group and its financial, social and governance performance (including Shareholders' information)	All stakeholders, with emphasis on shareholders	• The International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework • King Code of Governance Principles for South Africa (King III) and the King IV Report on Corporate Governance for South Africa™, 2016 (King IV™). • JSE Listings Requirements (JSE LR) • The Companies Act, 71 of 2008, as amended in South Africa (the Companies Act) • International Financial Reporting Standards (IFRS) • Department of Trade and Industry's broad-based black economic empowerment (BBBEE) Regulations	Incorporated as a separate report in the Sanlam Annual Reporting Suite available online at www.sanlam.com.
Corporate Governance Report	All stakeholders with emphasis on shareholders	• King III/IV™ • JSE LR • The Companies Act • Board notice 158 of 2014 issued by the Financial Services Board	
Remuneration Report	All stakeholders with emphasis on shareholders	• King III/IV™ • JSE LR • The Companies Act	
Full audited Annual Financial Statements for the Sanlam Group and Sanlam Limited Notice of annual general meeting	Shareholders	• IFRS • JSE LR • The Companies Act	
Supplementary sustainability theme reports	All stakeholders	• Global Reporting Initiative's (GRI) G4 Sustainability Reporting Guidelines • <IR> Framework • Financial Sector Code (FSC) • FTSE/JSE responsible investment index • Global Goals for Sustainable Development • National Development Plan 2030	
Sanlam results presentations	Shareholders	• IFRS • JSE LR	www.sanlam.com
SENS announcements	Shareholders	• JSE LR	www.sanlam.com
Sanlam websites containing general and stakeholder-specific information with contact details	All stakeholders	N/A	www.sanlam.com/investorrelations (links to Group company websites)

Combined assurance

To ensure that the Group's key financial and non-financial risks are properly identified, managed and monitored, the Group adopts a combined assurance approach. This approach requires three lines of defense, namely management-based, internal and independent assurance.

Ernst & Young Inc. provided independent assurance on the following aspects of the reports listed in the previous section:

- Audit opinion on the Shareholders' information;
- Audit opinion on the Annual Financial Statements; and
- Limited independent assurance on key elements of the performance information in the supplementary sustainability theme reports.

Information relating to the FSC scorecard was subject to independent assurance by AQRate.

Forward looking statement

In this report, certain statements are made that are not historical facts and relate to analyses and other information based on forecasts of future results not yet determinable, relating, among others, to new business volumes, investment returns (including exchange rate fluctuations) and actuarial assumptions. These statements may also relate to future prospects, developments and business strategies. These are forward looking statements as defined in the USA Private Securities Litigation Reform Act of 1995. Words such as "believe", "anticipate", "intend", "seek", "will", "plan", "could", "may", "endeavour" and "project" and similar expressions are intended to identify such forward looking statements, but are not the exclusive means of identifying such statements. Forward looking statements involve inherent risks and uncertainties and, if one or more of these risks materialise, or should underlying assumptions prove incorrect, actual results may be different from those anticipated. Forward looking statements apply only as of the date on which they are made, and Sanlam does not undertake any obligation to update or revise any of them, whether due to new information, future events or otherwise. Any forward looking information contained in this report has not been reviewed and reported on by Sanlam's external auditors.

Board responsibility statement

The Board of directors acknowledges its responsibility to ensure the integrity of the Integrated Report and evaluated its preparation and presentation. In the opinion of the Board, the Integrated Report was prepared according to the IIRC's <IR> Framework and addresses the material matters pertaining to the long-term sustainability of the Group and presents fairly the integrated performance of the Group and the impacts thereof.

Desmond Smith
Chairman

Ian Kirk
Group Chief Executive

Financial highlights

RoGEV per share	Net result from financial services	Dividend per share
11,8% Adjusted RoGEV of 17,8%	**R7 969m** +10%	**268 cents** +9,4%

Calendar of 2016 events

First quarter

January

Johan van Zyl appointed to the Board as a non-executive director effective 18 January.

February

Junior John Ngulube appointed as Chief Executive Officer (CEO) of the Sanlam Corporate business cluster and member of the Executive committee effective 1 February.

All conditions precedent for the acquisition of an effective 30% interest in Saham Finances, the largest insurance group in Africa (excluding South Africa), is fulfilled and the transaction is effective 29 February.

March

The Tax Laws Amendment Act effective 1 March.

Second quarter

April

May

African Life Assurance Limited in Zambia rebrands to Sanlam Life Insurance on 3 May.

June

18th annual general meeting of Sanlam shareholders is held on 8 June, with all resolutions passed.

New business volumes	Net value of new covered business (VNB)	Net VNB margin
R233bn	**R1 605m**	**2,69%**
+11%	+18%	+7bps

Third quarter

July

Sanlam Investments acquires 49% of Firstglobal Asset Management effective 1 July.

The Water Risk Filter tool is launched in partnership with WWF-SA on 20 July.

August

Santam announces the acquisition of RMB-SI Investments effective 23 August.

Pan Africa Insurance Holdings Limited rebrands to Sanlam Kenya PLC.

September

Kobus Möller retires as Financial Director and from the Sanlam Board on 30 September. He will continue to be involved in the Group's governance structures.

Sanlam Investments acquires Brackenham Holdings, effective 1 September.

Fourth quarter

October

Heinie Werth, CEO of SEM, succeeds Kobus Möller as the Group's Financial Director and executive Director of the Sanlam Board on 1 October 2016.

Junior John Ngulube appointed as CEO of SEM.

Sanlam acquires a further 23% direct stake in Shriram Life and Shriram General Insurance in India, effective 4 October.

November

King IV™ launched on 1 November.

Santam acquires the Absa Insurance Company Limited intermediated commercial book of business, effective 1 November.

December

Sanlam and Santam announce that they will increase their stake in Saham Finances by a further 16.6% to 46.6%.

Sanlam announces Board changes to be implemented in June 2017 with the retirement of Chairman Desmond Smith.

Johan van Zyl announced as Chairman elect.

Sipho Nkosi elected as lead independent director.

Sanlam's value creation map

What material inputs do we use to create value?

- Financial capital
- Human capital
- Intellectual capital
- Social and relationship capital

Read more about the business model on page 36.

How do we know if we are creating value?

- Key performance indicators
- Annual Financial Statements

Read about key performance indicators on pages 52 to 67 and in the full Annual Financial Statements online.

What are our value creation outcomes?

- Increase in savings
- Pooling of risks
- Employment
- Execute Government agenda
- Financial stability
- Consumer confidence
- Financial literacy
- Increased education
- Economic growth

Read about value creation on page 36.

Our purpose is to create a world worth living in and to enable people to live their best possible lives within it.

1 What do we offer that creates value?

- Financial solutions to individuals and institutions

Read about products and services on page 42 and in the supplementary online report on Responsible products and services.
Products and services information is also available online at www.sanlam.co.za

2 Who do we create value for?

- Shareholders
- Clients
- Employees
- Society
- Regulators

Read about stakeholders on page 30 and in the supplementary online reports.

3 What is material for us to create value?

- Sound governance (including ethical leadership)
- People development
- Responsible products and services
- Prosperous society

Read about material themes on page 40 and in the supplementary online reports.

GROUP AT A GLANCE

Group at a glance

In this section:

- Group profile, purpose and structure
- Group activities, markets, channels and geographical presence
- Management structure and focus areas
- Key facts per cluster
- Who our stakeholders are and how we work with them

Sanlam profile

Sanlam is a financial services group, based in South Africa but operating worldwide. It was originally established as a mutual life insurance company in 1918, but demutualised and listed on the JSE and NSX in 1998. The Group provides comprehensive and tailored financial solutions to individual and institutional clients. Sanlam's areas of expertise includes life insurance, financial planning, retirement, trust, wills, general insurance, risk management, capital market activities, investment and wealth management.

The Group's head office is in Bellville near Cape Town in South Africa. It employs 15 856 people and is rated a BBBEE level 2 contributor as determined by the Financial Sector Charter (FSC).

Sanlam's vision

To be the leader in client-centric wealth creation, management and protection in South Africa.

To be a leading Pan-African financial services group with a meaningful presence in India and South-East Asia.

To play a niche role in wealth and investment management in specific developed markets.

Sanlam's purpose

Our purpose is to create a world worth living in and to enable people to live their best possible lives within it.

Business philosophy

The Group is held together by a shared business philosophy that encapsulates the following characteristics:

An entrepreneurial culture: we have an owner-manager culture, underwritten by key concepts of entrepreneurship, empowerment and accountability. Sanlam recruits and develops entrepreneurial and intrapreneurial self-starters that have a passion for what they do. We empower them, hold them accountable and reward them appropriately.

Traditional values: the essence of our culture is captured in traditional values such as honesty, hardworking and ethical behaviour, innovation, stakeholder value and strong ties with business partners.

Innovation: to attract and retain clients, Sanlam provides innovative financial solutions along the full extent of the wealth creation, management and protection value chain. To develop these solutions, we invest in and value diversity in our people, particularly for their contribution to innovative thinking.

Stakeholder value: we only seek win-win relationships with stakeholders, characterised by traditional values that follow the spirit rather than the letter of agreements.

Strong ties with business partners: we seek long-term, mutually beneficial relationships with business partners. When acquiring new businesses, Sanlam's general preference is for majority equity control.

Client-centricity: to generate revenue, we need a loyal and satisfied client base, with a value proposition that incorporates tailored product and service offerings, continuous appropriate advice delivery and an omnichannel presence. The key underlying principles informing our approach to clients are based on the Treating Customers Fairly (TCF) regulatory framework.

Solution-oriented: we provide innovative financial solutions along the full extent of the wealth creation, management and protection value chain. Effective service, product development and pricing, distribution and branding can only occur if they serve the needs of the selected target market.

Business responsibility (federal model): the five clusters are largely autonomous in their management of the business units within a framework of tight principles. The culture is one of owner-manager, with synergy and cooperation amongst the clusters maintained by the Group Office as well as market- and environment related checks and balances. Interdependence is clearly understood in the effort to generate maximum sustainable profit and return on capital employed.

Product solutions and how these are distributed

Sanlam provides financial solutions to individuals and institutional clients through a network of channels and partnerships in 47 countries. These solutions include:

Life insurance

General insurance

Investment management
(including retail savings, asset management and wealth management)

Credit and structuring

Administration, health and other
(such as estate planning, trusts, wills, unsecured lending and health management)

Read more about Sanlam's product solutions on page 42.

Group at a glance continued

The Group follows an omnichannel distribution approach to ensure that clients are reached and serviced through their preferred channel. The distribution model is continually adapted to changing client preferences, with increased focus being placed on further developing the Group's digital capability. The Group's current distribution channels are broadly classified into four categories:

Advisors or tied agents

Advisers service retail clients of the Group via two categories: those who are only accredited to sell Group products and those accredited to sell a wider product range. Where an adviser is accredited to sell a wider product range, limits apply to the proportion of business that can be placed at competitors.

Adviser channels are typically managed according to market segment (lower income/entry-level, middle income, affluent and professional/ small business). This ensures appropriate focus on the specific needs of the various segments in line with the Group's client-centric business philosophy.

Brokers or independent intermediaries

Brokers service retail and institutional clients across market segments and are supported by dedicated broker support units.

Brokers are an important distribution channel, especially in the South African affluent market, where the majority of new business is written through brokers, and in the Rest of Africa, where most institutional general insurance business is placed by brokers. Given their independence to distribute all competitor products, establishing and maintaining superior support and relationships with this channel is a key focus area of the broker support units.

Direct

Direct units distribute Group products directly to retail and institutional clients using technology-based channels such as outbound call centres, online platforms and mobile communication. Direct distribution contributes a major portion of Santam's general insurance premiums through MiWay, but the contribution to new life and investment business volumes is still relatively small. However, this is expected to change over time as the use of technology to buy financial services becomes more prevalent. The development of the Group's digital capability as part of the omni-channel approach is therefore receiving particular emphasis.

Affinity groups, bancassurance and telecommunication partners

Affinity groups focus on distribution through groupings of retail clients, for example, employer and church groups. The affinity group partner is typically responsible for administration at an individual member level, while the Group provides the relevant products.

The Group has relationships with a number of banks and telecommunication companies across Africa through which it distributes insurance and investment products to their client bases.

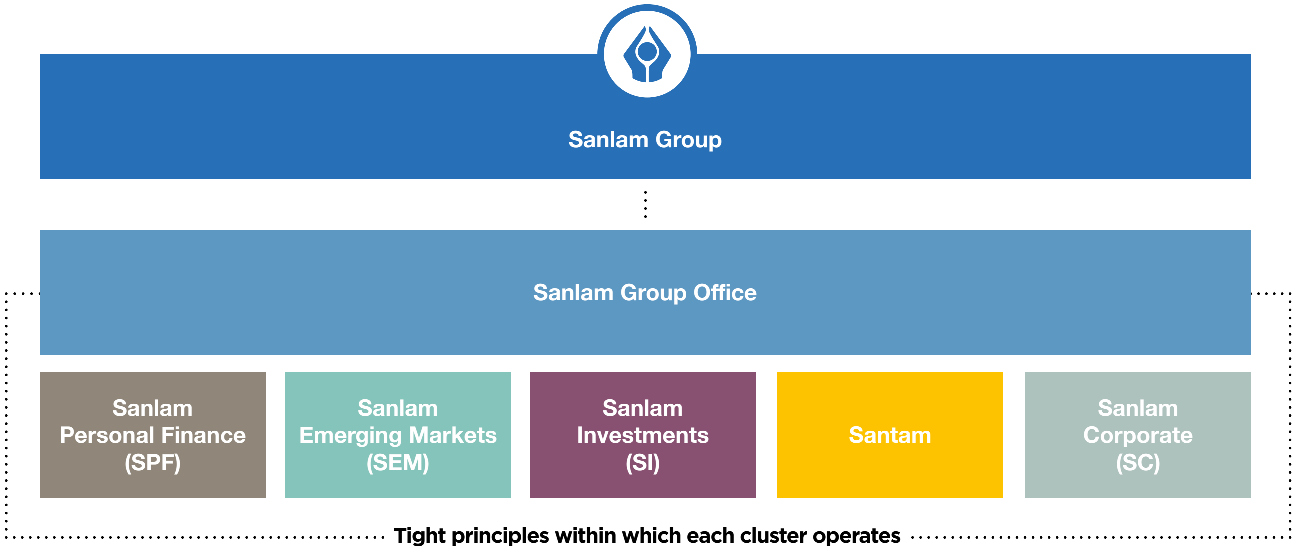
Affinity groups, bancassurance and telecommunication relationships offer the Group access to large client bases through single entry points. This is a key benefit for start-up operations to gain economies of scale significantly faster than through traditional retail intermediaries. It also forms a critical part of the Group's omnichannel distribution approach and promotes financial access in underserviced low income segments due to the lower distribution cost.

Read more in the supplementary report on Responsible products and services online.

A decentralised group structure

Sanlam has a decentralised management structure with all operations conducted through five clusters. This includes a Corporate cluster which was established during 2016. Each cluster is focused on specific markets and/or market segments and is supported by a centre of excellence at the Group level, which sets tight principles within which the clusters must operate.

The establishment of the Sanlam Corporate cluster entailed a restructuring of the underlying units, with Sanlam Employee Benefits (previously under Sanlam Investments), Afrocentric and Sanlam Healthcare (previously under Sanlam Personal Finance), now forming part of Sanlam Corporate.



The Group comprises mutually interdependent or complementary business entities – ensuring that the value of the whole is larger than the sum of the parts – with the main aim being the creation of sustainable growth in shareholder value.

Group at a glance continued

Sanlam Group Office

Responsible for Group strategy, capital management and capital allocation to clusters. The following functions provide Group-wide support and coordination:

- Finance
- Actuarial and Risk management
- Information Technology
- Human Resources
- Market Development
- Brand Services

Net result from financial services

-R107 million (2015: -R109 million)

Number of employees: 259

Sanlam Personal Finance (SPF)

Responsible for the Group's retail business in South Africa. It provides clients with a comprehensive range of appropriate and competitive financial solutions, designed to facilitate long-term wealth creation, protection and niche financing.

- Sanlam Sky Solutions (Sanlam Sky) is responsible for the entry-level market.
- Sanlam Individual Life and Segment Solutions (Individual Life) services the middle income, self-employed and professional markets.
- Glacier by Sanlam (Glacier) focuses on the affluent market.

Net result from financial services

R4 099 million (2015: R3 818 million)

Contribution to Group net result from financial services

51% (2015: 53%)

Number of employees: 6 515

Sanlam Emerging Markets (SEM)

The Group's financial services offering in emerging markets outside South Africa, with the aim of ensuring sustainable delivery and growth across its various businesses.

Focus areas include:

- Retail and group life insurance and related business
- Credit and banking
- General insurance
- Investment management

Net result from financial services

R1 557 million (2015: R1 197 million)

Contribution to Group net result from financial services

20% (2015: 16%)

Number of employees: 1 958

Sanlam Investments (SI)

Provides retail and institutional clients in South Africa, the United Kingdom and elsewhere in Europe access to a comprehensive range of specialised investment management and risk management expertise.

Focus areas include:

- Investment management
- Wealth management
- International investments
- Capital management

Net result from financial services

R1 096 million (2015: R1 056 million)

Contribution to Group net result from financial services

14% (2015: 15%)

Number of employees: 1 143

Santam

Provides a diversified range of general insurance products and services in Southern Africa and internationally to clients ranging from individuals to commercial and specialist business owners and institutions.

Santam's international diversification strategy focuses on reinsurance business, specialised insurance products and the role as technical partner and co-investor in SEM's expansion into Africa, India and South-East Asia.

Santam's business units include:

- Santam Commercial and Personal
- Santam Specialist
- MiWay
- Santam Re
- Santam Emerging Markets Investments

Net result from financial services

R814 million (2015: R933 million)

Contribution to Group net result from financial services

10% (2015: 13%)

Number of employees: 5 749

Sanlam Corporate (SC)

A newly formed business, targeting chosen corporate clients and offering financial solutions underpinned by:

- Employee Benefits (providing risk and investment solutions and administration services to institutions and retirement funds)
- Health solutions and products
- Institutional offerings

Net result from financial services

R510 million (2015: R374 million)

Contribution to Group net result from financial services

6% (2015: 5%)

Number of employees: 232

Business units at 31 December 2016 (100% unless otherwise indicated)

Sanlam Personal Finance

- Sanlam Sky Solutions
- Sanlam Individual Life
- Glacier
- Sanlam Trust
- Multi-Data
- Sanlam Personal Loans (70%)
- Reality

Sanlam Emerging Markets

Retail and Group life insurance and related business:

- Botswana Life, Botswana (59%) via Botswana Insurance Holdings (BIHL[1])
- Sanlam Life, Namibia
- Sanlam Namibia Holdings, Namibia (direct 54% and 5% indirect via Capricorn Investment Holdings)
- NICO Life, Malawi (direct 49% and 8% indirect via NICO Holdings[1])
- Sanlam Life, Kenya (57% via Sanlam Kenya PLC[1])
- Sanlam Life, Tanzania (64%)
- Sanlam Life, Zambia (70%)
- Enterprise Life Assurance, Ghana (49%)
- Sanlam Life, Uganda (99%)
- FBN Life, Nigeria (35%)
- Shriram Life Insurance, India (direct 23% and 19% indirect via Shriram Capital)
- MCIS Insurance, Malaysia (51%)
- Soras VIE, Rwanda (75% via Soras Group)
- Sanlam Mozambique Vida, Mozambique (51% direct and 5% indirect via NICO Holdings)
- Zimnat Life, Zimbabwe (40% indirect via Masawara Investments)
- Saham Finances (30%)

Credit and structuring:

- Bank Windhoek[1], Namibia (13%) via Capricorn Investment Holdings
- Letshego[1] (15%) operating in a number of African countries via BIHL[1]
- NBS Bank, Malawi[1] (7% via NICO Holdings[1])
- Shriram Transport Finance Company (STFC), India (3% direct and 7% via Shriram Capital)
- Shriram City Union Finance (SCUF), India (9% via Shriram Capital)

Sanlam Emerging Markets

Investment management:

- Sanlam Investments, Kenya (57% via Sanlam Kenya PLC[1])
- SIM Namibia (86%)
- Botswana Insurance Fund Management (59% via BIHL[1])

General insurance (including Santam's participation):

- NICO Malawi (direct 49% and 8% indirect via NICO Holdings[1])
- Sanlam General Insurance – Tanzania, Tanzania (direct 47% and 3% indirect via NICO Holdings[1])
- Sanlam General Insurance – Uganda, Uganda (direct 79% and 3% indirect via NICO Holdings[1])
- NICO Zambia, Zambia (direct 49% and 8% indirect via NICO Holdings[1])
- Shriram General Insurance, India (direct 23% and 20% via Shriram Capital)
- Pacific & Orient, Malaysia (49%)
- Legal Guard, Botswana (59% via BIHL[1])
- FBN General Insurance, Nigeria (35% via FBN Life)
- Soras Assurance General, Rwanda (75% via Soras Group)
- Santam Namibia, Namibia (excluding Santam's direct share) (37%)
- Enterprise Insurance Company, Ghana (40%)
- Sanlam General Insurance, Kenya (39% indirect through Sanlam Kenya PLC[1])
- Zimnat Lion, Zimbabwe (40% indirect via Masawara Investments)
- Grand Reinsurance, Zimbabwe (40% indirect via Masawara Investments)
- BIC Botswana (29%) via BIHL[1]
- Saham Finances (30%)

Sanlam Investments

Investment Management:

- Sanlam Investment Management
- Sanlam Africa Investments
- Sanlam Properties
- Sanlam Private Equity
- Sanlam Alternative Investments
- Sanlam Structured Solutions
- Satrix
- Sanlam Multi Manager International
- Sanlam Collective Investments
- Blue Ink
- Graviton Wealth
- Graviton Financial Partners

Wealth Management:

- Sanlam Private Wealth
- Sanlam Private Wealth Australia (50,1%)
- Centre (69,6%), an American and global asset management company based on Wall Street
- Sanlam Global Investment Solutions, providing specialist investment services and international mutual fund administration
- Summit Trust (65%), an international independent trust services group in Switzerland
- Brackenham Holdings

Capital Management:

Sanlam Capital Markets

International:

Sanlam UK, comprising:

- Sanlam Investments and Pensions
- Sanlam Distribution
- Sanlam Private Wealth (97%)
- Sanlam Four (89,7%)
- Sanlam Asset Management Ireland

Santam[1]

- Santam Commercial and Personal
- Santam Specialist
- Santam Re
- MiWay
- Santam Emerging Markets Investments (indirect stake in SEM general insurance businesses)

Sanlam Corporate

Sanlam Employee Benefits:

- Sanlam Group Risk
- SEB Investments
- Sanlam Umbrella Solutions
- Sanlam Retirement Fund Administration
- Simeka Consultants and Actuaries

Sanlam Healthcare:

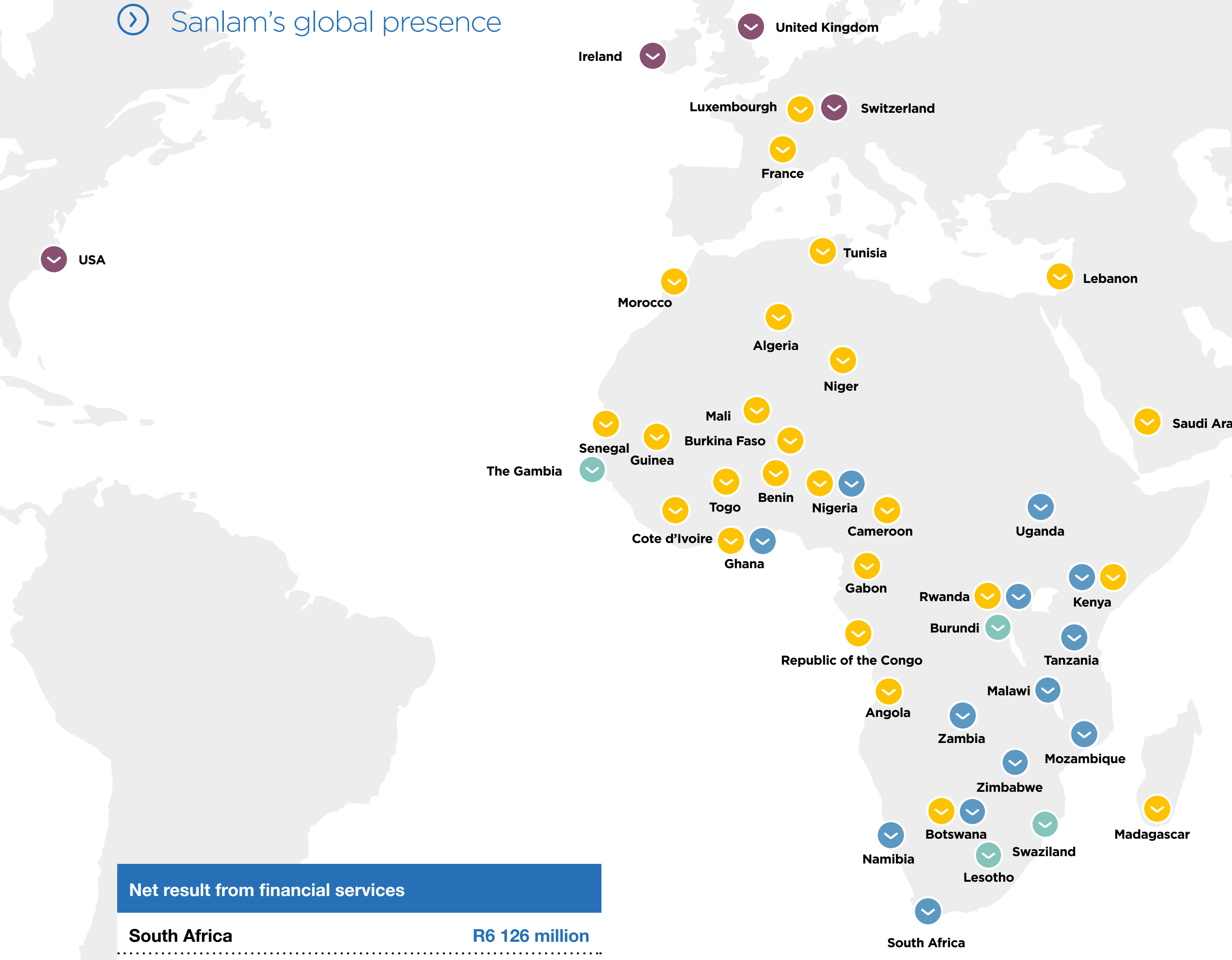
- Afrocentric (29%)
- Sanlam Healthcare Management

[1] *Listed entities. Refer to the relevant company website for information available in the public domain:*

Bank Windhoek: www.bwholdings.com.na
BIHL: www.bihl.co.bw
Letshego: www.letshego.com
NBS Bank: www.nbsmw.com
NICO Holdings: www.nicomw.com
Sanlam Kenya: www.sanlam.com/kenya
Santam: www.santam.co.za
SCUF: www.shriramcity.in
STFC: www.stfc.in

Group at a glance continued

Sanlam's global presence



Net result from financial services	
South Africa	**R6 126 million**
Rest of Africa	**R996 million**
Namibia	**R320 million**
Botswana	**R377 million**
Other	**R299 million**
India	**R534 million**
Malaysia	**R61 million**
Other international	**R252 million**

- Emerging markets – direct presence
- Indirect presence through Saham Finances
- Emerging markets – indirect through other presence
- Developed markets

Group at a glance continued

Sanlam's presence per line of business

Country	Life insurance	General insurance	Investment management	Credit/ banking	Other	Assistance	Reinsurance
Algeria							
Angola							
Australia			Sanlam				
Benin							
Botswana	BIHL GROUP	BIHL GROUP	BIHL GROUP	BIHL GROUP	BIHL GROUP		
Burkina Faso							
Burundi	✓	✓					
Cameroon							
Congo-Brazzaville							
Côte d'Ivoire							
France							
Gabon							
Ghana		✓		✓	✓		
Guinea							
India		SHRIRAM			✓		
Ireland			Sanlam				
Kenya	Sanlam	Sanlam	Sanlam	✓			
Lebanon							
Lesotho				✓			
Luxembourg							
Madagascar							
Malawi							
Malaysia	MCIS	✓					
Mali							
Mauritius					✓		
Morocco							
Mozambique	Sanlam			✓			
Namibia	Sanlam	santam	Sanlam	✓			

Country	Life insurance	General insurance	Investment management	Credit/ banking	Other	Assistance	Reinsurance
Niger							
Nigeria	✓	✓					
Philippines		✓					
Rwanda				✓			
Saudi Arabia							
Senegal							
South Africa	Sanlam	Santam	Sanlam	Sanlam	Sanlam		Santam
Swaziland	✓			✓			
Switzerland			Sanlam				
Tanzania	Sanlam	Sanlam		✓			
The Gambia	✓						
Togo							
Tunisia							
Uganda	Sanlam	Sanlam		✓			
United Kingdom			Sanlam				
United States of America			Sanlam				
Zambia	Sanlam		BIHL GROUP	✓			
Zimbabwe	✓	✓	✓	✓			

✓ *Indirect presence via associated companies*

Sanlam is one of the 50 largest internationally active insurance groups in the world with a presence in 47 countries.

Through SEM, Sanlam has the most extensive footprint in emerging markets among the listed South African insurers.

Group at a glance continued

Strategic pillars and material sustainability themes

Sanlam's five strategic pillars drive the Group's delivery on its key objective: to create sustainable value for shareholders over the long term.

Earnings growth	Improving performance through topline earnings growth by increasing market share in key segments and diversifying the base (including diversification of geographical presence, products, market segments and distribution platforms)
Operational efficiency	Optimising operating and cost efficiencies
Optimal capital utilisation	Enhancing capital efficiency on an ongoing basis, including the allocation of capital to business units in a manner which will achieve stated RoGEV targets
Diversification	Prioritising diversification by enhancing Sanlam's international positioning and growing the relative importance and contribution of the international business to the Group, with a specific Pan-African focus
Transformation	Commitment to the promotion of transformation and diversity within our operations and broadly through our contribution to socio-economic development in the countries and markets in which we operate, whether that be directly, or via the business partners with whom we choose to collaborate

Changes in client preferences, operating environments, regulatory regimes and the development phase of businesses manifest in the different strategic pillars receiving varied levels of focus across Group businesses over time. This supports flexible strategic execution and enhanced agility and innovation.

Sanlam is well-regarded in the investment community for the success of its strategic execution. This success is dependent on the most effective management of the Group's resources and continued focus on four material sustainability themes:

	Sound governance	Successful execution of Sanlam's strategy depends on the Group's ability to deliver on business promises and principles through sound practices and processes, as well as ethical leadership and behaviour. This includes effective risk management and the appropriate balancing of stakeholder interests to ensure sustainable value creation for stakeholders.
	People development	Sanlam operates within a complex, global environment that requires skilful response and management. Therefore, the Group must continue to find, engage and motivate the best people to ensure optimal delivery of each strategic pillar. Sanlam must also speed up transformation to reflect the demographics of its client base and the broader societies in which it operates, a prerequisite for long-term sustainable performance.
	Responsible products and services	Sanlam must provide appropriate and fairly-priced products and services that grow and preserve the wealth of its clients and broader society. This is a key driver of new business growth and client retention, which in turn support earnings growth and the sustainability of the Sanlam business model. Sanlam also has a responsibility to improve access to financial services, broaden wealth distribution, and promote a savings ethos through innovative product and service development.
	Prosperous society	Wealth creation requires a healthy, growing and equitable economy. Sanlam contributes to the achievement of this outcome by responsibly managing and protecting the retirement savings of millions of people, by providing protection for their assets, providing liquidity to the banking industry, investing in local businesses and communities through enterprise and supplier development, and by enhancing innovative product and service development.

In South Africa our strategy is about retaining our leadership position in financial services and putting distance between us and our competitors.

Outside South Africa our strategy is about deepening and enhancing our existing relationships and product ranges to become a leading player in our targeted territories – accelerated organic growth.

The Sanlam stakeholder network

Sanlam is committed to mutually beneficial relationships with stakeholders that build trust and confidence in the Group.

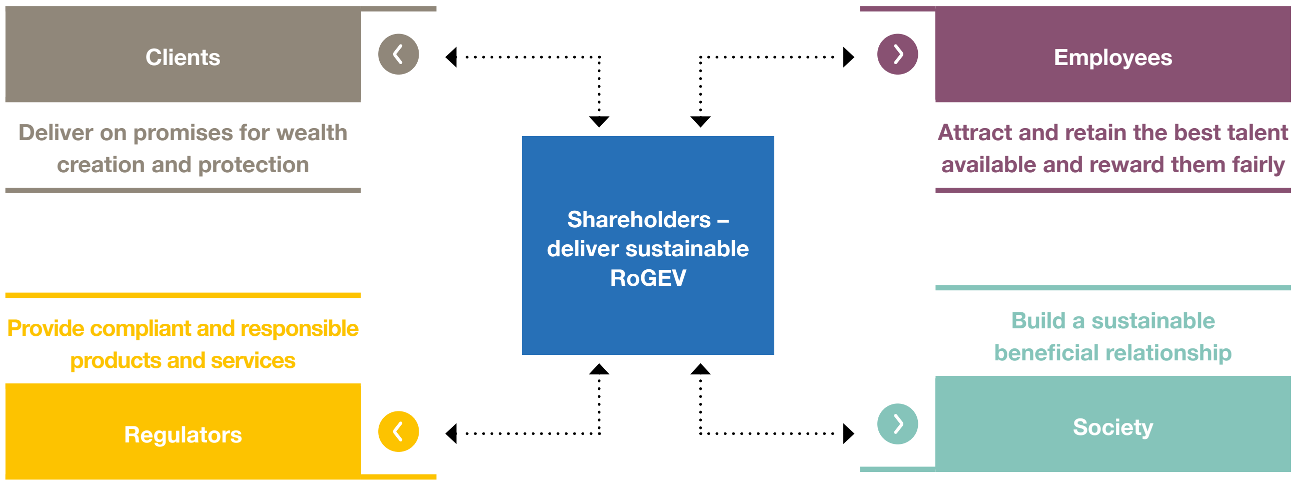
As a listed entity, Sanlam's shareholders - the providers of financial capital - are the Group's primary stakeholders. To ensure value creation for shareholders over the long term, the Sanlam Board and executive management are responsible for managing the Group in a sustainable manner.

However, sustainable shareholder value is dependent on Sanlam's ability to generate sustainable value for all other relevant stakeholders. These stakeholders are identified and selected on the basis of their material impact on the broader Sanlam business. This means that they provide inputs of one or more capitals that contribute to the successful execution of the Group's strategy. They further provide resources that can materially influence the value drivers of Sanlam's business model.

The extended universe of Sanlam's stakeholders includes BBBEE partners, labour, NGO's, academic institutions, media, suppliers, intermediaries, agents, employees, business partners, clients, Government, industry bodies and regulatory bodies. The concerns and expectations of all stakeholders are considered; however, Sanlam has selected its material stakeholders who contribute most significantly to the Group's value drivers. These key stakeholders are:

Stakeholder network	Description	Affiliated capital
Shareholders:	primary providers of financial capital	**Financial capital**
Clients:	consumers of Sanlam's products and services to achieve their wealth creation and wealth protection goals	**Financial capital** **Social and relationship capital**
Regulators:	providers of financial stability and a sustainable environment for financial services through prudential and market conduct regulation	**Social and relationship capital**
Employees (including tied agents):	providers of skills and expertise that support the activities inherent in the Group's business model	**Intellectual capital** **Human capital**
Society:	the base from which demand for the Group's products and services is generated, and from which human resources are employed	**Social and relationship capital** **Human capital**

Sanlam's core responsibility to each of its material stakeholder groups is outlined below:



Read more about the value created for each stakeholder group from page 52.

Stakeholder relations

The Group has a documented strategy to guide engagement with key stakeholders. An approved stakeholder communication policy is in place and available on the Sanlam website.

Each business cluster manages stakeholder engagement according to the specific focus in their operations. The various clusters report all stakeholder engagement activities and concerns raised to the Sanlam stakeholder hub on a quarterly basis. The stakeholder hub is a centralised stakeholder database that also serves as an issue log. This information is collated and reported to the SES committee. Additionally, it is considered part of the Group's regular review of its Sustainability Management Framework.

While this approach supports stakeholder engagement across the various business units, it has not fostered a fully integrated approach to stakeholder engagement at Sanlam. This has resulted in some lack of strategic coherence that has hindered the Group's ability to measure the impact of engagements, identify interrelated risks and opportunities, and capitalise on internal capabilities. The Group is addressing this by creating additional capacity in the Group Office with a specific focus on stakeholder engagement.

To overcome these internal challenges in South Africa, Group Market Development (GMD) provides a critical support function through visible and client-centric, face-to-face engagement. The unit has established relationships with multiple tertiary institutions in South Africa, trade unions, Government departments (including National Treasury), private sector institutions and affinity groups such as churches. GMD further facilities cross-selling and collaboration between clusters to execute on market opportunities through the Sanlam Provincial Advisory Boards (SPABs). For example, the unit established account teams for key national accounts. All Sanlam businesses that have touch points with these institutions are part of these teams. This enables a seamless rather than siloed approach to stakeholder engagement.

SEM's primary stakeholders are in-country partners, core shareholders and their representatives within the governance structures, followed by management teams and their employees in the countries in which the cluster operates. SEM's engagement with these stakeholders is supportive and not intrusive. Further core stakeholders are in-country regulators, who are in many cases introducing risk-based regulation, which results in higher levels of change. As SEM has experience in the implementation of these regulations, engagements focus on insights and support. SEM also maintains good relationships with South African embassies in all markets to ensure business access and support when needed.

Type and frequency of stakeholder engagement

Stakeholder engagement at Sanlam occurs continuously, with no specified frequency. Rather, engagement is dependent on the needs of the various stakeholders and business clusters, and as required by GMD.

Stakeholder group	Key touchpoints
Shareholders	Bi-annual results presentations and operational updates, the Sanlam investor conference, the AGM and *ad hoc* meetings facilitate information sharing with shareholders and investors, who also have access to results via the Annual Reporting Suite, website and SENS. Read more about specific feedback from investors on the Integrated Report and supplementary information on page 7.
Clients	Engagements with clients occurs continuously during the course of client transaction processes, and throughout all stages of the product life cycle. Client satisfaction is measured through the South African Customer Satisfaction Index (SAcsi) survey. Read more about the results of this survey in the Chairman's letter of introduction on page 92.
Regulators	To ensure that the Group plays a constructive role in the development of national policy and regulation in South Africa, Sanlam engages with Government and the Financial Services Board (FSB) through industry associations and various business chambers. These include, among others: - The Association for Savings and Investment South Africa (ASISA) - The South African Insurance Association (SAIA) - Business Unity South Africa (BUSA) - Business Leadership South Africa (BLSA) - The Black Management Forum (BMF) - The National Economic Development and Labour Council (Nedlac) - The National Business Initiative (NBI) For SEM, priority stakeholders include in-country regulators and the various embassies of countries in which the cluster operates. Regular engagements are conducted by local management teams. The Group Chief Executive also engages with these stakeholders during country visits.
Employees	Sanlam's engagement with its employees is ongoing and occurs at various touch points. This is supported by the connectivity pillar of the Group's Employee Value Proposition (EVP). Each year, Sanlam conducts an employee engagement survey in its largest operations. The results of this survey inform Group-wide programmes that aim to enhance employee connectivity and engagement. Read more in the online supplementary report on People development.
Society	The Sanlam Foundation is the Group's primary CSI vehicle, which focuses on shared-value initiatives to fulfil the needs of society and business. The Sanlam Foundation aims to achieve a sustained and long-term positive impact on the communities where the Group operates. Various CSI initiatives, aligned to the Group priorities, are conducted in-country by the SEM businesses. Read more about the Sanlam Foundation online in the supplementary report on Prosperous society.

Sanlam Benchmark Survey

Sharing thought leadership with stakeholders.

The annual Sanlam Benchmark Survey, which has been conducted since 1981, is an example of value created through collective stakeholder participation in sharing information. Sanlam Employee Benefits (SEB) collects data, conducts interviews, publishes and distributes the annual research survey free of charge, thereby providing a comprehensive review of South Africa's retirement industry. The survey enables a wide range of stakeholders – including Government, retirement fund trustees and members, pensioners, employer representatives, financial advisors and principal officers – to make informed decisions about the funds that they invest in or manage.

The intention of the Sanlam Benchmark Survey is to guide members towards financially robust retirement. This is achieved by providing insights that stimulate conversation, create meaningful opportunities for further engagement with industry stakeholders and ultimately help to effect a positive financial outcome in retirement for South Africans.

The outcome of the survey is shared at the annual Benchmark Symposium, which was first held in 2003.

Benefits of the Sanlam Benchmark Survey include access to a repository of information and trends specific to retirement. This enables retirement funds to design benefit structures and communication strategies that are based on membership needs and current industry trends. By improving the levels of saving for retirement, the industry is also in a position to improve the current savings levels in South Africa.

Find more information online at www.sanlambenchmark.co.za.

VALUE CREATION THROUGH THE SANLAM BUSINESS MODEL

Value creation through the Sanlam business model

In this section:

- What are Sanlam's material capital inputs
- A visual summary of Sanlam's business model
- How the capitals are applied to create value – including prerequisites and trade-offs
- A summary of how the Group creates value for its key stakeholders
- Key elements of the Group's competitive advantage and value creation ability

The six capital context for Sanlam

"The six capitals represent the stores of value that are the basis of an organisation's value creation."

– Capitals background paper for <IR>, March 2013

The Group has been creating value for stakeholders since 1918. The Group acknowledges that value perceptions differ per stakeholder and that strategic decisions have to balance their interests, which are sometimes conflicting. The ability to understand the trade-offs and long-term consequences of these choices is a Sanlam strength, evidenced by the value created for stakeholders over many decades.

In 2015, Sanlam defined six capitals that are required by the Group to be able to operate. These capitals are recommended by the <IR> framework. Given the nature of the Group's operations it has a relatively low impact on manufactured and natural capital. These two capitals are therefore referenced below but not dealt with further in this report. Within the context of social and relationship capital, specific emphasis is placed on the relationship with regulators given the importance of this stakeholder for Sanlam as a financial services group with a multinational footprint.

Material capitals

Financial capital	This capital includes revenue from products and services offered to clients and investment return earned on the shareholders' fund. Public listings on the JSE and NSX provide further access to share capital. Sanlam's financial strength enables is to issue subordinated debt as part of its capital structure.
Human capital	Sanlam depends on the individual and collective competencies, capabilities, talent and experience of its employees to manage the business efficiently, understand client needs, develop and distribute appropriate products and services and effectively manage the risks that the business is exposed to. Human capital also resides in the beneficiaries of the Sanlam Foundation's education and bursary programmes, who are potential future employees.
Intellectual capital	This capital includes the Group's intellectual assets, such as strong institutional knowledge, efficient operational processes and IT systems, as well as mature risk management practices. These intangible assets facilitate knowledge sharing and value creation between Sanlam's employees, operations and the markets where the Group and its subsidiaries operate.
Social and relationship capital	Sanlam relies on strong relationships with stakeholders to sustain its social license to operate. The Wealthsmiths™ and The Sanlam Way directs the Group's relationships, client-centric culture and way of doing business. Sanlam is dependent on an efficient regulatory environment that promotes responsible products and services, fair treatment of clients and fair competition between participants in the industry. Cooperation with regulators is therefore a key relationship capital.

Other capitals

Manufactured capital	Physical assets used by the Group to develop products and services, and deliver those products and services to market. These include the Sanlam, Santam and Sanlam Investments head offices in Cape Town, with additional offices and branches across the markets where the Group and its subsidiaries operate. Sanlam makes use of infrastructure that includes road and air travel, and communication technology. Communication technology is particularly relevant for delivery of the digital component of Sanlam's omnichannel distribution approach.
Natural capital	Sanlam's use of natural capitals relies predominantly on electricity and water. However, given the nature of financial services, the Group's direct impact on the environment is relatively low. The Group invests clients' and shareholders' funds in businesses that may have a significant impact on natural resources. As a signatory to the United Nations Principles for Responsible Investing, the Group favours companies that demonstrate sound environmental practices.

Value creation through the Sanlam business model continued

Our business model

Capital inputs

In the preceding and following pages of this section, Sanlam's use of the material capitals – with positive and negative impact on future availability – is described as input elements into the Group's business model. The scope of the Group's capital requirements is determined by its strategic intent and purpose:

Sanlam is a leader in an industry that allows individuals and businesses to pool risks and funds in pursuit of wealth protection and creation, and support this by providing credit funding and ancillary services.

Business activities

To operate and succeed as a financial services group, Sanlam developed a unique set of key capabilities and competencies. These enable the Group to provide value-adding products and services as output to the business model.

- Competitive and diversified financial solutions
- Presence in all forms of distribution channels
- Track record of responsible and efficient capital allocation
- Scale and presence in 47 developed and emerging markets
- Strong and trusted brand
- Employ some of the best and most experienced skills in the industry

These capabilities and competencies are applied through the following key business activities:

Product development

- Retail client solutions
- Institutional client solutions

Distribution and client support

- Distribution channels
- Client support services, including administration, actuarial, human resources and information technology

Product management

- Investment management
- Asset-liability matching
- Experience analysis
- Governance of participating products

Business support

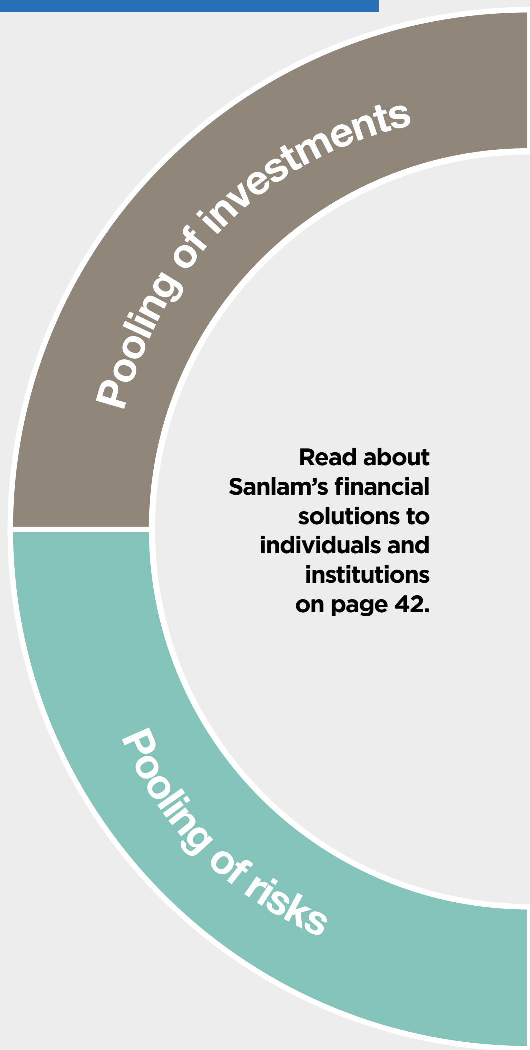
- Business support services including financial management accounting, actuarial valuations, regulatory reporting, human resources and information technology

Capital and risk management

- Redeployment of discretionary capital
- Optimal allocation of financial capital to clusters
- Financial and actuarial risk management
- Regulatory compliance

Business philosophy

The business philosophy described on page 17 explains how the Group acts and behaves as "One Firm". It includes a summary of Sanlam's culture, values and responsibilities, thereby encapsulating the way in which it does business and allocates resources.



Read about Sanlam's financial solutions to individuals and institutions on page 42.

Read more about the Group's omnichannel distribution approach on page 18. Distribution channels broadly include:

- Advisors or tied agents
- Brokers or independent intermediaries
- Direct
- Affinity groups and bancassurance partners

Read more about the risks that might affect the Group's ability to provide these products and services in a sustainable manner on page 41 .

Outputs

Read more about Sanlam's products and services on page 42 and in the supplementary online reports.

Outcomes

Sanlam has identified nine major outcomes that encompass the result of its business activities.

- Increase in savings
- Pooling of risks
- Employment opportunities (job creation)
- Execution on Government's social agenda
- Financial stability
- Consumer confidence and trust
- Financial literacy
- Increase in level of education and skills
- Economic growth

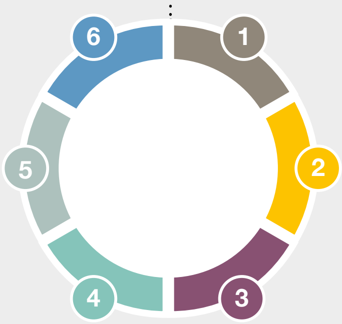
Sanlam evaluates these outcomes according to the value created per stakeholder group and is cognisant of the potential negative and positive impacts created by each. Read more about these impacts from page 44. Outcomes further include a consideration of the trade-offs that are required per capital and key stakeholder to achieve specific outcomes. Read more about the trade-offs from page 47.

The outcomes are also based on certain prerequisites for value creation, and Sanlam's strategic choices in implementing its strategy. Read more about the prerequisites on page 41 and about strategy in the Group Chief Executive's strategic review on page 99.

A specific outcome for 2016 relates to the Group's resilience in uncertain times. Read more about the Group's resilience factors on page 1. These ensure the continued provision of wealth creation and protection opportunities.

Read more about the material themes that enable the Group to create value over the long term in the supplementary reports online.

See the value creation map on page 12 as a further summary of elements to support Sanlam's purpose statement.



Value creation through the Sanlam business model continued

In considering the sustainability of the Sanlam business model, the future availability and supply of each capital is assessed. The Group furthermore considers the ease of access to each capital, as this is an indicator of potential operational risk. The assessment of potential positive or negative impacts on society for each capital, is based on Sanlam's use, transformation and replenishment of each capital. According to the analysis below, Sanlam can have a potential negative impact on society in terms of the following capitals:

- Financial – due to Sanlam's size and position as a domestic systemically important financial services player, there is risk that the Group can destroy financial capital for society due to non-performance or failure.
- Social and relationship capital – if Sanlam does not successfully contribute to transformation, the Group will have a negative impact on society by not contributing to the development of communities and empowerment through job creation and enterprise development. In addition, if Sanlam does not foster a good relationship with regulators it can loose its license to operate, which will have a negative impact on all capital providers.

The supplementary reports address the sustainability of each capital and explains how Sanlam takes a long-term mitigating approach, especially where some of the capitals can become limited in supply or non-renewable.

Capital input	Sustainability theme	Supply and future availability of this capital	Ease of access to this capital	Potential negative impact on society
Financial capital	Responsible products and services Sound governance Prosperous society	🟢	🟢	🔴
Human capital	People development	🟡	🟡	🟢
Intellectual capital	Sound governance People development	🟢	🟢	🟢
Social and relationship capital	Prosperous society Sound governance	🟢	🟢	🔴

🟢 Sanlam enjoys a sustainable position regarding this capital

🟡 Sanlam has to manage the sustainable status of this capital through active intervention

🔴 Sanlam contributes towards mitigating risk in the sustainable status of this capital

Read more in the supplement reports per sustainability theme on the website.

Value creation prerequisites

The capitals described in this section provide the necessary inputs for Sanlam to develop and provide financial solutions. Sanlam's sustainability over the long term is, however, inextricably linked to four key prerequisites without which the Group will not be able to create value. These prerequisites are described in the table below, which also indicates the related capital, the strategic pillars affected as well as the material sustainability themes through which prolonged availability is managed. Key strategic risks linked to each prerequisite are also indicated.

Read more about key strategic risks on page 50.

Prerequisite	Capital	Strategic pillar	Material sustainability themes	Key strategic risk
Client participation Clients need to trust Sanlam – without their funds and contribution, and their trust in Sanlam to protect and manage their wealth, the Group's business model will fail	Social and relationship	Earnings growth	Sound governance Responsible products and services	Threats to the Group's relevance
Economic growth Sanlam can only grow its value contribution if the economies where it operates continue to grow and create employment opportunities	Financial	Earnings growth Diversification	Prosperous society	Poor economic growth
Well governed financial industry and functioning business infrastructure A well governed financial services industry provides stability, client trust in the industry and a competitive environment	Social and relationship	Earnings growth	Sound governance Responsible products and services	Simultaneous regulatory implementation
Access to human expertise The Group's business model is based on various activities that are complex in nature and require specialised financial, actuarial, risk management, distribution and other skills. The availability of these skills is fundamental to the Group's ability to offer its products and services, and is a key factor in its competitive advantage	Human	Earnings growth Transformation	People development Prosperous society	Human resource scarcity/ stretched resources

Value creation through the Sanlam business model continued

Sanlam's financial solutions

Life insurance	- Risk products: monetary benefits to compensate for the financial impact of unexpected events such as death, disability, trauma and retrenchment - Investment products: facilitate wealth accumulation and providing for income at retirement through a full range of investment options that offer varying levels of investment guarantees
General insurance	Monetary benefit to compensate for loss of physical property, loss of trading income or liability incurred. It includes motor, property, aviation, crop, engineering, guarantee, liability, accident, transportation and alternative risk transfer insurance
Investment management	- Retail client solutions offering savings options through a range of collective investment schemes and wealth management solutions, including stockbroking - Institutional client solutions through traditional and specialist asset management in South Africa and abroad
Credit and structuring	- Retail client solutions: personal loans and traditional banking - Institutional client solutions: asset-based financing, debt origination and structuring, asset-liability management, equity and interest rate derivatives and collateralised lending
Administration, health and other	Financial needs analysis and advice (including estate planning, trusts, wills), health management and retirement fund administration

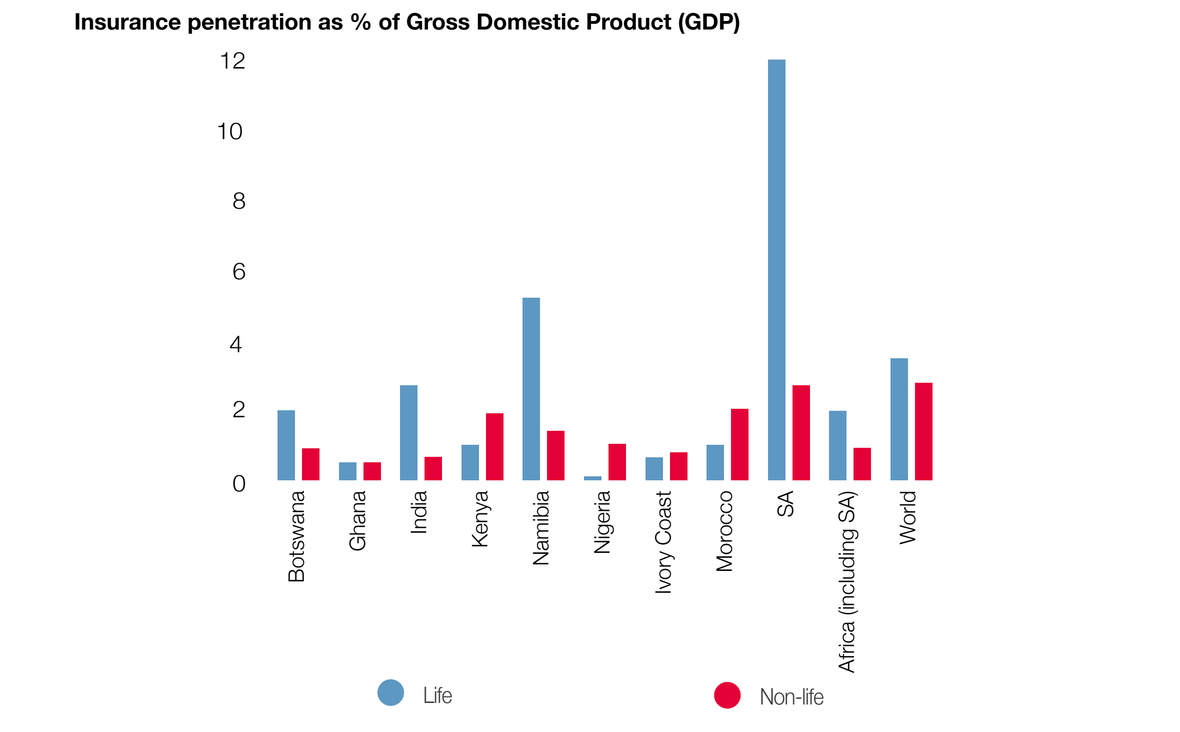
Sanlam's financial solutions are aimed at meeting clients' needs for wealth creation and protection. These needs are particularly prevalent in the markets where the Group operates, given low levels of savings and insurance penetration.

The 2016 Sanlam Benchmark survey consisted of quantitative studies with pensioners, principal officers of stand-alone retirement funds, and representatives of participating employers in commercial umbrella funds in South Africa. The Research Insights Summary report is based on the team's collective analysis and insights of more than 400 interviews and discussions.

Insights from the Sanlam Benchmark Survey 2016 highlight the state of savings in South Africa:

- Only 1 in 3 retirees believe that they have sufficient capital to last for the rest of their lives.
- Only 1 in 5 retirees will be able to retain their current standard of living in retirement, according to principal officers of stand-alone funds. This number is estimated to be significantly less for members in commercial umbrella schemes.
- Despite the impact of longevity, normal retirement ages are still hovering at around 63 years.
- Retirees claim that they only discovered what retirement benefits they had in place within 2.8 years of their retirement date.

In a similar trend, insurance penetration in most of the Group's key markets outside of South Africa remain well below global standards, reflecting significant under-insurance.



Sanlam recognises the need to drive a savings and insurance culture in all the territories in which it operates. A lack thereof would be a direct threat to the sustainability of society at large. Whereas corporates played a more passive role through their offering of products and services in the past, the need for a more active, developmental role has become evident given the low savings rate and insurance penetration.

The Group guides and educates consumers to prioritise their spending, to save and to provide for their families over the long term. This is achieved by embedding appropriate financial planning in the distribution process and through marketing campaigns, such as the One Rand Man and the One Rand Family campaigns, augmented by CSI programmes focused on consumer education.

Another key challenge in South Africa and the emerging markets where the Group operates is primary and secondary education. Education is accordingly also a key focus area for CSI spend to develop not only the skills appropriate to the Group's activities, but also a general level of education that supports an understanding of the need for savings and insurance.

Improving education levels over the long term also directly supports economic growth and employment opportunities, and consequently sustainable demand for the Group's products and services.

Read more about these initiatives in the supplementary Prosperous society, Responsible products and services, and People development online reports.

Value creation through the Sanlam business model continued

Business model outcomes and how these affect stakeholders

Sanlam's business activities use, transform and affect the material capitals in attaining specific outcomes. These outcomes have differing bearings due to trade-offs between stakeholders and the related capitals, resulting in a range of positive or negative impacts. The table below provides an overview of the nine outcomes listed in the business model, with a balanced view on how interaction between outcomes and value creation impact stakeholders.

Stakeholder impact (positive and negative) per business model outcome

Increase in savings

By delivering increased savings, Sanlam supports Government intent to facilitate – through market conduct and regulatory reforms – an environment in which people can retire comfortably and not face poverty in their old age. Therefore, it ensures a positive outcome for regulators and for society, with reduced reliance on state resources at retirement.

Increased savings provide pools of funds for investment in financial capital instruments of other entities, infrastructure projects and Government bonds, thereby supporting economic growth and job creation as well as the execution of Government's social agenda.

Increased savings drives an increase in fees for Sanlam, which ultimately benefits shareholders as it delivers profitable growth.

Returns from invested savings create wealth for clients, but saving for retirement requires a short-term trade-off in disposable income.

Employees benefit through employment security created by stable growth in the business.

Pooling of risks

The pooling of risks through insurance products minimises the cost that can result from death, injury, property damage or other unforeseen events. Clients can further optimise their cover through access to expertise, which assists them in effective risk management.

The protection against loss from unforeseen events also results in less reliance on the state or charitable institutions over the long term. Premium payments do, however, reduce clients' disposable income in the short term.

Shareholders benefit from premiums earned in excess of risk claims paid. Increased pooling enables improved risk management and underwriting, which reduces claims ratios and results in higher and less volatile profitability.

Employment opportunities (job creation)

Sanlam creates employment opportunities which provide employees with remuneration and related benefits, as well as career and personal growth options. For employees, the negative outcome could be personal and health challenges given the pressure of the modern work environment.

Shareholders benefit as the Group can attract and retain quality skills to support growth, albeit at a cost which impacts their returns. By creating jobs, the Group supports economic growth and provides communities with income earning potential that supports demand for the Group's products.

Stakeholder impact (positive and negative) per business model outcome

Execution on Government's social agenda

Sanlam contributes towards the success of national development plans, which aim to eliminate poverty and reduce inequality. In South Africa, social priorities include creating jobs, improving education, health, fighting crime and rural development. Efforts to address these priorities enable economic mobility, which results on more people being able to access financial services and benefit from insurance support.

As more people participate in the financial services industry, shareholders benefit from new business contributions in the longer term and a stable, flourishing society in which the Group operates. Shareholders experience a negative value impact in instances where Governments raise taxes to fund social projects and have to protect society through increasing regulatory compliance requirements as this creates an additional cost burden on the business.

Financial stability

Financial stability plays a vital role in supporting sustainable economic growth. It provides certainty and an environment where clients' product benefits are realised. Stability is associated with lower risk, which increases shareholder and clients' returns on investment, and improves their earnings ability. A stable and growing economic environment creates employment security for employees and business opportunities for communities.

Regulators benefit from a stable system which operates efficiently and with resilience and fairness.

Consumer confidence and trust

Consumer confidence and trust is encapsulated in the Sanlam Wealthsmiths™ brand, which creates an ethos of working for clients' best interests. Clients are provided with clear information and kept appropriately informed throughout their engagement with the Group. This brings peace of mind for individuals and businesses, and ensures a growing pool of clients and funds for the Group.

Shareholders benefit from the related growth in new business and improved client persistency, key drivers of profitability.

Consumer confidence and trust creates stability and security for employees, while regulators take comfort from the implied fairness, integrity, affordability and flexibility of products and services that match consumers' needs.

As a result of low income levels and high cost of living for the majority of our population, access to our products still remain challenging.

Value creation through the Sanlam business model continued

Stakeholder impact (positive and negative) per business model outcome

Financial literacy

Consumer financial education is a social and moral imperative to ensure fairness, inclusion and access. Through its advisors, brokers and distribution network as well as consumer education programmes, the Group creates an improved understanding of financial products, services and processes. By delivering improved financial literacy, Sanlam ensures better and well-informed wealth creation and protection choices for clients to optimise their wealth creation over time. For clients and communities this also means knowing how to use complaint mechanisms where they feel they are not treated fairly.

The costs associated with investments in financial education is a short-term trade-off for shareholders, who benefit in the long term from a growing client base.

Improved financial literacy means that regulators are ensured of an increased uptake in appropriate products and services, which results in less reliance on social support through Government and charitable institutions.

Increase in level of education and skills

Sanlam's investment in training and education results in higher earnings potential for existing and future employees. Clients benefit from improved advice, service excellence and new product development from a highly skilled Sanlam workforce, which broadens their choice and facilitates satisfactory experiences with Sanlam. The Group has access to a broader pool of candidates for recruitment, with a range and depth of skills that support the future sustainability of the business model. Employees have higher level of work satisfaction and more career choices.

Shareholders are negatively affected by the expense related to education investments in the short-term, but in the long term they benefit from a growing client base and increased productivity.

Economic growth

Sanlam contributes to economic growth in South Africa and all the markets where it operates through shareholder value creation, payment of taxes, job creation and by acting as a custodian of individual and business' savings, investments and assets. An environment of economic growth enables income generating opportunities for all participants in the economy. This creates certainty and stability that result in improved investment returns and increased availability of capital for investment – thereby increasing fee and margin potential and growing the overall client base for Sanlam.

In an environment of economic growth, employees enjoy job security, improved earnings potential and there are more opportunities for members of society to become suppliers, clients and employees. However, economic growth, given current socio-economic challenges in South Africa and elsewhere, can result in the further concentration of wealth in fewer hands.

Trade-offs and capital-related risks

An important consideration in managing the Group's capital inputs and outcomes, are the trade-offs between capitals and stakeholders. Sanlam recognises that a decision in favour of one stakeholder can have a significantly negative impact on another – more so over time – and therefore needs careful consideration and active management. The terms of reference of Sanlam's governance structures focus actively on balancing the interests of the various stakeholders for long-term sustainability.

The key trade-offs applicable to Sanlam's operations are reflected in the table below. These trade-offs have a direct impact on the value created for the stakeholders underlying the Group's material capitals. The table indicates which capitals are affected by each trade-off, the strategic pillars (and hence strategic execution) impacted as well as the sustainability theme through which the trade-offs are managed.

Description	Capital affected	Strategic pillar	Sustainability theme
Trade-off: Profitability vs appropriateness of product			
Wealth creation for clients could be in conflict with wealth creation for shareholders and agents/brokers. Sanlam provides a wide range of products and services to meet client needs. The profitability of these products vary considerably (money market investments are for example less profitable than investments providing an investment guarantee), with the incentives of agents and brokers generally also linked to the profitability of products sold. The appropriate solution for a specific client might be lower margin products, which results in lower revenue for both the Sanlam distribution force and Sanlam shareholders. An incentive may therefore exists to provide an inappropriate, higher-margin product to a client to support short-term profitability. Over the long term, however, it erodes the client value proposition and trust in Sanlam to the detriment of long-term sustainability.	Financial Social and relationship	Earnings growth	Responsible products and services
Trade-off: Profitability vs employment cost			
Optimising the cost efficiency and hence profitability of the Group is a key driver of shareholder value over the long term. Given the nature of Sanlam's operations and the need for a highly skilled work force, employee cost is one of the Group's largest cost elements. Stretching the capacity of staff to optimise the cost base comes at a cost to employees in the form of a more pressured work environment. Being an employer of choice, Sanlam needs to carefully balance capacity with employee value creation to attract and retain the best skills.	Financial Human	Operational efficiency	People development

Value creation through the Sanlam business model continued

Description	Capital affected	Strategic pillar	Sustainability theme
Trade-off: Cost efficiency vs innovation			
Sanlam operates in a competitive and fast-changing environment. Meeting the changing needs of clients requires investment in product innovation, new distribution channels and technology (for example digital distribution, business intelligence, agile platforms). These investments come at a cost to shareholders but need to be balanced against the direct impact on new business potential and client retention. Increasing pressure on fee income also necessitates investments in optimising the efficiency of distribution and administration systems and processes. This not only impacts on the cost base in the short-term, but also on long-term employment opportunities through the replacement of human intervention with automation – the introduction of digital distribution platforms and other forms of 'fintech' are examples.	Financial Human Intellectual Social and relationship	Earnings growth Operational efficiency Transformation	Responsible products and services People development Prosperous society
Trade-off: Transformation vs cost efficiency			
South Africa's political history resulted in the marginalisation of the majority of society. Transforming South Africa to a fair and inclusive society requires investment in a number of areas, including education and training, employment equity and small business development. Some of these initiatives come at a cost to shareholders, but need to be balanced against building a prosperous society.	Financial Human Social and relationship	Earnings growth Operational efficiency Transformation	People development Prosperous society
Trade-off: Regulation vs profitability			
The financial services industry is one of the most regulated industries globally, with rafts of new regulations being introduced continuously. These regulations come at a high cost of implementation and compliance that must be carried by shareholders through reduced profitability and in some instances by clients through higher fee charges.	Financial Social and relationship	Operational efficiency Diversification	Sound governance Responsible products and services Prosperous society

Description	Capital affected	Strategic pillar	Sustainability theme
Trade-off: Regulation vs product availability			
The key objective of regulators is to protect clients of the financial services industry. This is achieved by ensuring the solvency of participants in the industry (to limit losses suffered by clients) through prudential regulations and the fair treatment of clients through market conduct legislation. Too onerous and inappropriate requirements can lead to unintended consequences, principally the non-availability of solutions that clients need due to the non-viability thereof for product providers.	Financial Social and relationship	Earnings growth Optimal capital utilisation	Responsible products and services Prosperous society
Trade-off: Return on capital vs solvency			
Return to shareholders can be increased by reducing the Group's capital base. This, however, needs to be balanced against the risk of Sanlam becoming insolvent in adverse conditions. Given the size of Sanlam, insolvency will not only be detrimental to the wealth of clients, but also society at large.	Financial Social and relationship	Optimal capital utilisation	Sound governance Prosperous society
Trade-off: Returns to clients vs natural capital			
Sanlam is a large investor in financial markets. Wealth creation for clients can at times be optimised by investment in companies that have a significant impact on the environment. Responsible investment, however, dictates that investments should be avoided in companies that do not manage their environmental impact appropriately, despite the potential for superior investment returns over the short term.	Financial	Earnings growth	Sound governance Responsible products and services Prosperous society
Trade-off: Sanlam brand vs reputational risk			
The rollout of the Sanlam brand outside of South Africa creates social and relationship capital through wider visibility and recognition of the brand, which builds intellectual capital through reputation. But then it runs a higher risk of also destroying intellectual capital in markets that are less mature in risk management and governance, where an incident of fraud, for example, can impact the entire group's reputation and hence ability to create value.	Financial Intellectual Social and relationship	Earnings growth	Sound governance

These examples also highlight the interrelatedness of the capitals, and how interdependencies can have far-reaching impacts on diverse parts of the Group.

Value creation through the Sanlam business model continued

Key strategic risks

The Group's ability to provide the benefits underlying its products and services and to sustainably create value for all stakeholders is exposed to a range of risks. The key top-down strategic risks are summarised below and are mitigated through a mature risk management governance structure.

- **Poor economic growth:** Curtailed global economic growth could hamper the Group's new business and earnings growth prospects. Consumers' disposable income remains under pressure thus directly impacting retail business flows.
- **Threats to Group's relevance (The 4th industrial revolution and digital disruption):** The technological revolution is fundamentally altering the way Sanlam's current and future clients, employees, partners and other stakeholders live, work and relate. The Group's competitive position can be compromised through failure to respond.
- **Simultaneous regulatory implementation and uncertainty** impact the Group's business model, competitive position and operational efficiencies.
- **Diversified growth initiatives come with greater operational complexity** and other strategic risks as the Group's footprint grows.
- **Increased exposure to new areas or risk types** outside the Group's core expertise due to acquisition, diversification and innovation.
- **Demographic change/transformation challenges/ ageing population** impacts on the Group's relevance and the appropriateness of its products and advice.
- **Cyber risk** emanating from information and information technology infrastructure and related activities.
- **Human resource scarcity and stretched resources:** There is a huge demand and strain on the Group's human resource capabilities. In addition to operational challenges the Group might lose its better resources as they seek alternative work environments with more manageable workloads.
- **Rising income and wealth inequality** that threatens social stability.

These risks are managed on a preventative basis as far as possible through various risk management activities. However, should risks materialise, the financial capital held by the Group is available to absorb the financial impact thereof to ensure that the Group remains solvent to honour its commitments towards clients. Therefore, financial capital is a key safeguard to protect clients' trust in the business and the ability of the business model to create value.

Read more about these risks in the Group Chief Executive's operational review and the Capital and Risk Management Report.

Improving the Group's value creation ability over time

To remain competitive, the Group has to be better at value creation than its competitors. This entails:

- **Creating better value for shareholders to ensure continuous access to financial capital at the lowest possible cost.**
- **Creating better value for clients through a client-centric culture and optimised processes and scale. The Group's legacy of policyholder ownership entrenched a culture where decisions are weighed according to their value to clients. This is supported by a disciplined and consistent approach to providing appropriate financial advice.**
- **Creating better value for employees and intermediaries (tied agents and independent brokers) to ensure that the Group attracts and retains the best skills.**
- **Creating better value to society, which supports sustainable demand for the Group's products and services over the long term.**
- **Creating better value for regulators by actively contributing to continued improvement in the regulatory environment.**

A consistent theme associated with value creation over the past few years relates to diversification from a product, market segment and geographic perspective. The Group evolved from a South African life insurance company to a fully fledged financial services group (excluding transactional banking) with an international footprint. In the medium to long term, value creation will focus on balanced growth: growing, consolidating and integrating existing businesses, while at the same time looking for opportunities to further expand the current footprint.

Read more about value created over time in the Group Chief Executive's Strategic review.

Recognition for value creation

Industry awards

Industry awards are an external mechanism to benchmark value creation and provide feedback on how the Group progresses in different areas of value creation. Awards received this year include:

Several Best Fund awards at the 20th annual Raging Bull Awards Ceremony in Cape Town.

Takalani Sesame, Sanlam's multi-language, edutainment and multimedia programme, won a South African Film and Television award (SAFTA) for Best Children's Show.

Sanlam brand executive Yegs Ramiah was awarded the prestigious Loeries marketing leadership and innovation award, recognising her astute marketing acumen and instrumental role in repositioning the Sanlam and Santam brands.

Sanlam brand award highlights at the Loeries:

- 1 Show Bronze pencil-CSR: online films and video "Sanlam One Rand Family"
- Bookmark awards 1 bronze "Sanlam One Rand Family"

Sanlam Private Wealth (SPW) was named South Africa's top Wealth Manager for the third consecutive year following the 2016 Intellidex – Moneyweb Top Private Banks and Wealth Managers surveys.

Sanlam was included in the newly launched FTSE4Good Emerging Index and retained its position in the FTSE/JSE Top 40.

Saham (Morocco) awarded Best Insurance and Reinsurance Company in Africa for 2015 by the African Insurance Organisation.

World Finance, organisers at the prestigious World Finance Global Insurance Awards, awarded FNB Insurance Best Life Insurance Company in Nigeria 2016.

Botswana Insurance Holdings received Best Performing Ai100 Company and Ai100 CEO of the Year awards from Africa investor (Ai).

Value creation through the Sanlam business model continued

Value creation per stakeholder group

Shareholders

Key indicators for shareholders	2016	2015
Return on Group Equity Value per share[(1)]	11,8%	12,8%
Net result from financial services[(1)]	R8,0bn	R7,3bn
New business volumes[(1)]	R233,1bn	R210,8bn
Net fund flows[(1)]	R41bn	R19bn
Net value of new covered business (VNB)[(1)]	R1,6bn	R1,4bn
Net VNB margin[(1)]	2,69%	2,62%

[(1)] *Audited (Ernst & Young Inc.)*

The Group's primary performance target for measuring shareholder value creation is Return on Group Equity Value (RoGEV), which is the outcome of a combination of value drivers that are illustrated below. This makes RoGEV a robust composite value measure for a diversified group such as Sanlam. RoGEV measured against a set performance hurdle is used by the Group as its primary internal and external performance benchmark in evaluating the success of its strategy to maximise shareholder value.

Group Equity Value (GEV) provides an indication of the value of the Group's operations, but only values the Group's in-force life insurance business and excludes the value of future new life insurance business to be written by the Group. Only new life insurance business written within a particular year contributes to RoGEV. GEV is the aggregate of the following components:

- The embedded value of covered (life insurance) business, which comprises the required capital supporting these operations and the net present value of their in-force books of business (VIF);
- The fair value of other Group operations based on longer-term assumptions, which include the investment management, capital markets, credit, general insurance and wealth management operations of the Group; and
- The fair value of discretionary and other capital.

Each of the value drivers indicated below has a direct impact on current and future shareholder earnings and hence the valuation of the Group operations in GEV. The change in GEV during a period drives RoGEV and represents the overall shareholder value created.

The Group's RoGEV target is to outperform its cost of capital of i+4%, with i being the South African nine-year risk-free rate. The Group has outperformed this hurdle on a cumulative basis since 2003 when the current Group strategy was implemented.

Read more about value created for shareholders in the Financial Review on page 132.

Shareholder income streams:

- Margins priced into product premiums
- Fees charged on assets under management
- Performance fees
- Interest earned on outstanding loan balances
- Transaction fees and margins priced into structuring deals
- Investment return on capital
- Fees charged on assets under administration and for advice and other services

Sanlam's shareholder value drivers, performance and trends are set out in detail in appendix A on page 228. The value drivers per product and services category that impact on RoGEV are summarised below.

The relative performance during 2016 are also indicated together with the strategic pillar through which each driver is managed.

Value driver

Positive performance compared to 2015

Flat performance compared to 2015

Lower/decreased performance compared to 2015

Life insurance: Earnings from policies in force at the beginning of the financial year
- Margins priced into product premiums
- Fees charged on assets under management
- Investment return on capital

- Policyholder behaviour
  - **Lapses, surrenders and withdrawals** (Lower/decreased)
  - **Mortality, disability and morbidity experience** (Lower/decreased)
- Administration cost relating to policy maintenance (Positive)
- Investment return (Lower/decreased)
- Capital requirements (Positive)
- Risk discount rate (Positive)

Life insurance: Earnings from new policies written during the year
- Margins priced into product premiums
- Fees charged on assets under management
- Investment return on capital

- New business volumes (Positive)
- Weighted average margin (Positive)

General insurance:
- Margins priced into product premiums
- Investment return on capital

- Product mix (Positive)
- Premium rates (Flat)
- Extent and frequency of loss (Lower/decreased)
- Administration and acquisition costs (Positive)
- Income from float (Positive)

Investment management:
- Fees charged on assets under management
- Performance fees

- Fee income
  - **Assets under management** (Positive)
  - **Investment performance** (Lower/decreased)
- Expenses (Positive)

Value creation through the Sanlam business model continued

	Credit and structuring: Interest on outstanding loan balances Transaction fees and margins priced into structuring deals	
	Net interest margin	
	Size of loan book	
	Interest rates	
	Loan impairments	
	Structuring deal flow	
	Expenses	
	Administration, health and other: Fees charged on assets under administration and for advice and other services	
	Funds/members under administration	
	Expenses	

Clients

Read more in the Responsible products and services report online.

Key indicators for clients	2016	2015
Policy benefits paid and increase in value of policies[(1)]	R80,3bn	R112,3bn
Funds outperforming over three years	83,2%	83,7%
Persistency experience: lapses, surrenders and fully paid-up policies as percentage of in-force policies at beginning of the year		
SA entry-level market	18,7%	19,7%
SA middle income and affluent markets	5,9%	5,7%

(1) *Audited (Ernst & Young Inc.)*

The Group recognises its responsibility to create and preserve wealth for its clients. This includes ensuring that previously disadvantaged South Africans and their communities are given the skills and support to participate more equally in the national economy. A lack of education, financial literacy and insurance penetration is a particular challenge in a number of markets in the Rest of Africa, India and Southeast Asia where the Group operates, resulting in a large portion of the populations being underinsured. The Group has an important financial education responsibility in these territories. The Group's products and services are designed to benefit individuals, while lightening the social burden on the state.

Value creation demands that the Group provides real returns to clients, who expect value beyond the price of a product or service. Poor performing financial markets are a significant risk to value creation as these inhibit the ability to create value. A volatile environment results in much uncertainty, caution and negativity for clients – advisors therefore bring significant value in providing context, options and solutions.

The Group embeds client-centricity firmly within its business practices – a value creation approach fully aligned with TCF, which mandates a formal approach to treating customers fairly and improving client confidence in the financial services industry.

At Sanlam, client-centricity means:

- Understanding clients and their financial services needs.
- Providing the right, tailored solutions to fulfil their needs and that perform as expected.
- Being fully accountable for delivering on client promises.
- Getting things right the first time, every time.
- Taking responsibility, assisting and servicing clients efficiently and within an acceptable time frame.
- Providing clear and understandable answers.

Risks relating to client value creation are managed through a Product Governance Framework (the Framework) that applies to all clusters. A key element of the Framework is to manage risks emanating directly from the design of new products, or as a result of product changes, that would affect one or more of the TCF outcomes. This process includes:

- Identification and quantification of risks;
- Design and execution of mitigating actions, as well as the approval of residual risk; and
- Tracking of the residual risk.

The Framework therefore provides a mechanism by which risks that arise from new products and product changes, as well as recommendations for mitigating actions, may be identified. Risks are broadly categorised as follows:

- A product does not adequately meet the client need or provide adequate value for money;
- Client expectations are not in line with the product design at the outset; or
- A product does not perform in line with expectations created.

Given the long-term nature of life and investment products, risk assessments are conducted both at the outset, during product design, as well as post sale. Risks are assessed according to the level of actual or perceived detriment for the client should the risk materialise – the primary concern – as well as according to the likelihood of the risk.

To manage risks across the product life cycle, mitigating actions fall into the following categories:

Design	Amendments to the design of a product, which includes restrictions on the product, e.g. minimum/maximum premium levels, and choice of allowed distribution channels.
Marketing material and strategy	Amendments to how the features and potential risks of the product are communicated to clients and intermediaries before the sales process.
Advice (including training)	Amendments to training given to intermediaries to ensure the delivery of effective advice, as well as monitoring that correct advice was given.
Disclosure	Amendments to information given to the client as part of the sales process. Information given to the client should be of such a nature that the average target-market client would reasonably go through, understand and apply the information given to them.
Ongoing monitoring after sale and corrective action	Amendments to the actions taken by the product provider after the sale to manage client expectations. This includes monitoring and amending the product on an ongoing basis in line with client expectations.

Each cluster is responsible for the assessment of its respective TCF issues and risks. As such, adherence to the Product Governance Framework is the responsibility of each cluster. Ongoing risk assessment ensures that the implementation of the six TCF outcomes are facilitated across the various stages of the typical product life cycle.

The Group's client-centricity approach is supported by The Sanlam Way of doing business. Engagement with Group clients is measured through client experience research in the course of client transaction processes throughout all stages of the product life cycle. Results from independent surveys, such as the SAcsi are also used as key inputs to manage client experience.

Value creation for clients also means providing them with their preferred channel of engagement. An upcoming younger generation of clients are shaping the business model towards omnichannel as they demand access to everything online, while relying heavily on social media for information that guides decision-making.

Value creation through the Sanlam business model continued

Employees

Read more in the supplement report online: People development.

Key indicators for employees	2016	2015
Number of employees[1,2]	15 856	14 711
Black employees[3]	73,0%	68,0%
Employee benefits and sales remuneration paid[1]	R15,6bn	R14,5bn
Skills development spend[3]	R207m	R195m
Office staff[3]	13,9%	12,4%

Assurance provided:
(1) *Audited (Ernst & Young Inc.)*
(2) *Subsidiaries only*
(3) *South African entities only, excluding Santam*

Ensuring that Sanlam's human capital supports the Group's long-term strategy is critical in safeguarding its competitive advantage, which is reliant on maintaining client relationships and strengthening intellectual capital. This is linked to Sanlam's ability to attract, develop, retain and motivate talented employees through the creation of a superior employee value proposition.

To create value for employees, Sanlam is committed to fostering and maintaining an equitable and sustainable employer-employee relationship, including the provision of a safe, healthy and productive working environment. Sanlam further subscribes to the principles of the International Labour Organisation and complies with all relevant labour laws. The Group respects the right of employees to work in an environment that is free from any form of unlawful discrimination or harassment, which adheres to the principle of transformation and equal opportunities.

Sanlam recognises that engaged employees deliver better value to clients. The Group invests in career planning and development with a particular focus on working to provide opportunities across Sanlam's different businesses and within the Group's global network of partner companies.

The Group's ability to create value for employees was affirmed with its accreditation as one of the Top Employers South Africa.

People development is one of the sustainability themes that support the five-pillar strategy. Material enablers to ensure value creation through people development are:

- Attraction, recruitment and retention of key talent
- Training and skills development
- Transformation and employment equity
- Organisational culture and employee commitment

Find more detail about each of the enablers highlighted below in the supplementary People development report online.

The key focus areas of Sanlam's human resource (HR) strategy include:

- Optimising the position of Sanlam as an employer of choice
- Optimising talent management to ensure sustainable business performance
- Facilitating the development of a high performance, service culture to shape a values-based, winning business
- Driving transformation to aid the creation of an equitable work environment that values diversity and respects human dignity
- Optimising functional and operational best practice to ensure HR best practice occurs across Sanlam

Attraction, recruitment and retention of key talent

Sanlam pursues a differentiated EVP to retain valued skills. The Group identified six areas as key to attracting and retaining employees, while enhancing their performance and development through recognition, respect and rewards.

Connectivity

Sanlam's Wealthsmith™ culture is rooted in sincerity, respect and consideration for one another and for the Group's extended communities. The Group is focused on doing things right and doing them together.

Reputation

Sanlam is committed to be as relevant today as it was 98 years ago. Over time Sanlam has built a reputation of a leading financial services company that can be trusted to act in the best interest of all stakeholders. Through sustainable progress and community investment, Sanlam continues to empower individuals to lead their best possible lives.

Balance

Balance is crucial to the well-being of Sanlam's employees. The Group attempts to make life a little easier by offering flexible working hours, access to convenience services and Sanlam's bWell Programme.

Leadership

Sanlam takes leadership seriously. Through diverse initiatives, the Group invests in nurturing leaders who engage and empower, are open to new ideas, and are driven to create an environment in which Sanlam's employees can excel.

Growth

There is always room for growth. In addition to contributing to South Africa's economic growth, Sanlam is committed to the growth of its employees through various training and development opportunities.

Reward

Sanlam rewards exceptional performance and recognises excellence. To attract the best talent and secure continued high performance, the Group offers its employees more than just a market-related package.

Value creation through the Sanlam business model continued

The Group provides competitive remuneration, bonus and benefits packages, aligned to global benchmarks. Employees identified as key contributors, or with the potential to become a key contributor, are offered additional benefits.

Read more in the Remuneration report online.

Training and skills development

Skills development programmes provide current and potential employees with the opportunity to improve their knowledge, productivity, employability and value for Sanlam. These opportunities include:

- The Sanlam Graduate programme, which contributes to the improvement of education and employment opportunities in South Africa and also provides the Group with a source of appropriately qualified graduates.
- The Sanlam Chartered Accountant (CA) training programme, established in 2012 and accredited by the South African Institute of Chartered Accountants.
- Graduate programmes offered by SI and Santam.
- The SPF Distribution Academy ensures that tied agents are able to service clients effectively. The academy is accredited by the Insurance Sector Training Authority (INSETA) in South Africa for the NQF levels 4 and 5 programme in wealth management.
- Sanlam Sky trains intermediaries to empower them to offer appropriate financial advice and products to entry-level clients and thereby increases access to financial services for a traditionally under-serviced part of the community.
- An internship programme that aims to provide basic work-related experience to school leavers to better equip them for permanent employment inside and outside the Group.
- At Group level, a suite of programmes is offered that focuses on developing management and leadership capabilities. These programmes include, among others, those listed below:
  - Executive Leadership Programme: in 2016, 32 senior managers completed this programme. This programme is delivered in partnership with the Gordon Institute of Business Science (GIBS) and was developed to ensure employees possess the required depth of understanding of leadership skills in order to meet the future demands of the Group at executive level.
  - Senior Management Development Programme: in 2016, 56 middle and senior managers completed this programme, which broadens strategic, long-term thinking and builds leadership competencies in order to address management challenges. This programme is presented in partnership with the University of Stellenbosch Business School Executive Development (USB-Ed).
  - Business Management Programme: in 2016, 58 managers completed this programme, which is coordinated by USB-Ed. The programme equips managers with the necessary competencies and confidence to implement Sanlam's strategic objectives.
  - Future Leaders Development Programme: 18 young high potential graduate professionals participated in this pilot programme delivered in partnership with Connemara.

A further example of Sanlam's commitment to people development is the Internal Audit Development Programme, which was launched in 2016. The aim of this programme is to enhance the auditing skills of participants and improve the level of professional service offered to the Group.

Transformation and employment equity

Embracing and accelerating transformation within the Group remains a priority as it creates significant value for a range of stakeholders, including employees. Diversity supports creativity and innovation, which are fundamental to ensuring that the Group remains a competitive and successful employer in a complex industry.

The Group's achievement for employment equity (EE) according to the FSC's target was 8,83 out of a maximum of 15 points, and the management control achievement was 7,42 out of a maximum of eight points. These scores can largely be attributed to the focused approach of business to exceed the targets set in Sanlam's EE Plan.

Read more about Sanlam's EE Plan in the People development report online.

The turnover rate for black professionals increased to 9% from 6% in 2015. The main reason cited for exit was access to better career opportunities outside the Group. Sanlam has stepped up its efforts to curtail this through the Group's differentiated EVP.

Organisational culture and employee commitment

Organisational culture can significantly impact employee productivity and performance, job satisfaction as well as employee commitment. The Group's culture is based on its purpose, brand and values, and embedded through the Wealthsmiths™ Commitment. This commitment encapsulates the six pillars of Sanlam's EVP.

Employees have the opportunity to interact and collaborate in ways that meet their individual priorities and value systems. Employee volunteerism and community involvement opportunities to do good through various platforms, constitute an essential component of Sanlam's corporate culture. This also supports the principle of a healthy work-life balance.

The Group provides its employees with various platforms to improve their physical and emotional health.

Sanlam's 2016 culture and engagement survey

In 2016, a Group-wide culture and engagement survey was completed by 66,5% of Sanlam's employees (excluding advisers). The Group utilised the Gallup Q12 statements, which provided a solid framework against which Sanlam could assess and measure its employee engagement approach. Statements included, for example, 'I know what is expected of me at work', 'the mission/purpose of my business unit makes me feel like my work is important', and 'this past year I have had opportunities at work to learn and grow'.

Overall, the Group achieved an engagement index of 73%, which reflects high levels of motivation that can support Sanlam's growth and performance.

>=85	**Actively engaged** - exceptionally high levels of motivation and passion which will help move the company forward
65 – <85	**Engaged** – high levels of motivation and care which will drive growth and high performance
51 – <65	**Ambivalent** – adequate levels of motivation which will contribute to maintenance of current operations
<50	**Disengaged** – some indicators of unhappiness and dissatisfaction which are impacting poorly on motivation

To assess Sanlam's company culture, employees were asked to identify words that they feel fundamentally embody the Group's workplace environment. These core words identified by employees were 'client centric', 'accountable', 'challenging', 'integrity', 'traditional' and 'respectful'.

Value creation through the Sanlam business model continued

Society

Read more in the Prosperous society report online.

Key indicators for society	2016	2015
CSI spend[1, 2, 3]	R68m	R74m
Empowerment and infrastructure financing[1, 3]	R13,2bn	R14,3bn
Total funds invested[2]	R631bn	R640bn
Investment in Government and public sector securities[2]	R70,3bn	R74,4bn
Tax paid[2, 4]	R4,9bn	R4,1bn
Financial sector code status[1]	91,49	90,08
Enterprise and supplier development spend[1, 3]	R6,6m	R9,2m

Assurance provided:
(1) *Verified (AQRate)*
(2) *Audited (Ernst & Young Inc.)*
(3) *South African entities only*
(4) *Tax paid as per the Group cash flow statement included in the Annual Financial Statements online*

A prosperous society offers a sustainable source of employees, suppliers and clients, whereas Sanlam provides society with employment opportunities, skills development, markets, infrastructure and social support. Material enablers to ensure value creation through a prosperous society are:

- The Sanlam Foundation
- Consumer financial education
- Socio-economic development
- Enterprise development
- Sanlam's BBBEE contribution

The investment management component of the Group's business model has a material impact on growing wealth for all segments of society by:

- Providing financial capital (through investment in equities and corporate debt instruments) for the economic activity and operations of other entities, thereby supporting economic and employment growth which in turn is a key driver of sustainable growth in demand for the products and services provided by the Group. Total funds invested by the Group decreased marginally in 2016 to R631 billion.
- Providing funding to the Governments of the countries where the Group operates through investment in Government bonds and other public sector securities, thereby enabling execution on the social agenda of these Governments to the benefit of society. At 31 December 2016, the Group's investment in Government and public sector securities amounted to R70 billion.
- Contributing to infrastructure development through targeted infrastructure investments. An efficient infrastructure network is a key driver of long-term sustainable economic and employment growth. Building and maintaining infrastructure is a particular challenge for the public sector in many of the emerging markets where the Group operates. Therefore, it is a key focus area for the Group as part of private sector investment, with the Group's investment amounting to R13,2 billion at 31 December 2016.
- Providing liquidity to the banking sector as one of the largest institutional funders of banks. A properly functioning banking sector is core to the stability of a country's financial system, which in turn is reliant on the liquidity provided by institutional investors such as the Group, in particular during periods of liquidity constraint as experienced during the 2008 financial markets crisis.

Taxes paid by the Group provides income to the Governments of the countries where it operates, further enabling execution on social agendas. Total tax paid increased by 21% to R4,9 billion in 2016.

The Group committed R40 million to the newly established South African SME fund to contribute to job creation. The Sanlam Business Market programme (within SPF) managed to create 31 jobs in 2014 and 2015 by way of supplier development support to high-growth SMEs within the Group's supply chain or target market. Whereas Government spends about R500 000 to create one sustainable job, the Sanlam programme required R41 000 to create one new sustainable job. Through its involvement with various new Government and business initiatives launched in South Africa this year, Sanlam is in a position to share insights and continue making a broader contribution.

The Santam Resilient Investment (SRI) Fund targets investments based on Santam's environmental, social and corporate governance (ESG) needs or focus, including investments into companies or organisations with the intention to generate social and environmental impact while at the same time generating a sustainable financial return. In 2016 this included, for example, supporting Mattfin, which assists overindebted consumers. To date, Mattfin has managed to help 38 families using this funding, working towards a scenario where they are no longer over-indebted and can use their money to build their assets instead.

Find more detail about each of the enablers that follow in the supplementary Prosperous society report online.

Value creation through the Sanlam business model continued

The Sanlam Foundation

The Sanlam Foundation is the Group's primary corporate responsibility medium and provides a coordinated approach to community investment in three areas: consumer financial education, socio-economic development and enterprise development. All of these create value by enhancing education and development in South Africa.

Guiding principles of the Sanlam Foundation

The Sanlam Foundation holds itself accountable to the highest standards of governance and accountability. It allocates resources to selected, high-impact projects that represent the Sanlam vision and align with the Sanlam Foundation's guiding principles, outlined below:

Sustainability	Sanlam is trusted to manage the financial future of its clients. Consequently, sustainability is at the Group's core.
Socio-economic development	A stable, healthy and growing economy is the cornerstone of sustainability.
Corporate citizenship	As a leading corporate citizen in South Africa, Sanlam has a responsibility to transform society and promote a healthy business environment.
Partnership and collaboration	The successful implementation of the Sanlam Foundation's projects and initiatives relies on the Group's ability to build long-term, sustainable partnerships.
Core business alignment	The Sanlam Foundation strategically aligns its social and environmental investments with its core capabilities and business strategy.
Values-and-brand fit	All projects must reflect a values-and-brand fit, ensuring that each is a true reflection of the Group's corporate identity.
Holistic, systemic approach	The Sanlam Foundation addresses more than one driver at a time, thereby increasing the impact, success and outcome of social and environmental investments.
Accountability	The Sanlam Foundation measures the quality and progress of its investments and projects on a regular basis to ensure long term impact.
Employee involvement	Sanlam employees are encouraged to participate in the activities and projects of the Sanlam Foundation to embed the culture of 'giving back' – a strong element of the Group's DNA. The Connectivity pillar of Sanlam's Employee Value Proposition further encourages employees to connect and take part in various initiatives that support community development.

An example of an impactful project by the Sanlam Foundation is Takalani Sesame, which was launched in 2000 and is a South African version of the internationally-acclaimed Sesame Street. The programme promotes literacy, numeracy, basic life skills and HIV/Aids education, incorporating all of South Africa's 11 official languages. Takalani Sesame is available on television, radio online channels and in the form of a community outreach programme. The project won the South African Film & Television Award (SAFTA) for Best Children's Show in 2016.

Consumer financial education

The increasing diversification of financial products and services has complicated financial decision-making for ordinary consumers, who struggle to match different financial products to their personal circumstances, and manage their finances sustainably. This situation is aggravated by associative factors such as predatory lending, high levels of consumer debt, low saving rates and limited knowledge about savings mechanisms.

To enable more people to access financial services according to their individual needs, the Sanlam Foundation conducts programmes nationwide and in rural and urban areas in South Africa, with an emphasis on poorer citizens.

An example is the SEB Trustee Training initiative which aims to empower trustees with a better understanding of their duties and sharpen their financial skills. This ensures that those individuals who are entrusted with the role of trusteeship are properly equipped with the requisite information and skills to carry out their duties.

Socio-economic development

To support the sustainable empowerment of communities, the Sanlam Foundation supports a wide range of projects. The Group also provides empowerment finance to unlisted and JSE-listed entities, thereby supporting increased economic participation by previously disadvantaged individuals in South Africa. Sanlam also invests in infrastructure investments either directly, by financing specific projects in underdeveloped areas such as transport, telecommunications, energy, health and education- related facilities, or indirectly, by investing in Government bonds. Through Government bonds, the Group is able to finance specific infrastructure projects earmarked in various municipalities within South Africa and beyond.

Santam adds value for society by addressing climate risks through partnerships with a range of stakeholders. Collaboration between Santam, the department of co-operative governance and the Santam Emthunzini BBBEE community trust has resulted in an acceleration of the partnership for risk and resilience, which will now be extended from five to 53 local municipalities over the next five years.

Santam also initiated a process to explore how the general insurance industry might best engage with the leadership of a major African city to test the theory that there is mutual benefit to be had from insurers sharing their expertise with cities around infrastructure, risk and resilience. Under the banner of 'African Infrastructure Risk and Resilience' a series of conversations and workshops took place in Dar es Salaam through 2015 and 2016. A mutually agreed 'decision pathway' was developed to describe the logical necessary steps a city Government must take if it is to end up with genuinely resilient, sustainable infrastructure.

Enterprise and supplier development

Enterprise and supplier development (ESD) is an integral part of Sanlam's procurement policy, as it encourages economic inclusion and poverty alleviation through job creation. Developing enterprises in the supply chain further supports preferential procurement and creates an enabling environment for Small, Medium and Micro-sized Enterprises (SMMEs).

Sanlam's ESD portfolio covers the following areas:

- Small businesses with turnovers of around R1 million per annum and not in the supply chain;
- Small businesses with turnover of around R5 million per annum that are supply chain ready and can be folded back into Sanlam's supply chain (particularly black women-owned businesses); and
- Small business with turnovers of more than R5 million that are already in Sanlam's supply chain and can benefit from business development and/or investment support.

In 2016, 31,41% (2015: 37,32%) of the Group's procurement spend went to SMMEs.

Sanlam's BBBEE contribution

The Group contributes to transformation as a critical enabler of empowerment value. Transformation is viewed as an ongoing priority and forms one of the five strategic pillars of the Group's business strategy. The key elements of transformation are measured against the targets set for BBBEE as determined by the FSC in South Africa. The Group achieved a level 2 BBBEE rating.

> "Sanlam was built on a commitment to always do things right. This promise underpins our core values as well as our professional and ethical behaviour. As a Group we have remained deeply committed to always doing what's right for our stakeholders. This is the Sanlam Way of doing things, which I believe is what sets us apart."
>
> **– Ian Kirk, Group Chief Executive**

Dar es Salaam city management learns about risk and resilience in infrastructure development

Billions of dollars are flowing into Africa to meet the growing infrastructure needs of the continent. However, with this massive investment comes the responsibility to create and build sustainably. This raises the question as to whether the stakeholders involved in individual projects are mindful of the broader risks and impacts, especially over the longer term. This entails the eventual asset management once the project is completed and handed over to asset owners.

The port city of Dar es Salaam in Tanzania faces two problems. The first is that, as one of the fastest growing economies in Africa with limited financial resources, the city has to invest in public infrastructure, which carry a number of risks, not least of which is flooding on a near-annual basis. The second problem is that global financial institutions providing capital for large infrastructure projects typically only seek insurance cover towards the end of the process. Unfortunately, often at a late stage in the process, some unavoidable risks are typically already embedded in the project.

Building on lessons learned from the United Nations Environment Programme's PSI Global Resilience project, it was felt that there would be benefit in considering risk management proactively – before projects are contracted and in a non-competitive space, where city managers could engage with insurance professionals.

Santam initiated a process in 2014 to explore how the general insurance industry in the region might best engage with infrastructure decision-makers in Africa, for example city engineers and planners, given that sustainable city infrastructure is a critical element to enhance protection and readiness against possible disaster events such as fires and floods. Under the banner of 'African Infrastructure Risk and Resilience' a series of conversations and workshops took place through 2015 and 2016. These involved representatives from Santam and Sanlam, including various experts in sustainable infrastructure, finance and investment.

The research included a two-day intensive workshop in Dar es Salaam in October 2016 between members of the insurance sector and Dar es Salaam city officials. The workshop was declared a breakthrough in mutual understanding, opening up a range of opportunities for future learning and collaboration for both sides. What emerged, aside from a lengthy list of collaborative actions various participants committed to, was a mutually agreed 'decision pathway' describing the logical necessary steps a city Government must take if it is to end up with genuinely resilient, sustainable infrastructure. The city officials said they found this – and the discussions leading up to the workshop– exceptionally helpful, as they had never considered decision-making from a proactive risk management perspective before.

A key outcome of the intervention was the request for insurers to demonstrate the cost/benefit at city level for risk protection and sensible regulation. The initiative pioneered a methodology of getting city management to engage with the insurance sector, which will be shared globally. It was founded in a partnership approach and included Marsh, Munich Re, Sanlam, Global Infrastructure Basel, ClimateWise and PSI representatives.

A research paper, documenting learnings, will be published via ClimateWise early in 2017 to share important proactive risk management insights with other cities and insurance sector players.

Sanlam Emerging Markets will continue to play a role in this partnership.

A key outcome of the intervention was the request for insurers to demonstrate the cost/benefit at city level for risk protection and sensible regulation. The initiative pioneered a methodology of getting city management to engage with the insurance sector, which will be shared globally.

Value creation through the Sanlam business model continued

Regulators

Read more in the Sound governance report online.

Key indicators for regulators	2016	2015
Sanlam Life capital adequacy cover[1]	5,8 times	5,8 times
Sanlam Life contribution to ombudsman complaints	3,95%	3,96%
Percentage of adverse findings by industry ombudsman against Sanlam Life	17,7%	12%
Participation in regulatory forums	Yes	Yes

Assurance provided:

[1] *Audited (Ernst & Young Inc.).*

Sanlam creates value for regulators by contributing to and encouraging participation in a resilient, reliable, trustworthy and stable financial services industry.

Volatile global and local market conditions continue to spur regulators toward the development of tools and mechanisms that will enable a more predictive response to the next potential crisis.

The Group supports regulatory initiatives that benefit clients and strengthen its ability to create value for stakeholders as this enhances resilience and ensures the long-term sustainability of the business. However, while the Group is committed to the implementation of new regulation, it recognises the potential of new regulation to create a range of risks that may enforce or increase barriers to entry. The Group's approach is to find opportunity and improve its offering by proactively working with regulators to implement appropriate regulations.

Contributing to sound governance is one of the material sustainability themes that supports the Group strategy. Material enablers to ensure value creation through sound governance are:

- Business integrity
- Regulatory and legislative compliance
- Risk management

Find more detail about each of the enablers that follow in the supplementary Sound governance report online.

Business integrity

A solid foundation of professional and ethical behaviour is essential for the trust established between the Group and its clients, employees, regulators and the broader society in which Sanlam operates. Therefore, the Group is committed to ensuring that its business relationships reflect personal integrity, respect for human dignity, honesty and a commitment to do what is right, fair, reasonable and lawful.

During 2016, Santam, for example, established an ethics management committee that reports to the executive team. Santam also consolidated its forensic services into a Business Integrity Forum to optimise knowledge sharing initiatives and ensure a coordinated effort to deal with misconduct across its business units. Further governance initiatives included policy development and approvals for facilitation payments, anti-bribery and anti-corruption. The Group has zero tolerance for bribery and corruption – this applies to all business activities within any country where Sanlam conducts business. Regular ethics surveys are conducted across the Group, with employees having to sign off on compliance to the Group policy.

Regulatory and legislative compliance

Regulation is a key driver in the Group's ability to create value. The main objectives of regulators are:

- The fair treatment of consumers of financial services and products
- Protecting the solvency and financial soundness of financial institutions
- Protecting the systemic stability of the financial services industries
- Regulatory compliance by all market participants

These objectives are promoted through various pieces of legislation aimed at market conduct and solvency. Achieving these objectives supports a competitive environment that builds client trust in the industry and ensures its long-term sustainability. It is therefore in the Group's interest to contribute to the achievement of these goals. The Group's contribution is twofold, namely complying with all applicable regulations and contributing to the development and enhancement of the regulatory frameworks.

Compliance ensures:

- Responsible products and services that deliver on promises
- Trust in the industry
- Protection of licences to continue conducting business
- Trust in the Group's brand
- Market stability

Regulatory compliance is embedded in the Group's culture and operational and risk management structures.

Read more in Governance at a glance on page 70 and in the Capital and Risk Management Report on page 20 of the Annual Financial Statements.

From a solvency perspective, the Group remains compliant, with Sanlam Life's capital adequacy cover at 5,8 times at 31 December 2016. This cover ratio is among the highest in the South African insurance industry. All of the other major Group operations met their minimum solvency requirements as applicable.

The Group actively participates in the development of the insurance industry in the markets where it operates. In South Africa:

- Sanlam is a founding member of the Association for Savings and Investment South Africa (ASISA).
- Group Chief Executive Ian Kirk is a board member of ASISA.
- Lizé Lambrechts, Chief Executive of Santam, chairs the South African Insurance Association (SAIA).
- The Group is actively involved in all ASISA and SAIA activities, including participating in the development of the regulatory frameworks.
- The Group continuously engages the FSB, the South African Reserve Bank and National Treasury on matters affecting the insurance and investment industry in South Africa.
- Group employees serve on a number of FSB working groups and forums responsible for the development of regulatory frameworks.
- Group employees contribute to the development of financial reporting and actuarial standards and guidelines through participation in forums established by the South African Institute of Chartered Accountants (SAICA) and the South African Actuarial Society.

Outside of South Africa, the Group participates similarly in the development of local regulatory frameworks, leveraging off the South African experience.

The Group's participation adds value by:

- Providing industry perspective on global and local regulatory developments
- Providing practical insight into customer needs and behaviour
- Providing credibility to industry associations such as ASISA and SAIA

Read more on current regulatory developments and challenges in the report on the Regulatory environment on page 82.

Risk management

To create value for regulators and the financial services industry, Sanlam has to be proactive in understanding and managing the risks it is exposed to and ensure that capital is allocated where most value can be added for the risks assumed.

The Group has a mature enterprise risk management framework which defines Group risk policies, standards and guidelines while recognising that each business and territory has different risk profiles and appetites.

Read more about risk management in the Capital and Risk Management report on page 20 of the Annual Financial Statements online.

GOVERNANCE AT A GLANCE, REGULATORY REPORT & ECONOMIC AND OPERATING ENVIRONMENT

Governance at a glance

In this section:

- Summarised elements of the Group's governance structure and approach
- Transitioning to King IV™
- Diagram of Board and committee structures
- How the Group's operational governance structures function
- A summary of the three lines of defence approach

Governance highlights for 2016

- Thought leadership participation in global and local initiatives such as King IV™ and the Global Compact anti-corruption working group
- A Fit and Proper Questionnaire was completed by all directors and relevant senior officers in compliance with (FSB) Board Notice 158
- Seamless board and executive changes
- Preparation in anticipation of regulatory changes, adapting structures and reviewing controls
- 100% of South African operations assessed for risks in terms of corruption, bribery, money laundering and tax evasion

Governance lowlights for 2016

- Limited progress with financial sector regulation resulting in implementation delays
- Financial irregularities uncovered in Rwanda with corrective measures taken
- Sanlam Collective Investments received an immaterial penalty for contravening the Collective Investment Schemes Act due to a *bona fide* oversight
- SEM was involved in a dispute with the Namibian Competition Commission regarding a joint venture with PPS – the matter has been settled

The Group has a comprehensive and entrenched governance system and approach that enable sustainable value creation for stakeholders.

Sanlam's Code of Ethical Conduct applies to all Sanlam businesses and employees and serves as a guide to ensure that all businesses and employees uphold the highest level of integrity and ethical conduct. This in turn embodies the Group's core values. The Sanlam Way defines the values and behaviours for the Group whereas the Sanlam Business Philosophy sets out the most appropriate approach for how the Board, executives and other employees conduct themselves in implementing the Group strategy. Combined, these set the standards for effective, ethical leadership and compliance.

Sanlam's Code of Ethical Conduct is binding on all directors, managers, employees, independent contractors, agents, service providers and business partners irrespective of their status as natural person, legal person or other entity.

The Group is committed to ensuring that the Code remains relevant to all environments in which Sanlam operates, to ensure consistent delivery on the promise of the Sanlam Way.

Find the Code of Ethical Conduct online.

From King III to King IV™

Sanlam was an active participant in the formulation and development of King IV™. Full implementation of the new principles will commence in the South African subsidiaries, joint ventures and associated companies in 2017 while continuing to entrench similar practices outside South Africa. According to the Group's decentralised business approach, each of the business clusters operates in concert with its underlying business units. All the business and governance structures in the Group are supported by clear approval frameworks and agreed business principles aligned to the King code, ensuring a coherent and consistent governance approach throughout the Group.

The Group continuously assesses its compliance to the King code to ensure that areas of improvement are identified and addressed.

Find more detail about the Group's application of each King III principle online.

A multinational governance framework

Sanlam's governance framework aligns all business units and geographies towards the following:

- Achieve strategic goals and targets
- Safeguard the Group's assets
- Secure Group information and data
- Support business sustainability
- Protect the Group's reputation
- Align Group interests around common values
- Unlock synergies ("Sanlam for Sanlam")
- Ensure the quality of financial results
- Implement to the benefit of all stakeholders

The South African regulator (Financial Services Board) takes the lead in arranging an annual supervisory council with regulators from all the markets in which the Group operates. The consistent application of the governance framework is confirmed annually at these meetings. This provides them with a clear view on Sanlam's governance approach, and the support provided to subsidiaries to ensure compliance in each territory.

Board structures and composition – as at 31 December 2016

The Sanlam Board consists of 18 directors, including four executive directors. All the directors of the Sanlam Board also serve on the Board of Sanlam Life. The two boards function as an integrated unit with the same Chairman and Chief Executive.

The Sanlam and Sanlam Life Board meetings are combined meetings and are held concurrently, thereby removing one layer of discussions in the decision-making process. This enhances productivity and efficiency of the two boards, prevents duplication of effort and optimises the flow of information.

The agenda of the Sanlam Board focuses largely on Group strategy, execution of capital management, accounting policies, financial results and dividend policy, human resource development, client issues, JSE requirements and corporate governance. It is also responsible for overseeing stakeholder relationships.

The Sanlam Life Board is responsible for statutory matters across all Group businesses, monitoring operational efficiency and risk, and compliance with applicable regulatory requirements. The responsibility to manage Sanlam's direct subsidiaries has been formally delegated to the Sanlam Life Board.

Read more about the Board in the Chairman's Review on page 92 and about Board members' profiles on page 78.

Johan van Zyl has been appointed Chairman elect to take over from Desmond Smith who retires in June 2017. Given Johan van Zyl's status as non-independent in terms of King IV™, the Sanlam Board also appointed a lead independent director and has established an independent committee to uphold and safeguard adherence to good governance at all times.

Governance at a glance continued

Sanlam Board

Committees

- Audit, actuarial and finance
- Risk and compliance
- Human resources and remuneration
- Nominations
- Non-executive directors
- Customer interest
- Social, ethics and sustainability

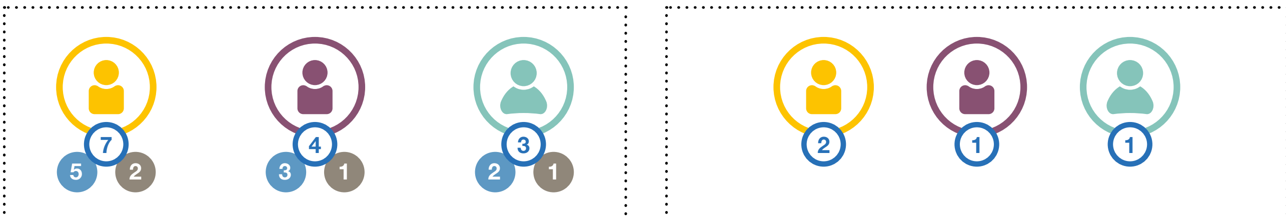
Sanlam Life Board

Committees

- Audit, actuarial and finance
- Risk and compliance
- Human resources and remuneration
- Customer interest

Governance diversity profile

Non-executives	Executives



White male · Black male* · Black female* · Independent · Not independent

* *Black (as defined by the Broad-Based Black Economic Empowerment Amendment Act, 2013)*

Read more about Board diversity regarding skills and experience in the Board profiles on pag 78.

Operational governance

The Group follows a decentralised management structure, with all operations conducted through five clusters. Each business cluster is managed by a chief executive, supported by an executive committee and support functions that are appropriate to their particular operational needs. These chief executives form part of the Group Executive committee and are the designated prescribed officers of the Group.

The clusters are directed by the Group strategy as approved by the Sanlam Board and according to a set of tight management principles established by the Group Office for the Group. Cluster boards all have committees (or forums) with specific responsibilities for the operation of that particular business cluster. Each of the cluster boards has its own Financial and Risk, as well as Human Resources and Remuneration committees or forums.

The cluster Boards consist of non-executive and executive directors. Non-executive directors include members of the Sanlam Life Board and, where appropriate, expert external appointees. The majority of the operating business decisions are made by these boards and committees working together with the relevant cluster management.

These structures are also responsible for the generation of memoranda and issues for consideration by the Sanlam Life Board. Individual business units have their own boards and executive committees that structure their activities within appropriate delegated authority levels. Where required, the various business unit boards will also act as the statutory boards of subsidiary, joint venture and associated companies.

The Group Chief Executive is supported by a Group Executive committee and a small centralised Group Office, mainly performing the following functions: strategic directing (tight issues); coordinating; synergy seeking; performance monitoring; assurance provision; allocation of capital; and support functions.

The Group operates in a highly regulated environment due to the nature of its financial services operations. Long-term sustainability and resilience are inextricably linked to compliance with all applicable regulations and maintaining a productive relationship with regulators who grant operating licences to the Group's businesses. Therefore, regulatory compliance is a particularly important operational governance focus area:

- The Sanlam Board is ultimately responsible for regulatory compliance. The responsibilities of the Audit, Actuarial and Finance committee as well as the Risk and Compliance committee include monitoring of regulatory compliance. Quarterly reports to these committees and the Sanlam Life Board include updates on regulatory developments, augmented by regular training sessions to ensure that members of the Board and these committees stay abreast of all legislation applicable to the Group. Quarterly reporting also includes compliance reports that provide information on the Group's overall regulatory compliance and any significant breaches detected by the Group and cluster compliance functions.
- The terms of reference of cluster and business unit level boards and financial and risk forums similarly include monitoring of regulatory compliance.
- Compliance functions with dedicated compliance officers are established at Group and cluster level. The terms of reference for these functions focus specifically on regulatory compliance.
- Changes in South African regulations are monitored by the Group compliance function and a dedicated regulatory unit within the Group risk management function. These functions are actively involved in commenting on proposed regulatory changes directly and through industry bodies, and are also responsible to coordinate the implementation of new regulations across affected businesses. Similar functions are operating within the Group's operations outside of South Africa. The scope of the centralised regulatory unit will be extended over time to include non-South African businesses.
- Regulatory compliance is incorporated in the responsibilities of cluster management.

The insurance industry is in the midst of major regulatory changes, which currently require more diligent attention.

Read more about the regulatory environment in which the Group operates in the Regulatory environment report on page 82.

Governance at a glance continued

Risk management is another important component of operational governance due to the risks that the Group is exposed to through its business model. The Sanlam Board adopted the three lines of defence model for managing these risks. This model defines the roles, responsibilities and accountabilities for managing, reporting and escalating risks and other matters throughout the Group. The model incorporates the oversight, management and assurance of risk management, essentially giving three independent views of risk. This approach ensures that risk management is embedded in the culture and daily activities of business units and provides assurance to the Board and Executive committee that risks are managed effectively.

Sanlam Board

Strategy, risk appetite and policy

1

- CEO and Executive committee
- Risk taking business units

Doing and recording

Delegated Board authority to:

- Develop and implement business strategy
- Measure and manage performance
- Implement internal control and risk management framework within agreed risk appetite

Assurance: management based

2

- Risk management, compliance and risk modelling

Internal verification

Objective oversight of risks. Key activities include:

- Designs and deploys the overall risk management framework
- Develops and monitors policies and procedures
- Monitors adherence to framework and strategy

Assurance: risk and legal based

3

- Risk and Compliance committee
- Audit, Actuarial and Finance committee
- Internal and external assurance

Independent verification

Independent and objective assurance over the effectiveness of corporate standards and business compliance:

- Assurance that the risk management process is functioning as designed and identifies improvement opportunities

Assurance: independent based

Risk management system

Own risk and solvency assessment (ORSA)

Internal control

The following diagram depicts the flow of risk management information from the individual business units to the Sanlam Life Board.

Sanlam Life Board	Responsible for the Group's risk management framework and policy, 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, policy and guidelines for approval by the Sanlam Life Board, coordinates reporting responsibilities and improves risk management across the Group
Business level risk and/or audit committee/ forum	Assists the business level board in fulfilling its responsibilities to the Sanlam Life Board
Business level management committees	Additional committees that may be established by a business to assist their executive committees in certain areas of risk management
Business level (and sub-business) risk management	Identifies and manages risks faced by the business

Read more about governance in the Corporate Governance Report and in the supplement report on Sound governance online.

Read more about the key strategic risks in the Strategic review by the Group Chief Executive on page 98 and about other risks and how they are managed in the Capital and Risk Management report on page 24 of the Annual Financial Statements.

Rewards as a driver of value creation

The Board, through the Human Resources and Remuneration committee, is responsible for approving and monitoring the Group's total rewards approach, strategy and policy. Rewards create value by ensuring a fair and contracted exchange between Sanlam and its employees in all territories. This provides employees with financial security and the potential to be rewarded for exceptional performance, while the Board and shareholders are guaranteed a specific level of output to implement the strategy and grow the business' performance over time. The rewards approach therefore manages the trade-off between employment costs and shareholder returns.

Remuneration is also one of the key elements in attracting and retaining critical talent.

Sanlam's total reward offering comprises remuneration (which includes cash remuneration, short-term incentives and long-term incentives), benefits (retirement funds, group life, etc.), learning and development, an attractive working environment and a range of lifestyle benefits.

Rewards are aligned with the applicable regulatory and governance requirements in each of the countries in which the Group operates. While compliance with the Sanlam Group remuneration strategy and policy is primarily targeted at Group companies or Group operating subsidiaries, Sanlam encourages the application of sound remuneration practices in those businesses where it does not hold a controlling interest.

Read more about rewards in the Remuneration Report online.

Governance of the Sanlam brand

The Wealthsmiths™ footprint expands

The Sanlam Wealthsmiths™ brand is the Group's most valuable intangible asset. In 2014 the logo was updated and a new positioning and brand architecture was developed. In 2015 the first rebranding of Sanlam partner businesses in Mozambique, Uganda and Tanzania was initiated, with the rollout extending to Zambia and Kenya in 2016.

As the brand is being rolled out, Sanlam is faced with increased reputational risk and the challenge of ensuring consistency in application and execution while recognising that marketing resources differ between territories and that market development is at varying levels of maturity.

In 2016, the brand office adopted the concept of a virtual marketing team and was the first corporate in South Africa to introduce a globally recognised marketing management system – the leader in social and content marketing software. The system creates a governance structure for all brand related activities and material. It facilitates complete visibility, centralised sign-off and the availability of a virtual library of collateral.

The new system will ensure consistency in all jurisdictions, drive innovation and implement best practice. It will ensure that all Sanlam brand operations are true to the brand, the Sanlam Way and reflect the essence of what the business is, what Sanlam does and what it believes in.

Sanlam board of directors
as at 31 December 2016

Independent non-executive directors in terms of King III

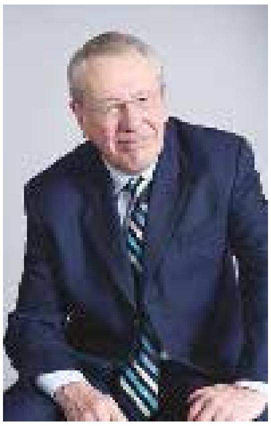
Desmond Smith (69)
Independent Chairman

Gender: Male

Tenure: 7 years, 7 months

Committee membership: Nominations (Chairman), Sanlam Customer Interest, Human Resources and Remuneration, Non-executive directors (Chairman).

Expertise: Financial Markets and Investment, Actuarial, General and International Business, Marketing and Risk Management.



Paul Bradshaw (66)[1]

Gender: Male

Tenure: 2 years, 4 months

Committee membership: Sanlam Customer Interest, Audit, Actuarial and Finance, Risk and Compliance, Non-executive directors.

Expertise: Actuarial, Financial Markets and Investment, International Business and Risk Management.

Manana Bakane-Tuoane (68)

Gender: Female

Tenure: 13 years

Committee membership: Nominations, Human Resources and Remuneration, Sanlam Customer Interest, Non-executive directors.

Expertise: Financial Markets and Investment, General Business and Human Resources.

Valli Moosa (59)

Gender: Male

Tenure: 12 years, 7 months

Committee membership: Social, Ethics and Sustainability (Chairman), Non-executive directors.

Expertise: General Business, Sustainability and Governance.

Anton Botha (63)

Gender: Male

Tenure: 10 years, 10 months

Committee membership: Human Resources and Remuneration (Chairman), Non-executive directors.

Expertise: Financial Markets and Investment, General Business, Human Resources, Marketing and International Business.

(1) *Deceased January 2017*

Sipho Nkosi (62)

Gender: Male

Tenure: 11 years, 10 months

Committee membership: Non-executive directors, lead independent director

Expertise: General and International Business.

Chris Swanepoel (66)

Gender: Male

Tenure: 5 years, 9 months

Committee membership: Risk and Compliance (Chairman), Sanlam Customer Interest (Chairman), Non-executive directors.

Expertise: Actuarial, Risk Management, Financial Markets and Investments.

Karabo Nondumo (38)

Gender: Female

Tenure: 1 year, 3 months

Committee membership: Audit, Actuarial and Finance, Risk and Compliance, Non-executive directors.

Expertise: Accounting, Investments and Financial Management.

Lazarus Zim (56)

Gender: Male

Tenure: 10 years, 10 months

Committee membership: Social, Ethics and Sustainability, Non-executive directors.

Expertise: General and International business and Corporate Sustainability.

Flip Rademeyer (69)

Gender: Male

Tenure: 5 years,9 months

Committee membership: Audit, Actuarial and Finance (Chairman), Risk and Compliance, Social, Ethics and Sustainability, Non-executive directors.

Expertise: Accounting, Financial Markets and Investment, General Business and Risk Management.

Sanlam board of directors continued

Non-executive directors

Patrice Motsepe (55)

Deputy Chairman

Gender: Male

Tenure: 12 years, 9 months

Committee membership: Nominations, Human Resources and Remuneration, Non-executive directors.

Expertise: General and International Business and Legal.

Johan van Zyl (60)

Gender: Male

Tenure: 1 year

Committee memberships: Risk and Compliance, Human Resources and Remuneration, Non-executive directors.

Expertise: General and International Business and Insurance.

Rejoice V Simelane (64)

Gender: Female

Tenure: 12 years, 9 months

Committee membership: Social, Ethics and Sustainability, Non-executive directors.

Expertise: General Business, Sustainability, Governance and Legal.

Clem Booth (63)

Gender: Male

Tenure: 2 years, 1 month

Committee membership: Non-executive directors.

Expertise: General and International Business, Human Resources, Sustainability, Risk Management and Marketing.

Executive directors

Ian Kirk (59)

Gender: Male

Tenure: 1 year, 6 months

Expertise: General Insurance, Life Insurance, Financial Markets and Investment, General and International Business.

Temba Mvusi (61)

Gender: Male

Tenure: 7 years, 1 month

Expertise: Financial Markets and Investments, General Business, Human Resources and Legal.

Heinie Werth (53)

Gender: Male

Tenure: 3 months

Committee membership: Risk and Compliance.

Expertise: Accounting, Finance, General Insurance, Life Insurance, Financial Markets and Investment, General and International Business and Risk Management.

Yegs Ramiah (49)

Gender: Female

Tenure: 4 years, 2 months

Expertise: General Business, Brand, Communications, Marketing, Legal, Corporate Sustainability and Transformation.

Regulatory environment

Regulatory context for Sanlam

Volatile global and local market conditions continue to spur regulators toward the development of tools and mechanism that will ensure a more predictive response to the next potential crisis. Although the focus remains on client centricity, and capital and liquidity management, there is a rising awareness of the role of strong ethics, culture and related accountabilities.

The Sanlam Business Philosophy recognises that the business functions in a highly regulated industry and shares the regulators' vision for efficient and effective financial services industries globally. The Group supports regulatory initiatives that benefit clients and strengthen its ability to create value for stakeholders as this strengthens resilience and ensures the long-term sustainability of the business.

The Group is committed to the implementation of new regulation but recognises that some of these create a range of risks, stakeholder concerns and costs to manage, in addition to enforcing and increasing barriers to entry. The Group's approach is to find opportunity and improve its offering by proactively working with regulators to implement appropriate regulations.

As a member of the G20, the international forum for the Governments and central bank governors from 20 major economies, South Africa participates in studying, reviewing and promoting high-level discussion of policy issues related to the promotion of international financial stability. For the Group, this entails adhering to first world regulation of financial markets and actively engaging the regulatory authorities in all markets in which the Group operates. The cooperative approach further involves proactive engagement and participation in industry bodies such as the Association for Savings and Investment South Africa (ASISA) and the South African Insurance Association (SAIA). The rising tide of financial regulation is regarded as a key risk facing the financial services industry worldwide. A key concern is the breadth of proposed new regulation and the intended pace of implementation, which often appears to be introduced in an uncoordinated manner with consequential unforeseen negative outcomes.

Two main themes related to the Group's operations in South Africa are:

Twin Peaks

The proposed implementation of the Twin Peaks model in South Africa is contained in the Financial Sector Regulation (FSR) Bill. Twin Peaks is a comprehensive and complete system for regulating the financial sector and involves the creation of two primary regulators:

- a prudential regulator (the Prudential Authority) and a
- new market conduct regulator (the Financial Sector Conduct Authority).

The prudential regulator will be mainly concerned with capital and liquidity requirements as defined by a risk-based regulatory regime for long and short-term insurers in South Africa, and implemented through the Solvency Assessment and Management (SAM) project. The delay in the commencement date of the FSR Bill, with subsequent implementation of the Insurance Bill and related legislation, resulted in the SAM implementation date being postponed.

Market conduct regulation under Twin Peaks will primarily be implemented through Conduct of Financial Institutions legislation and will be informed by regulatory initiatives such as Treating Customers Fairly (TCF) and the Retail Distribution Review (RDR). These create standards for advertising, complaints management, language, disclosure, intermediary remuneration and management of conflicts of interest.

Retirement reform and social security

The limited retirement and social security options available in South Africa take the form of old age pensions, unemployment insurance and child welfare grants. While various social security options are investigated and proposed, the more immediate focus of regulatory proposals and implementation is to improve the sustainability of the current system.

The objectives of financial reform are:

- Reducing the cost of financial services and improving transparency
- Simplifying retirement saving options
- Encouraging innovation through more competition
- Driving improved disclosure to make it easier for ordinary South Africans to understand complex financial products
- Improving financial regulation and reporting to fight corruption and money laundering, while providing protection against fraud and systemic risks

Regulation as value enabler

Regulation is a key consideration in the Group's ability to create value as it creates the environment within which the Group operates and competes. Regulations aimed at the fair treatment of clients, fair competition between product providers and the prevention of large-scale corporate failures and financial instability contribute significantly to the trust clients have in the industry and therefore its long-term sustainability. The major regulatory developments currently being considered are largely in line with these objectives and are supported by the Group. A consequence of the increased regulatory burden is significantly higher barriers of entry, which benefit large established groups such as Sanlam from a competitive perspective.

However, the current scale of regulatory reform also has negative consequences that require a skilful response from the Group. The cost of proposed legislation often does not deliver an equal benefit to clients, thereby challenging the Group's ability to offer affordable products, in particular in the entry-level market. Additional regulation creates a cost burden that has to be carried by clients and shareholders.

The scale of new regulation also affects management capacity due to the analysis and response required, adding to real and opportunity cost in business. This is further affected by increasing delays in implementation.

The financial services industry is built on a business model that requires long-term valuations and assumptions. The uncertainty created by numerous and uncoordinated regulatory proposals affects strategic decisions, investment choices, innovation and product design.

Multinational regulatory capability

Regulatory changes are tracked continuously through SEM with the most significant reforms emerging in Botswana, Namibia, Malaysia, Malawi, Kenya and Ghana. Saham Finances' solid management and regulatory skills have been essential in expanding operations into new and different regulatory environments mainly based on the French model.

The regulators across Africa maintain a good working relationship with the FSB, especially in light of the group supervision being introduced as part of SAM. The benefit of this approach for the Group is that most of the developments in the Rest of Africa follow South African legislation, which makes implementation much more efficient from a Group perspective. The main current and future anticipated developments in the countries where the Group currently operates relate to TCF and risk-based solvency requirements (equivalent to SAM).

Regulation in the UK in the past year focussed mainly on reforms to the UK retirement market, with the most significant impact deriving from the cap on early exit pension charges. New rules and guidance are also being developed to increase transparency and engagement at renewal in general insurance markets. These rules form part of the new accountability regimes introduced in March 2016 for deposit takers, prudential regulation authority investment firms and Solvency II firms and large non-directive insurers.

The Group relies on local boards and mangement teams to influence and adhere to local regulatory requirements, but with oversight by Group and cluster representatives.

Current, new and upcoming regulatory developments	The Group's response
Financial Sector Regulation Bill (FSRB)	
In July 2016, National Treasury (NT) released a revised version of the FSRB, incorporating changes pursuant to discussions and issues raised before the Parliamentary Committee. This draft is regarded as a proposal to the Standing Committee on Finance (SCOF), which will make the final decision on any changes to be effected before the Bill is submitted to the National Assembly in Parliament.	The potential impact of the FSRB on Sanlam includes: • Multiple financial services regulators • Extended jurisdiction over the Sanlam Group • Sanlam is likely to be designated as a Systemically Important Financial Institution (SIFI) which will potentially impact capital requirements, leverage ratios, liquidity, organisational structures, and risk management arrangements • Significantly large and enhanced powers are granted to the regulatory authorities • The actuary, valuator and auditor of Sanlam will be subject to enhanced reporting obligations

Current, new and upcoming regulatory developments	The Group's response
Insurance Bill, 2016	
The Insurance Bill provides a consolidated legal framework for the prudential supervision of the insurance sector that is consistent with international standards for insurance regulation and supervision. It aims to replace and consolidate substantial parts of the Long-term Insurance Act of 1998 and the Short-term Insurance Act of 1998. Specific provisions relate to licencing, ownership, governance and micro-insurance. The Bill must be aligned to and follow the enactment of the FSRB.	In January 2016, a revised version of the Insurance Bill was tabled in Parliament, and has since then been referred to the Parliamentary Committees. Sanlam submitted further comments to ASISA, which is preparing an industry submission on substantive concerns to the SCOF. Technical issues and matters requiring clarity have been discussed separately with both the FSB and NT. Given that the Insurance Bill will only be considered after the FSRB has been finalised, ASISA will review it once more after the FSRB has been passed to ensure alignment and consistency between these two pieces of legislation.
Solvency Assessment and Management (SAM)	
SAM is a risk-based supervisory framework, with the primary objective of improving policyholder protection and contributing to financial stability through: - Aligning insurers' regulatory capital requirements with the underlying risks of the insurer; and - Providing incentives to insurers to adopt more sophisticated risk monitoring and risk management tools. The FSB is in the final stages of implementing the SAM framework, details of which will be provided for through Insurance Prudential Standards, which will form subordinate legislation under the Insurance Bill.	Requirements have been proactively implemented, with the Group continuing to run two prudential regimes in parallel until the implementation date is finalised – anticipated to be in the second half of 2017. Sanlam participated in the Comprehensive Parallel Run (CPR) exercise to test resources, processes and systems ahead of full SAM implementation. The CPR encompassed the vast majority of what is anticipated to be the components and requirements of the final SAM framework. This included the development of a Mock ORSA report which assisted the Group in assessing its readiness and enabled the FSB to assess its own supervisory capabilities against the readiness of the overall industry. The Group remains well capitalised under the SAM regime, as reflected in the Capital and Risk Management report incorporated in the Annual Financial Statements and referred to in the Financial Review on page 155. Opportunities to more efficiently allocate capital within the new regime are continuously investigated, including more sophisticated balance sheet management, strategic asset allocation and the most appropriate capital structure. Santam received permission from the FSB to enter the formal application phase for its internal capital model.

Current, new and upcoming regulatory developments	The Group's response
Draft Taxation Laws Amendment Bill (TLAB) and the 2016 Draft Tax Administration Laws Amendment Bill (TALAB)	
During 2016, National Treasury and the South African Revenue Service (SARS) published the 2016 Draft Taxation Laws Amendment Bill (TLAB) and the 2016 Draft Tax Administration Laws Amendment Bill (TALAB) for public comment. These bills give effect to most of the tax proposals announced in the 2016 Budget Speech and the 2016 Budget Review.	The amendments will oblige Sanlam to collect and report information to allow SARS to implement agreements under international tax standards, such as the Organisation for Economic Cooperation and Development (OECD) Standard for Automatic Exchange of Financial Account Information in Tax Matters, which encompasses the Common Reporting Standard. This will impose more onerous on-boarding requirements for new clients of all Sanlam entities.
Taxation Laws Amendment Act 2015 and Revenue Laws Amendment Bill, 2016	
The Revenue Laws Amendment Act, 2016 gives effect to the decision by Government to postpone the annuitisation requirement for provident fund members (as contained in the Taxation Laws Amendment Act, 2015) for two years until 1 March 2018.	N/A
Retail Distribution Review (RDR) Phase 1	
The RDR proposals are aimed at reforming the regulatory framework for the distribution of retail financial products in South Africa and will change current incentives, relationships and business models. The proposals require extensive amendments to the regulatory framework and form part of a broader review of the legislative architecture necessary to give effect to a Twin Peaks regulatory model. It will be implemented in a phased manner.	A new RDR roadmap was being developed by the FSB to align with the evolving timelines of the broader Twin Peaks legislative reforms, in particular the enactment of the FSRB and the subsequent Conduct of Financial Institutions (CoFI) Act. This included a review of the full set of RDR measures to determine whether all aspects need to be deferred or whether some measures could be feasibly implemented, or at least consulted on at an earlier stage. Since the initial publication, very little progress has been communicated and indications are that the most significant changes will only be implemented under Phase 3 of RDR, after the Conduct of Financial Institutions (CoFI) Act has been enacted (expected in 2018). Sanlam expects a high impact on distribution management over the medium to long term, particularly relating to the categorisation of intermediaries and the introduction of fee-based advice. The Group is actively engaging with the regulator through ASISA to manage the implementation to prevent unforeseen negative consequences.

Regulatory environment continued

Current, new and upcoming regulatory developments	The Group's response
Retail Distribution Review (RDR) Phase 1 (continued)	
As part of Phase 1, the FSB published revisions to Regulation 5 of the Long-term Insurance Act. These are aligned to National Treasury's broader reform of financial regulation in terms of the Twin Peaks regulatory model and will enforce a gradual reduction in causal event charges from 22% in September 2017 to a maximum cap of 5% over a period of 12 years.	Sanlam proactively adapted its approach to causal event charges three years before a 2013 FSB directive (for products sold before 2009, causal event charges on retirement annuities would be capped at 30% and those on endowment policies limited to 40%) and in 2014, reduced early termination charges on almost all affected products in a measured way. The approach followed was similar to the one currently proposed by the FSB, except that Sanlam's reductions were more substantial that those currently proposed by the FSB: a maximum charge of 2% over nine years. The impact on Sanlam will therefore be immaterial.
Financial Intelligence Centre Amendment Bill, 2015	
The Bill aims to enhance South Africa's ability to combat financial crimes, addresses regulatory gaps identified and enhances South Africa's anti-money laundering (AML) and combating of terrorist financing (CFT) regulatory regime. The Bill places an obligation on accountable institutions to give effect to United Nations Security Council (UNSC) resolutions by reporting to the Financial Intelligence Centre (FIC) if any property in its possession or under its control is owned or controlled by or on behalf of a person or an entity identified in the UNSC sanctions list. As a member of the UN, South Africa is bound to domestically give effect to UNSC sanctions resolutions issued in terms of Chapter VII of the UN Charter.	The Bill is currently waiting for assent by the President. It will become effective on a date determined by the Minister of Finance. The proposed risk based approach will demand more resources than a rules-based approach and will add to the cost of doing business, especially in other jurisdictions. Sanlam's main concerns were raised via ASISA.
The Protection of Personal Information Act, 4 of 2013 (POPI)	
The Act aims to protect individuals' right to privacy of personal information, and to align South Africa with international data protection laws. There will be a grace period of one year from the date of commencement to ensure that all processing of personal information complies with the Act.	Although POPI became law in 2013, confirmation of the POPI commencement date is still awaited. The delay in the promulgation of an effective date for POPI frustrates Sanlam's efforts to implement measures to ensure compliance with the Act. Sanlam businesses have been revisiting all gap analysis previously performed to identify measures that can be implemented as part of business as usual initiatives without any dependencies on POPI regulations or codes of conduct.

Economic and operating environment

Economic and operating environment

Global economy

The potential impact of political referendums and elections on the global economy featured prominently in the news in 2016, including the UK referendum on European Union (EU) membership and the US Presidential election.

In the UK, the referendum vote in favour of leaving the EU prompted a sharp depreciation of pound sterling, while the Bank of England announced additional monetary policy easing in the form of a 0,25% cut in the Bank rate and expansion of its asset purchase programme, given concerns over the outlook for UK economic growth at the time.

In the US, Republican candidate and now President Trump's victory in the November 2016 Presidential election was followed by a significant sell-off in the US Treasury market as investors contemplated the potential for looser fiscal policy.

The theme of divergence between the monetary policy stances of the US Federal Reserve and other major developed market (DM) central banks continued throughout 2016. The more stringent approach adopted by the Federal Reserve was, in part, motivated by the potential for upward pressure on wages and inflation due to the firmness of the labour market. The Federal Reserve Open Market Committee (FOMC) hiked the federal funds target rate from 0,25-0,50% to 0,50-0,75% in December 2016, its first hike since December 2015.

In contrast, the European Central Bank (ECB) maintained a loose monetary policy position, partly reflecting the risk of deflation. At the conclusion of its monetary policy meeting in December 2016, the ECB left its policy rates unchanged, but indicated that it would continue with its asset purchase programme. Although its monthly net asset purchases will be reduced from April 2017, purchases are set to continue until the end of December 2017 or, if necessary, beyond that point. It should, however, be noted that inflation lifted in the Euro area towards the end of 2016 - as is the case for the global economy in general - partly due to higher energy prices. This eased the deflation concerns of the ECB.

Among emerging market (EM) economies, expectations that China's economy would continue to slow, given excess capacity in some sectors and the constraints posed by a debt overhang, did not materialise as looser monetary and fiscal policy stabilised the economy. However, risk lingers and China's policymakers tightened foreign capital controls against the backdrop of a falling level of foreign exchange reserves.

Overall, global income growth remained modest in 2016, although business sentiment surveys suggest real economic activity lifted late in the year. The improving trend in the global manufacturing PMI index, in the second half of 2016, in particular, suggests firmer momentum in global industrial production off a low base.

South Africa

South Africa's real GDP growth estimate for 2016 is less than 0,5%. Real personal disposable income growth remained soft, reflected in modest consumer spending data. In addition, heightened economic policy uncertainty and weak earnings impacted negatively on private sector fixed investment.

Throughout the year, attention was focused on the possibility of a downgrade of South Africa's foreign currency denominated debt to sub-investment grade. This primarily reflected the risk to fiscal consolidation from stalling real GDP growth, concern over the sustainability of the country's large current account deficit and the exposure of the central Government to the financial fragility of some state owned companies.

The South African National Treasury's Budget for fiscal year 2016/17 and its October 2016 Medium Term Budget Policy Statement, nonetheless, continued to show a path to debt stabilisation over the medium term, by introducing revenue raising measures and cutting expenditure relative to previous projections.

Ultimately, a downgrade of South Africa's long-term foreign currency debt to sub-investment grade was avoided as ratings agency Standard & Poor's confirmed the sovereign's long-term foreign currency debt rating at BBB- (negative outlook) in December 2016. The agency did, however, lower South Africa's long-term local currency debt rating from BBB+ to BBB (negative outlook).

The negative outlook on South Africa's debt rating implies a downgrade to sub-investment grade is still a risk. Nonetheless, an increase in the country's terms of trade, interest rate hikes and the reprieve on the sovereign debt rating supported the rand exchange rate, which appreciated 12% against the US dollar during 2016.

Headline consumer price inflation increased from 5.2% at the end of 2015 to 6.6% in November 2016. Currency weakness in late 2015 and the concomitant upward pressure on inflation in 2016, prompted the Reserve Bank to hike its repo rate from 6,25% at end 2015 to 6,75% in January 2016 and further to 7,00% in March 2016, before remaining on hold during the rest of the year.

The appreciation of the rand in 2016 has improved the medium term inflation outlook. The annual advance in headline consumer price inflation is expected to peak in December 2016 and if the relatively benign inflation forecast for 2017 is realised, the Reserve Bank may have reached the top of its interest rate hiking cycle. Given this relatively more constructive backdrop, South African Government bonds rallied in 2016 as the 10-year bond yield declined to 8,921% at year-end from 9,687% at the

Economic and operating environment continued

end of 2015. The All Bond Index produced a return of +15.45% in the year to December 2016.

Encouragingly, South Africa's national accounts data shows a recovery in growth in the total gross operating surplus to 6,3% in the third quarter of 2016, from a trough of 1,0% in the same period for 2015. Despite this, the earnings of all listed companies on the FTSE/JSE All Share Index decreased by 15,7% in the year to December 2016.

Considering the better earnings momentum recorded in the national accounts, though, the expected peak in the interest rate cycle, a forecast increase in agriculture production and the improvement in the terms of trade over the past 12 months, firmer real GDP growth of 1,3% is forecast for 2017.

Rest of Africa

Although real GDP growth for the sub-Saharan African (SSA) region is estimated at just 1,5% in 2016, the marked divergence in performance between countries should be noted.

Generally, commodity producers performed poorly relative to non-commodity producers. The former, which includes the three largest SSA economies, namely Nigeria, Angola and South Africa, has been exposed to the slowdown in growth in China and the accompanying fall in metals and minerals prices since late 2010.

Oil producers have been especially hard hit, notably Angola and Nigeria, where falling terms of trade weighed heavily on domestic demand. Balance of payments pressures, reflected in marked declines in foreign exchange reserve levels, prompted a devaluation of Nigeria's naira and Angola's kwanza.

Numerous SSA countries also ran sustained loose fiscal policies for an extensive period following the global financial crisis and have large macroeconomic imbalances. This has left them vulnerable to the shift towards a more restrictive monetary policy in the US and tighter global financial conditions. Among commodity producers, where GDP growth has slowed, this has enforced a period of macroeconomic adjustment in countries such as Ghana, Zambia, Nigeria and Angola.

This challenging economic environment and the accompanying currency weakness, was reflected in declines on total returns on equities in US dollar terms in, for example, Nigeria (37.6%) and Ghana (23.4%) in 2016.

In Botswana, real GDP growth has been constrained by a decrease in mining output, while the country's fiscal balance turned into a significant deficit in 2015 and 2016, following robust surpluses in 2013 and 2014. Apart from weak real economic activity, the deterioration in the Government's budget balance reflects lower SA Customs Union receipts. Although a recovery in diamond production is expected into 2017, there is clearly a need to diversify the economy, which is too reliant on diamond production. Botswana's equity market yielded a negative total return in US dollar of (2.8%) in 2016.

In Namibia, too, lower SA Customs Union receipts have impacted negatively on Government finances. The country's debt ratio is relatively low, but it has climbed significantly over the past two years and Namibia's large twin deficits are unsustainable. Still, given Namibia's membership of the Common Monetary Area of the rand, its currency appreciated along with the South African rand against the US$ during 2016. Partly reflecting the appreciation of the currency, the Namibia NSX overall index yielded a total return of 43.5% in US$ in 2016.

Non-commodity economies in SSA have fared noticeably better than the commodity producers in 2016 with oil importers, in particular, benefiting from lower oil prices. In East Africa growth has been especially strong in Tanzania, Uganda, Rwanda and Kenya. Growth in these countries is expected to remain elevated in 2017, supported by infrastructure spending.

Still, the equity markets of Kenya and Tanzania delivered negative total returns in US dollar terms in 2016, falling (3.0%) and (4.4%) respectively. Also, large twin deficits among the fast-growing non-commodity producers must be addressed to reduce vulnerability.

In North Africa, Morocco has adopted constitutional reforms and implemented measures to improve its fiscal position since the 2011 election, while also focusing on infrastructure development. Its economy experienced a marked contraction in agricultural production in 2016, due to unfavourable weather conditions. Accordingly its estimated total real GDP growth slowed to below 2,0% in 2016 from 4,5% in 2015. But, the industrial sector has fared relatively better and indications are the overall level of growth is likely to lift in 2017, should agricultural production rebound as expected. That said, a considerable delay in forming a new Government following the October 2016 parliamentary election was not yet resolved by year-end, which dampened business confidence.

Elsewhere, although political conflict has persisted, real GDP growth remained robust in West Africa in 2016. Boosted by infrastructure spending and supported by net foreign direct investment inflows, economic activity has been especially robust in non-resource rich economies such as Côte d'Ivoire and Senegal. Oil importers in the region have also enjoyed significant gains in their terms of trade, given the decline in oil prices from late 2014 through to early 2016.

Real GDP growth in a number of West African economies is expected to remain strong over the next year. Indeed, Côte d'Ivoire and Senegal are expected to be amongst the fastest growing countries on the continent. In these two economies, as well as the other members of the West African Economic and Monetary Union (WAEMU), inflation remains low, given the CFA franc's peg to the euro.

The members of WAEMU and other countries in West Africa typically run twin deficits, some of which are large. This is to be expected where infrastructure spending is strong and economies are growing fast. Also, Government debt levels are generally low relative to GDP. Maintaining investor confidence and capital inflows is important, though, considering the relatively low gross national savings ratios in the region and the decline in foreign exchange reserves relative to imports in numerous countries in recent years. Also, as is the case in East Africa, the region is a beneficiary of significant amounts of official development assistance, which underlines the importance of implementing good governance standards.

India and Malaysia

India's equity market delivered a positive 1,8% total return in US dollar terms in 2016, while its exchange rate remained relatively stable against the US dollar. The country's current account deficit has shrunk markedly since 2013 and Government's high debt ratio is expected to decline in the years ahead, albeit gradually. In addition, expectations of delivery on economic reform have supported foreign capital inflows and a significant build-up in the country's foreign exchange reserves.

India remains one of the world's fastest growing economies. Real GDP growth in 2016 is estimated at around 7%. Although de-monetisation is expected to impact growth negatively in the near term, growth is expected to continue trending at a high level in 2017.

In contrast, growth in Malaysia moderated in 2016 and credit extension is weak against a backdrop of high debt levels, especially amongst households. Further, Malaysia's current account surplus and foreign exchange reserves level have declined significantly since the global financial crisis. Malaysia's equity market delivered another outright decline in total return of (4.0%) in US dollar in 2016, following a double digit decrease of (19.4%) in US dollar terms in 2015.

Overall, the growth environment of the SSA group of countries remains challenging as adjustment to macroeconomic imbalances continues. These countries, including South Africa, remain vulnerable to tighter US fiscal policy, possible trade protectionism and any unexpected downward adjustment to growth in China. In the absence of these risks, the downturn in growth may bottom in a number of countries in 2017, while the long-term growth potential of the SSA and EM Asia countries is viewed as more favourable than for the global economy overall.

Impact on the Group

New business

In South Africa, pressure on disposable income and an uncertain environment in the context of global political instability, pedestrian economic growth, investment market volatility and the risk of a downgrade in South Africa's foreign denominated debt, did not bode well for investor confidence. This manifested in muted demand for discretionary single premiums savings solutions in the retail market and low appetite at institutional investors to change investment mandates. Single premium new business sales at SPF and investment management inflows at SI slowed down markedly as a result. New recurring premium savings sales also recorded below-trend growth.

The pressure on real GDP growth and the currencies of the commodity-based economies where the Group operates, posed particular challenges in 2016 to grow new business volumes and operational earnings. In line with 2015, the Zambian operations continued to struggle, with Malawi also delivering an operational performance below expectations. The Nigerian business, however, delivered a sterling performance despite severe economic and currency pressures, and achieved some of the strongest growth in the Rest of Africa region.

Supportive economic growth, positive sentiment and the roll-out of infrastructure projects in India enabled the Shriram Capital businesses to achieve a much improved performance, with all businesses recording double digit growth in key performance indicators. De-monitisation created some uncertainty towards year-end.

In Malaysia, the general insurance business experienced a disappointing decline in net earned premiums, with the more muted economic growth impacting on motor cycle sales. Motor cycle insurance remained the key business line in 2016.

Investment return

Investment return earned on the Group's capital portfolio was negatively impacted by the weak investment market performance in South Africa and most of the Rest of Africa markets.

Currency translation differences

The rand strengthened against all of the major currencies where the Group operates, but were still weaker on an average basis in 2016 compared to 2015. This had a twofold effect on the Group's translated rand results:

- A weaker average rand exchange rate had a positive impact on the translated value of all key performance indicators of the non-South African operations.
- The strengthening of the rand since end-2015 to the end of December 2016 had a marked negative impact on the investment return earned on the foreign exposure in the South African capital portfolio, as well as on GEV at year-end and hence RoGEV for 2016.

Interest rates

The decline in the South African long-term interest rates during 2016 resulted in a commensurate decline in the risk discount rate used for the valuation of Group operations for GEV purposes, value of new covered business and the present value of new business premiums. This supported growth in these performance metrics.

Read more about the impact of economic factors on performance in the Financial review on page 133.

CHAIRMAN'S REVIEW

Chairman's review

Desmond Smith
Chairman

Sanlam is well positioned for growth: we now have the largest non-banking financial services footprint in Africa. No other insurer in the world can currently claim such a position.

Sanlam's resilience in uncertain times is testimony to a value system and work ethic that has stood the test of time for almost 100 years. Reflecting on the past year, two features are notable:

- Consistency: we remain committed to our strategy and business philosophy
- Execution: we have the ability to implement our plans to achieve our strategic objectives

These two features enabled the delivery of solid results in a tumultuous year. Our operating environment has been tough, with high levels of uncertainty undermining business confidence and customer decisions to invest for the longer term. The Group Chief Executive successfully made further planned changes to his executive team without losing any momentum in our businesses.

A key feature of our 2016 financial year is the progress of executing our vision of becoming the leading Pan-African diversified financial services player. Following the Saham Finances transaction, Sanlam has a presence in an additional 22 countries. Many of the countries in our expanded footprint offer excellent opportunities for longer-term growth, but would have been difficult to enter without the support of a partner like Saham Finances. The language in which we conduct business across markets is key to our success as our executives and employees have to clearly understand the business to be able to manage it. While Sanlam's first wave of growth on the African continent was mostly confined to Anglophone territories, we have subsequently moved into French and Portuguese speaking markets on the continent. In this regard, we appreciate the effort that the Saham Finances leadership makes to accommodate Sanlam in English at the Saham Finances board meetings. This will facilitate co-operation between the two groups.

The opportunity in Africa is characterised by falling trade barriers and greater intra-Africa trade, changing customer demographics, more diversified economies and major investments from other parts of the world – all drivers of growth on the continent. However, we are cognisant of the fact that the investment case for Africa depends largely on the risk appetite of developed-world players and that this may vary significantly, adding to the challenges of delivering acceptable shareholder returns.

Sanlam is well positioned for growth: we now have the largest non-banking financial services footprint in Africa. No other insurer in the world can currently claim such a position. The growth opportunities are attractive, but will take time to deliver maximum returns, including those unlocked by Sanlam acquisitions over the past few years. We also recognise that our growing presence in Africa results in a shifting risk profile, and that we are bound to have challenges in managing the complexity, depth and scope of the risks – as was the case in our general insurance business in Rwanda, where gross misrepresentation of financial statements was uncovered for previous periods. Our pro-active position should therefore always be that we promote ethical business conduct and where we are made aware of misconduct, we act swiftly to investigate and ultimately correct the situation. Ethical leadership is paramount as it forms the basis on which clients' and other stakeholders' trust in the Group is founded.

Our long-term commitment to Africa does not mean that our businesses in India and Malaysia will become less important. In fact, we believe that our expanding operations in India and Malaysia offer great optionality to the Group as the combination of all these territories provide us with essential diversification to mitigate risks by having an investment profile spread.

Sanlam's ability to operate and invest in growth markets outside South Africa is premised on a strong and healthy foundation built over many decades in South Africa. For this reason, the Group will remain a highly-invested and committed player in the local market, where our strong cash generating businesses enable us to execute strategic investment choices in the rest of the world, most notably in the emerging markets of Africa. It is therefore critical that our home base remains economically and politically stable, as this is a prerequisite for our long term growth ambitions.

The continued and successful execution of the Sanlam strategy is key to making the Group a sustainable business. The Board continues directing and monitoring the implementation of the Group strategy, which is reviewed on an annual basis. Even though the Group's strategy has not changed significantly over the past 14 years, we continually test our assumptions, consider trends in the markets in which we operate, identify risks and opportunities, and decide on how to respond appropriately.

Read more about progress with our strategy implementation on page 99.

Our regulatory challenge

The successful execution of our strategy relies on economic growth, political stability and regulatory clarity and certainty. The continued uncertainty around proposed financial sector regulations is a major concern for the industry.

As an example, the development of a risk-based regulatory regime for the prudential regulation of long- and short-term insurers in South Africa was launched more than seven years ago. It envisaged a well-designed set of interconnected and interdependent regulatory elements. We supported this move, and started preparing and investing in systems, structures and policies to proactively adhere to the new requirements. Seven years later, the industry is still uncertain what changes might be implemented after the introduction of a Twin Peaks regulatory model in South Africa during 2017 and when this will take place. Uncertainty also exists around the mandate of the Market Conduct Authority (MCA) that will be introduced as part of the Twin Peaks model and the compliance requirements that will be rolled out by the MCA, some of which could potentially require significant further investments in systems and processes. We need policy certainty for Sanlam to continue to deploy capital effectively.

Read more about regulatory developments on page 82.

Excellence in client-centricity

Sanlam continues to proactively implement new regulation and best practice and apply client-centric learnings from other territories. For example, the restructuring of Sanlam Personal Finance (SPF) was based on research done by the team in the UK, which has already implemented the Retail Distribution Review (RDR).

The Board's Customer Interest Committee also continues to monitor and adopt leading practice in client-centric execution.

Client satisfaction measures tracked in South Africa, indicated that, for example, 96% of clients will strongly to very strongly recommend their Sanlam financial intermediary to friends, family or colleagues. This is in line with findings of previous surveys and confirms that Sanlam maintains its high level of service and advice.

Overall, clients rate the quality of advice that they receive from their Sanlam adviser as good to excellent.

The South African Ombudsman's complaints data for the year ended 31 December 2015 indicated that Sanlam, measured against its main peers, had the lowest "market share" of complaints at 3.95%, and the lowest percentage of complaints awarded in favour of complainants at 17,7%.

Sanlam makes superior customer experiences the basis of the Group's competitiveness. Supported by a strong brand reputation and business intelligence capabilities, this allows us to leverage existing and entrenched high levels of client loyalty.

Value creation and governance

Sanlam aims to create sustainable growth in shareholder value. We have achieved this consistently since listing in 1998, with our cumulative Return on Group Equity Value (RoGEV) per share of 1 103% well in excess of our cumulative target of 824% over the same period. This was only possible through the creation of value for all our material stakeholders.

The Group creates primary value for stakeholders by pooling risk and investment funds to provide long-term financial security and stability. This is augmented by the provision of credit facilities and ancillary financial services. Secondary value is created through the Group's role in providing stability to the financial system and being a provider of financial capital to other businesses. Our investment in skills development and training of our existing employees, financial education of a large number of communities, the business development of our black suppliers and corporate social investments (CSIs), among others, further benefits individuals and society.

Sanlam's commitment to value creation for all stakeholders is aligned to the principles contained in the recently published King IV Report on Corporate Governance for South Africa™, 2016 (King IV™). The Board embraces the new principles, and has positively made preparations to report accordingly. The format of the Sanlam remuneration report, included in the online 2016 Annual Reporting Suite, has already been adapted in accordance with the new requirements outlined in King IV™, with full alignment from a content perspective planned for 2017.

A sustainable Sanlam

Sanlam can only be sustainable and meaningful if it operates within a sustainable economic, social and environmental context. As such, our Group Chief Executive, Ian Kirk, has engaged widely with leaders from Government, labour and business to work towards a lasting economic growth solution for South Africa. These talks have indeed led to action and, in particular, the formation of three key steering committees, which will drive very specific ongoing projects, all geared towards creating jobs, promoting business confidence and investment and, ultimately, sustained economic growth. The outcomes include Sanlam's commitment to contribute R40 million to the newly established South African SME fund, which aims to support the creation of many small to medium businesses, as they have the ability to create vast employment opportunities. We have also seconded the Group's former Chief Actuary, André Zeeman, to the Board of the National Student Financial Aid Scheme, which provides much-needed funding to students for tertiary education that they otherwise could not afford. André is making a valuable contribution in the areas of risk, governance and financial controls to assist in improving the success of the fund. Sanlam is also actively involved in the youth education and development initiative.

Sanlam's material sustainability themes remain relevant: ensuring sound governance, promoting responsible products and services, contributing to a prosperous society, developing people and reducing our environmental impact. Detail about Sanlam's initiatives can be accessed in a set of supplementary reports that are available on the website as part of the Group's 2016 Annual Reporting Suite. These elaborate on the themes that we have included in the Integrated Report as our main reporting mechanism.

The Sanlam Foundation is our primary vehicle to address challenges in consumer financial education, socio-economic development and enterprise development. We recognise that the increasing diversification of financial products on offer in South Africa has complicated financial decision-making for ordinary consumers, and that we can play a meaningful role in addressing this.

Sustainability also relies on our ability to transform internally to reflect the demographics of our client universe and the countries where we operate. We highlighted this in last year's report as one of our priorities, in particular South Africa, and can confirm that the Group has made significant progress in South Africa in senior management appointments, 79% of which were black candidates and 56% of internal promotions were black – we believe that this is a strong indicator of creating a sustainable succession pipeline.

Appreciation

This is my last report as Chairman as I shall be retiring in June 2017, having reached the mandated retirement age of 70. Looking back on a 50-year journey with Sanlam, I am immensely proud to have been part of the transformation of the company from a domestic player with limited focus into an international financial services group. It has been a privilege to be part of the metamorphosis that made Sanlam resilient, successful and trusted by millions of clients. On a personal note, my path has crossed with thousands of colleagues and business associates during this 50-year journey. My thanks to all who have helped to make it rewarding and memorable.

My fellow Board members were excellent companions on this journey. In the almost eight years since I re-joined the Board, I have had the benefit of their experience, commitment and leadership inputs in steering a complex Group of businesses.

I would like to thank Patrice Motsepe, in particular, for his support as Deputy Chairman. We also recognise outgoing Financial Director, Kobus Möller, who retired after 10 years of service in this role. He will continue to serve within the Group in a non-executive capacity on subsidiary boards and committees.

In the same spirit, we welcome Heinie Werth as the new Financial Director. Junior John Ngulube, who was appointed as Chief Executive of the newly established cluster, Sanlam Corporate, was appointed to replace Heinie Werth as Chief Executive: Sanlam Emerging Markets. We are making good progress in identifying a successor for the Chief Executive role at Sanlam Corporate.

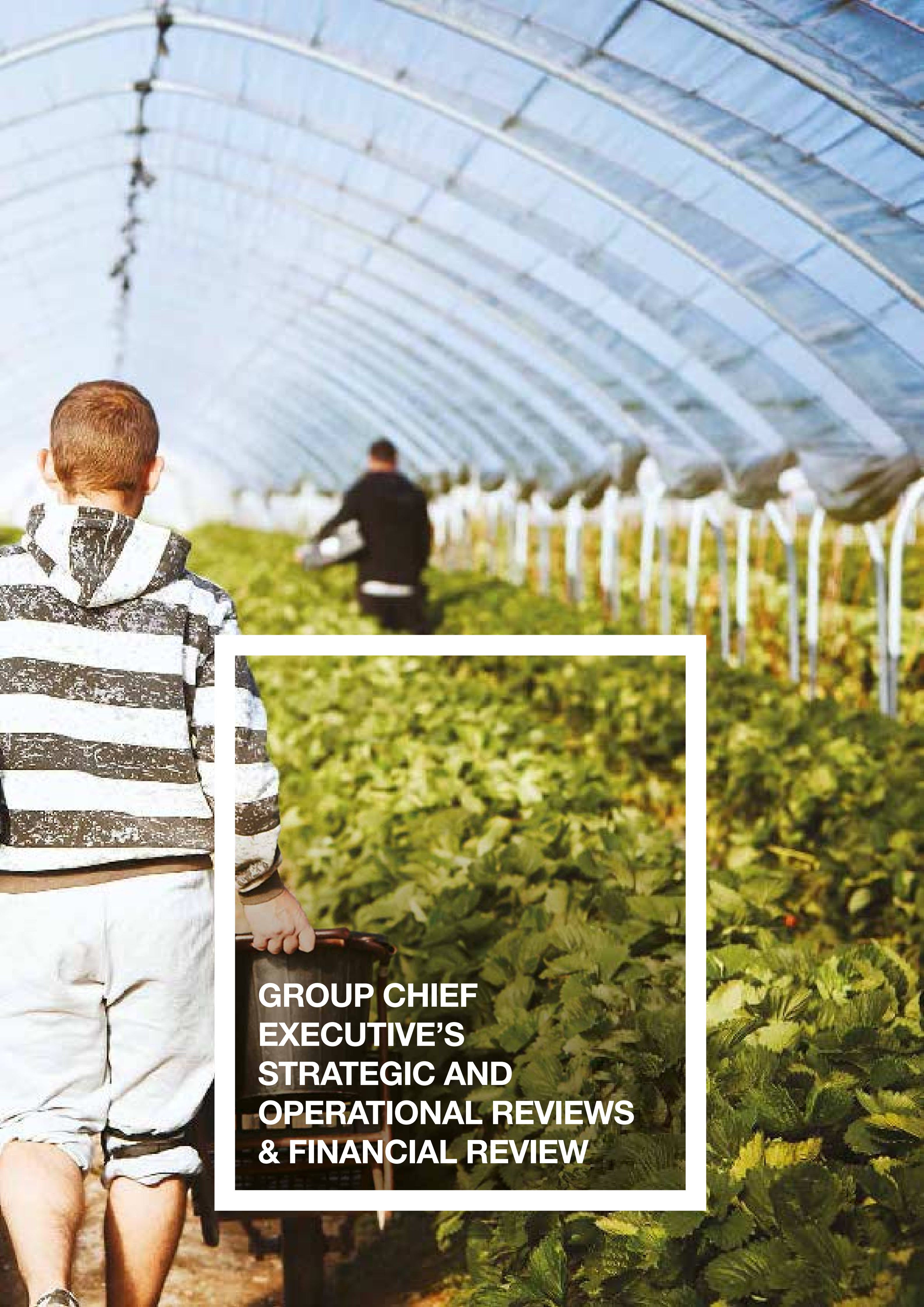
We also welcomed Dr Johan van Zyl as a non-executive director in January 2016 – one of the three Ubuntu-Botho Investment (UB) nominated representatives. Johan was named as Chairman-elect to take over from me in June 2017. Johan, a consummate leader, is well positioned to take over as Chairman. His association with Sanlam and his industry experience will add value to the future direction and growth of the Group for the benefit of all stakeholders. Given Johan's status in terms of King IV™ as non-independent, the Board has put in place well-considered and adequate processes to uphold and safeguard adherence to good governance at all times. These include, among others, the appointment of Sipho Nkosi, who has served as an independent non-executive director on the Board since 2006, as the lead independent non-executive director. An *ad hoc* board committee comprising of independent Board members will manage potential conflict of interest matters.

We were all saddened by the recent passing of Paul Bradshaw, who was involved with the business here and in the United Kingdom for over two decades. He was appointed to the Sanlam Board on 7 August 2013 and served on the Customer Interest, Risk and Compliance as well as the Audit, Actuarial and Finance committees of Sanlam and Sanlam Life. He was a hugely supportive and passionate member of the Board and made a significant contribution to Sanlam – as a friend, as a professional and as a greatly admired colleague.

Last, but not least, I would like to extend my thanks to our clients, Sanlam's management, employees and intermediaries, as wellas our our shareholders and other stakeholders for their support in 2016.

Thank you for choosing Sanlam as your Wealthsmith™ to help create, manage and protect your wealth.

Desmond Smith
Chairman



GROUP CHIEF EXECUTIVE'S STRATEGIC AND OPERATIONAL REVIEWS & FINANCIAL REVIEW

Group Chief Executive's strategic review

In this section:

The 2016 financial year presented the Group with a particularly challenging operating environment, as further elaborated on in the Economic review from page 87 and the Financial review from page 132. Despite these conditions, the Group delivered a good overall operational performance. This was achieved through diligent focus on executing the Group's strategy that is premised on building a diversified financial services group that can deliver sustainable long-term growth.

The significant global and local events that made 2016 memorable – including Brexit, the US Presidential election, local elections and sovereign rating milestones – again emphasised the need for large corporates, such as Sanlam, to play an increasingly active role in shaping the environment in which businesses operate. Active participation in industry and community bodies – to influence development, job creation and ensure stability – is an important feature to sustain long term growth.

Our engagement with Government, labour and business leaders delivered a specific set of responses geared toward addressing factors that contribute to suboptimal economic growth. Sanlam's priority was to help create an ecosystem, characterised by the main ingredients and capabilities to achieve much higher levels of economic growth. Of equal importance is the message to our employees and business partners to remain focused and realistically optimistic about our operating environment over the medium term, and that we should actively play a role in positively shaping our environment.

Highlights

- Adjusted RoGEV of 17,8% exceeded hurdle of 14,1%
- The acquisition of an initial 30% stake in Saham Finances became effective in February 2016, with the acquisition of a further 16,6% stake announced in December 2016. Sanlam now has an unparalleled footprint in Africa.
- Concluded additional investments in India.
- SEM experienced robust growth, and benefited from the first-time contributions by Saham Finances, the 23% direct stakes in Shriram Life Insurance and Shriram General Insurance, and the Zimbabwean operations.
- Client-centric restructuring was effected at SPF and Sanlam Investments to position the clusters for agility and growth.
- Substantial progress with Afrocentric co-operation.
- Good progress in further developing the Group's capital and balance sheet management capability in a SAM environment.

Lowlights

- Relatively weaker investment market performance, in particular on non-South African exposure.
- Financial irregularities uncovered at Soras General Insurance in Rwanda.
- Increased claims levels at Santam, SPF, SEB and in Namibia.
- Underperformance in the UK, Malaysia and at some general insurance businesses in Africa.
- Regulatory delays in South Africa create distribution and product development uncertainty and increase compliance costs.

Strategy process and overview

We believe that the Sanlam Group's strategy ensures our long-term success and ability to create sustainable value for shareholders. We can best achieve this by optimising returns through a continued focus on the Group's five strategic pillars. We acknowledge that sound governance, people development, responsible products and services, a prosperous society, and being able to do business in a healthy natural environment will enable our long-term success.

The successful implementation of our strategy relies on having optionality, and our ability to remain focused on execution of these strategic pillars. Diligent execution on the strategy has been, and remains, a key differentiator for Sanlam, and is enabled by our ability to attract and retain the best skills available in the market.

Our objective of maximising shareholder value demands that we maintain focus on two critical areas:

- Maximising the return on investment in the existing business through efficient and effective management
- Sourcing new growth opportunities by identifying core markets for growth and expansion

Earnings growth

Operational efficiency

Optimal capital utilisation

Diversification

Transformation

We have a differentiated approach per region, with the following focus areas:

South Africa: delivering growth in a mature market

Sanlam is a large player in a mature market with strong competition. We have to further diversify our distribution capability to drive growth. This can be achieved, particularly through our entry-level market footprint, the Sanlam Reality loyalty programme, health offerings, digital enablers, outcome-based investment solutions, our Ubuntu-Botho empowerment partnership and the use of advanced analytics. Operational and capital efficiencies are key in managing our legacy book.

Other emerging markets: balance structural and organic growth

Sanlam focuses on accelerated growth to obtain leadership positions in all countries. Cross-border alliances and relationships enable us to capitalise on the expanded footprint following the Saham Finances transaction. Geographic expansion will be prioritised in line with client and intermediary needs.

Developed markets: niche investment and wealth management approach

Developed market products and services can be offered in South Africa and the Rest of Africa. The UK consolidation will result in a focus on efficiencies and distribution under new leadership, with a continued wealth and investment management focus.

Group Chief Executive's strategic review continued

The strategic focus areas per cluster are summarised in the table below. We continue to make progress in implementing our five-pillar strategy through these focus areas, while remaining flexible in prioritising the pillars according to our federal model and the different requirements or levels of maturity per cluster.

SPF: become a leader in all retail market segments

*

SPF has been realigned for agility, and in preparation for changes in the regulatory environment. The cluster is addressing digital solutions and business intelligence opportunities, while extracting value from the refreshed Sanlam Reality offering. It continuously fine-tunes its advisor partnership models. There is a strong drive for accelerated growth in the entry-level market. Optimising balance sheet and capital management within the new solvency regime is also prioritised. Transformation of the distribution and office employee profile to reflect South African and client demographics – remains high on the agenda.

SEM: leading Pan-African player, with diversifiers in India and Malaysia

*

SEM is leveraging its expanded footprint through organic growth. Providing an unmatched Pan-African offering to corporate clients and multinational intermediaries is augmented by an in-country retail focus. It will provide expanded central support capabilities to execute on these initiatives. At the same time, focus remains on structural growth opportunities through increasing stakes in existing businesses, expanding product lines and entering new markets. The primary criteria for entering new markets are market potential in terms of size and growth prospects, low financial services penetration and relative political stability.

Sanlam Investments: growing third-party market share

*

Sanlam Investments is defending its leading position in private wealth while building on the success in attracting retail fund flows. The cluster's focus is on growing corporate and third-party fund flows, where it does not have its fair market share. Improved cost efficiency is a priority. Transformation of the employee profile – to reflect South African and client demographics – is a particular focus area in support of the corporate and third-party growth initiatives, with specific emphasis on portfolio management.

Santam: further entrenching its leadership position; extract value from SEM investments

*

Santam is focusing on profitable growth – both in South Africa and emerging markets – and improved operational efficiencies, aimed at optimising the acquisition cost ratio. There is continued focus on risk management to reduce claims cost. Santam is increasing the value extracted from SEM co-investments. Transformation of the employee profile – to reflect South African and client demographics – remains a strategic focus area. A new agreement concluded with Munich Re of Africa to use its AA- Standard & Poor's international credit rating creates the opportunity to more effectively compete for reinsurance business.

Sanlam Corporate: become the partner of choice to targeted corporates

*

The cluster, initially comprising SEB and Sanlam Healthcare, will focus on cross-selling to existing clients, bundling products to unlock value and on integrating with other clusters through Sanlam Reality. It aims to target South Africa's top companies and multi-nationals (both South African-based and other) with corporate solutions that follow a needs-based approach. Transformation of the employee profile – to reflect South African and client demographics – is a priority within the corporate market space. Optimising balance sheet and capital management is another important focus area.

* *Strategic pillar priorities according to current focus areas per cluster*

The summary below highlights the Group's performance against each strategic pillar during the year:

Earnings growth

Net result from financial services increased by 10%, from R7,3 billion in 2015 to R8 billion in 2016, a particularly satisfactory performance.

New business volumes increased by 11%, a solid performance under difficult conditions, with SEM outperforming targets for the year, and the other clusters coming in slightly below stretched targets. The 18% increase in VNB (10% on a consistent economic basis) is ascribed to growth in new life business as well as an improvement in the business mix. The new business performance contributed to net fund inflows of R41 billion in 2016 (2015: R19 billion), with net inflows across all clusters during the year increasing their future earnings bases.

SPF increased its net operating earnings contribution by 7%, despite markedly weaker risk claims experience. All of the main SPF businesses contributed to the growth. Future earnings growth at SPF relies on the cluster's ability to respond to, and manage the decline in the legacy book by growing in other areas. The restructure of the cluster (discussed in the operational review) will improve agility and responsiveness, and will enable the cluster to empower more people to drive earnings growth, while acknowledging that higher levels of investment will be required in the short term, to encourage new ventures and enable omnichannel distribution. New business volumes increased by 1% compared to 2015, to reach R62 billion. The uncertain environment in South Africa and persisting investment market volatility contributed to a significant slowdown in discretionary single premium life and non-life savings business. Other lines of business performed well, with highlights including a 20% growth in Individual Life risk business and an improvement in business mix at Sanlam Sky.

SEM grew its net operating earnings contribution by 30%: a combination of solid organic growth in India, Nigeria, Ghana, Tanzania and Uganda; and the first-time inclusion of new acquisitions, principally Saham Finances, Shriram Life and General Insurance and in Zimbabwe. Lower earnings contributions from Namibia, Malawi, Zambia and MCIS in Malaysia partly offset the robust overall performance from the other regions. Organic growth in new business volumes amounted to 47%, with overall growth of 63%, including new acquisitions.

Sanlam Investments achieved a satisfactory performance despite low investor confidence due to challenging macro-economic factors. Net result from financial services grew by 4%, impacted by weak investment markets, lower profit in the UK and lower performance fees in the South African businesses. South African investment management had good retail flows, but institutional flows remained weak. New business volumes for the cluster increased by 8%.

Santam experienced a normalisation in underwriting margins after exceptional results in 2015, contributing to a 13% decline in its contribution to operational earnings. Earned premiums grew by 7%, reflecting the maturity of the South African market and competitive niche and specialist market segments, that muted renewals.

Sanlam Corporate achieved growth of 36% in net result from financial services, with strong growth at SEB Investments partly offset by weak risk underwriting profits. The first-time contribution of Afrocentric also provided support to the results. Strong new business growth of 73% was skewed to lower margin business.

Read more about top-line and earnings growth in the Financial review on page 132.

Group Chief Executive's strategic review continued

RoGEV per share

11,8%

Net result from financial services per share increased by 10%
New business volumes increased by 11% to R233 billion
Net fund inflows of R41 billion
Net value of new life business (VNB) up 18% to R1 605 billion, up 10% on a consistent economic basis
Net VNB margin of 2,69% (2,56% on a consistent economic basis)

Operational efficiencies

The restructuring of several business units – including SPF, Sanlam UK and Sanlam Investments' South African investment management business – and the establishment of the new Sanlam Corporate cluster, was based on client-centric alignment, while offering the opportunity to optimise efficiency in an environment of rapidly rising regulatory compliance costs and continued pressure on fee levels. For example, this includes the elimination of product duplication and unnecessary statutory costs and creates the ability to roll out regulatory changes in a consistent manner at the lowest possible cost. It also reduces relative levels of overhead costs, except where new ventures and innovation requirements are prioritised.

SPF, in particular, continues to evaluate and close business offerings where declines or profitability challenges result in unfeasible or unsustainable outcomes. Further work has been done to improve measurement systems to ensure optimal use of capital, measurement of growth, and to drive the appropriate behaviour through rewards.

SEM drives operational efficiency through piloting projects in different territories and with a variety of business partners. SEM's preferred life system was successfully implemented in Namibia, further enhancing the ability to efficiently roll out new products across the cluster. The same approach was followed with the launch of a loyalty programme in Botswana – set to be replicated in other territories. In addition, there is a focused effort to roll out a standardised general insurance platform in a number of sub-Saharan countries.

Sanlam Investments' transition to Silica, for outsourced administration and IT services, entered a phase where the environment has stabilised. The contact centre is operating at a level matching that of pre-outsourcing. Some challenges remain, such as delays with transaction processing, due to our decision to FICA all our investors, and delays in distribution of statements to clients.

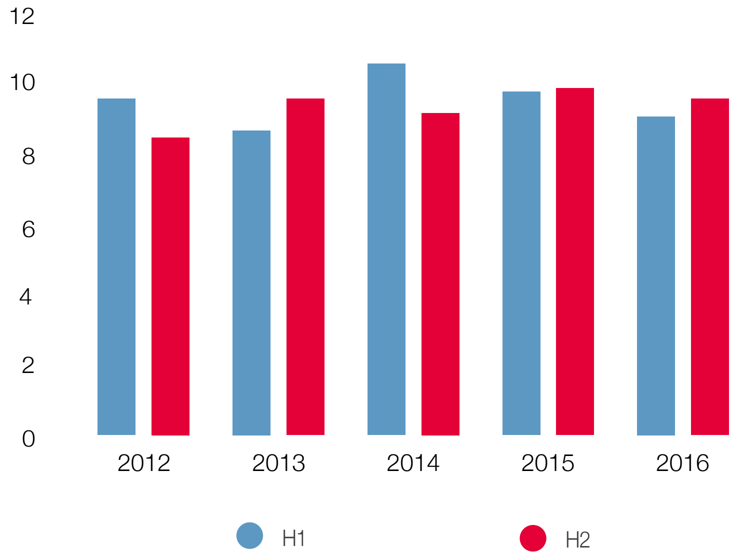
Santam's willingness to invest in large, long-term projects to provide data capabilities and agility for future business contexts, are delivering the anticipated benefits. Most of the personal lines policies have now been migrated to a new administration system and deployed to nearly all personal lines intermediaries. This has enhanced Santam's personal lines product offering, and its ability to provide online access, and to apply state-of-the art pricing and underwriting techniques on an automated basis. The commercial product has been built and successfully deployed in a pilot phase, enabling Santam to proceed with the full implementation and migration process during 2017.

The Sanlam Actuarial and Risk Management function initiated a business intelligence renewal investigation project, to find a centralised solution that will apply advanced analytics to big data to inform the strategic choices that the Group is facing. Good progress is being made.

The most significant challenge for the Group is to manage complexity as it diversifies across countries, jurisdictions and product lines. Therefore, it is important to have tight principles. These are managed from a centralised point with a practical approach that recognises that different businesses are in different phases of development. This demands an adaptable approach to operational efficiencies, product development and financial management.

Decent persistency in difficult environment
Persistency – SA middle-income market
Lapses, surrenders and fully paid-ups as % of in-force per half year

Decent persistency in difficult environment
Persistency – SA lower income market
Lapses, surrenders and fully paid-ups as % of in-force per half year



Group Chief Executive's strategic review continued

Operational efficiencies

Sanlam has a solid track record of delivering on operational efficiencies. This is evident in our ability to largely maintain new business margins on a per-product level, despite cost and fee pressures. We, again, managed to achieve this in 2016. Growth in administration cost was limited to an inflationary 7%, despite additional restructuring expenses incurred during 2016. From the initiatives highlighted above, it is, however, clear that operational efficiencies are not only about cost management but, more importantly, about also creating the ability to more effectively service the changing needs of clients, from a product and engagement perspective. As such, it is a core mechanism to ensure client satisfaction and persistency, while also using data and analytical support to enhance innovation in pursuit of new business performance. This enabled the delivery of remarkable persistency and a solid new business performance, despite the current challenging environment.

Optimal capital utilisation

Capital management is a tight standard, managed from the Group Office. To enhance RoGEV, Group businesses are allocated an optimal level of capital, and are measured against appropriate return hurdles. Further opportunities to optimise the capital base are continuously investigated as the Group and the operating environment develop, including more sophisticated balance sheet management, strategic asset allocation and the most appropriate capital structure – including the option to return capital to shareholders if not used within a reasonable timeframe. The new solvency regime being introduced in South Africa through the SAM regulations enables the Group to further optimise balance sheet and capital management. Progress includes the following:

- The enhancement of the Group's projection capability within a SAM environment received significant attention. The modelling results, combined with the more conservative investment strategy introduced at the end of 2015 for the capital supporting the South African life operations, indicates that the Group should be able to release further discretionary capital over the next few years.

Read more in the Financial review on page 155.

- Balance sheet management also received particular attention. The diversified nature of the South African life operations will enable the Group to expand its exposure to credit assets in this business in a capital-efficient manner, thereby enhancing future profitability and RoGEV. The relevant mandates have been adjusted to facilitate a higher asset allocation to credit assets in the appropriate products. This was one of the drivers for the establishment of the Central Credit Management function in Sanlam Capital Markets (SCM).

Read more about SCM in the Sanlam Investments section on page 118.

- The introduction of SAM also enables the Group to more effectively manage future profit margins embedded in certain policyholder liabilities with a dual benefit of enhancing RoGEV, while decreasing GEV volatility. The necessary Board approvals were obtained with implementation scheduled for appropriate times from 2017.

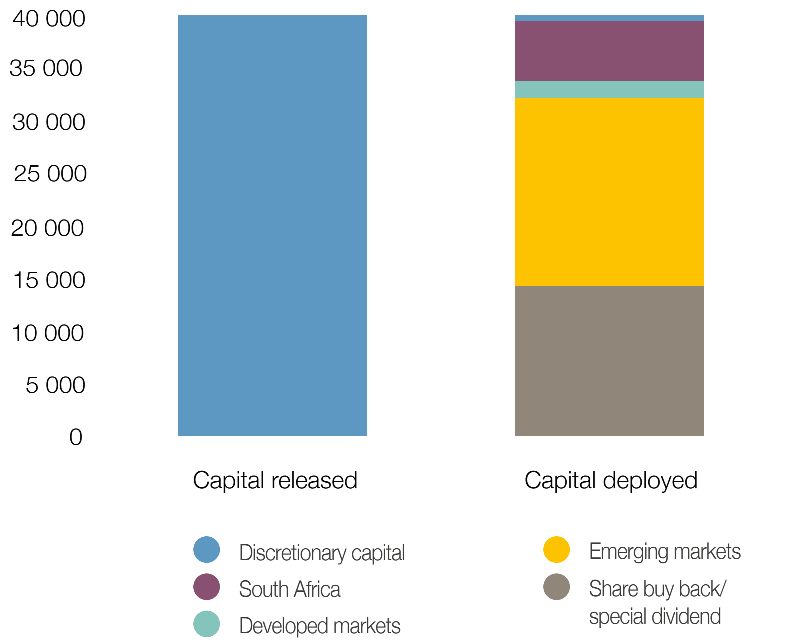
SEM continued balancing the need to achieve the hurdle rate with sensitivity towards the countries and stakeholder expectations where the cluster operates. A model was developed for SEM to calculate risk-sensitive economic capital – including its credit and banking businesses – and to set an appropriate risk appetite to monitor exposure.

In turn, Santam declared a special gross interim dividend of R8 per share, after taking current and future solvency requirements into account. Sanlam's share of the special dividend enhanced available discretionary capital at a Group level by some R540 million.

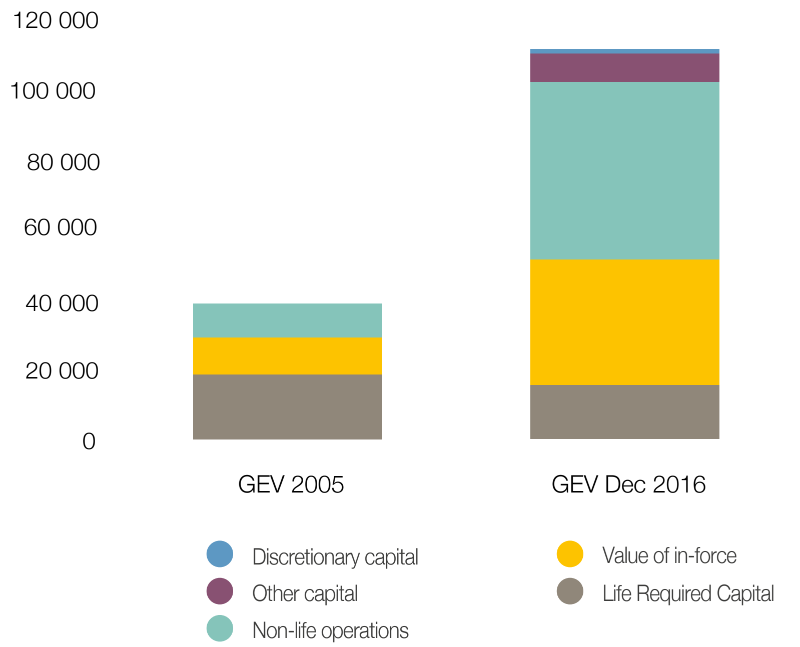
The Group has excess capital of R550 million available for redeployment at 31 December 2016, after allowing for the cash component of the acquisition of an additional 16,6% stake in Saham Finances (R2,7 billion), and a 53% stake in BrightRock Holdings in South Africa (R700 million) that will be finalised during 2017, subject to conditions precedent. Additional discretionary capital will be unlocked during 2017 and the years following, as further elaborated on in the Financial review. The available discretionary capital remains earmarked for value-adding acquisitions.

Efficient capital management has contributed largely to Sanlam's ability to deliver an average RoGEV of 16,3% over the last 10 years.

Capital efficiency
Capital redeployed since 2005 (R40bn)



Capital efficiency
Composition of GEV transformed since 2005



Group Chief Executive's strategic review continued

Diversification

The Saham Finances transaction, which became effective in February 2016, expanded the Group's footprint to 33 markets in Africa.

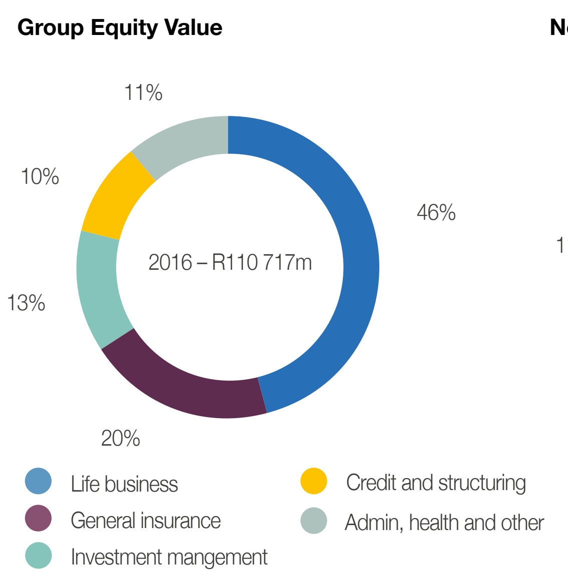
Read more about opportunities to leverage the partnership in the SEM section on page 115.

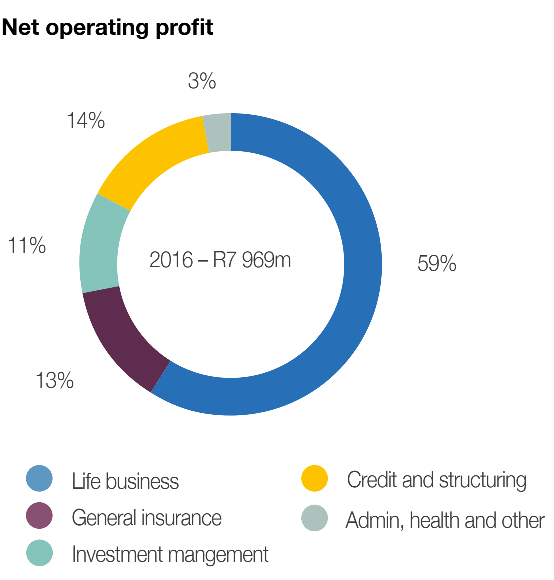
Sanlam acquired a further 23% stake in Shriram Life Insurance and Shriram General Insurance, whereas Santam made a few small acquisitions in the local market. SPF also announced the acquisition of a 53% stake in BrightRock Holdings in January 2017.

Read more about these acquisitions in the Operational review by the Group Chief Executive from page 116.

These initiatives further enhanced the Group's geographic and line of business diversification. The transformation of the Group, from a diversification perspective, over the past 14 years has been remarkable. From being largely a life insurance company, the Group's line of business exposure has become much more balanced.

Progress made with geographical diversification is similarly stark, with a significant increase in the contribution from non-South African operations.





Diversification

SPF's restructure positions the cluster for further client-centric diversification. Product innovation included the new segmentation of Matrix Life Insurance Cover, which includes an "express" option that advisors can sell during one visit to the client, and with the client not having to do a medical test. These changes give advisors more options, and resulted in strong growth in new business volumes from this line of business. Product integration with Sanlam Reality is also progressing well, allowing more benefits, and gaining positive traction from advertising and marketing support. Sanlam Reality has been able to attract about 7 000 new members a month, up from 2 000 in the past few years. Clients who engage on Sanlam Reality are also two-and-a-half times more active than they were a year ago.

Distribution diversification requires an omnichannel approach – providing clients with a consistently excellent experience across engagement vehicles or platforms. This entails seamless access to financial advice, products and services wherever, whenever and however clients choose to engage – and at any point of the relationship lifecycle. The Group is making good progress in capturing data to be able to understand client needs in terms of omnichannel experiences.

Read more about omnichannel implementation on page 112.

Santam continues to invest in ways to penetrate new and non-traditional markets. This is partly achieved by leveraging off key stakeholder relationships, and aligning the various distribution channels to exploit business opportunities. A platform was established to enable business units, such as Santam Agri, Santam Direct and Vulindlela Underwriting Managers (VUM), to explore and discuss cross-sell opportunities and share leads.

Consumer education remains one of the most effective ways in which Sanlam creates new market opportunities.

Read more about consumer education initiatives in the Prosperous society supplementary report online.

Transformation

Ongoing transformation is driven at both a Group and individual business unit level. Transformation includes the Group's diversification efforts, but also aims to align the Group's demographic profile to the territories in which it operates, and contributes towards black economic empowerment in South Africa.

Sanlam's talent management strategy takes into account global and local talent management practices, and guides the Group in how to attract, recruit, develop and retain its people to strengthen Sanlam's pool of intellectual capital.

In South Africa, the Group tracks demographic developments and shifts to transform its employee profile and distribution presence. This includes, for example, the increasing importance of Gauteng as a key metropolitan area, due to urbanisation. SPF has made good progress in penetrating new areas and market segments through employee and distribution transformation.

The restructuring initiatives in different clusters provided an opportunity to improve employment equity profiles to meet the Group targets for black recruitment. Good progress was made in senior and middle management appointments, with the South African operations achieving a ratio of 77 black and 23 white appointments.

Overall, the number of black professionals, as a particular category, has continued to increase at a steady pace – from 203 employees in 2014, to 270 in 2016. This is an increase of 33%.

Succession plans show encouraging signs of increasing the number of black people in key roles.

Sanlam and Santam have both been certified as Top Employers in 2017.

Read more about transformation in the People development supplementary online report.

Sanlam maintained its BBBEE level 2 (2015: level 2).

Occupational Level	Male				Female				Foreign		Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female	
Top management	2	–	–	5	–	–	1	1	–	–	9
Senior management	36	29	31	204	18	16	9	58	1	–	402
Middle management	152	164	92	475	112	133	77	492	11	1	1 709
Junior management	708	520	157	753	910	1 004	220	1 363	9	5	5 649
Semi-skilled	1 395	150	11	23	2 974	370	32	124	12	6	5 097
Unskilled	5	–	–	–	20	9	–	–	–	–	34
Total SA-based employees	2 298	863	291	1 460	4 034	1 532	339	2 038	33	12	12 900

(1) *South Africa only, excluding Santam*

Strategically aligned remuneration philosophy

Sanlam's remuneration philosophy and policy align the strategic pillars with organisational behaviours. Short- and long-term strategic objectives are measured and rewarded to mitigate excessive risk-taking, and provide balance between long-term sustainable growth and short-term performance.

The annual bonus targets at a Group and cluster level incorporate financial and non-financial performance measures that are directly linked to the Group strategy and key performance indicators. These include net result from financial services, VNB, adjusted RoGEV and employment equity. The specific performance targets and relative weighting is determined per cluster, based on the cluster's specific strategic initiatives.

The vesting of long-term incentives is also directly linked to strategic key performance indicators that support sustainable performance, and ensure full alignment with shareholders. Remuneration components for the Group Chief Executive and Group Financial Director are illustrated below, indicating the linkages to strategic KPIs. Performance hurdles are set relative to all five strategic pillars as well as the material sustainability themes.

Read more about short and long-term incentives for members of the Executive committee in the Remuneration report online.

	Component	KPI[1]	Minimum hurdle	Stretched hurdle
Guaranteed pay	**Total guaranteed package**	Individual performance	Annual increase based on meeting personal KPIs	
Short-term incentives	**Annual bonus**	Adjusted RoGEV (15% weighting)	13,6%	16,1%
		Growth in net result from financial services (15% weighting)	0%	20%
		Growth in VNB (15% weighting)	0%	20%
		Share price performance (5% weighting)	Share price premium to GEV and relative change to FTSE/JSE FINI and FTSE/JSE SWIX.	
		Strategic initiatives (50%)	Progress with strategic initiatives and material sustainability themes, including capital and cost efficiencies, diversification of the business (acquisitions, alternative distribution, disruptive businesses), transformation and sustainability drive, leadership and optimisation of business structure, operations, governance and risk management. Different weightings for each strategic initiative apply between the Group Chief Executive and Group Financial Director. Achievement measured by Group Human Resources and Remuneration committee.	

Group Chief Executive's strategic review continued

	Component	KPI[1]	Minimum hurdle[4]	Stretched hurdle
Long-term incentives	**Deferred share plan**	Individual performance	Meeting personal KPIs	N/A
	Performance deferred share plan A	Individual performance and RoGEV	Meeting personal KPIs, and RoGEV > cost of capital	N/A
	Performance deferred share plan B	Individual performance and RoGEV	Meeting personal KPIs, and RoGEV > 105% of cost of capital	N/A
	Performance deferred share plan C	Individual performance and RoGEV	Meeting personal KPIs, and RoGEV > 110% of cost of capital	N/A
	Restricted share plan[2]	Individual performance and RoGEV	Meeting personal KPIs, and RoGEV > cost of capital	N/A
	Outperformance plan[3]	RoGEV (60%) Net result from financial services (40%)	Annualised RoGEV = i + 6%, annualised real growth in net result from financial services = 5%	Annualised RoGEV = i + 9%, annualised real growth in net result from financial services = 15%

(1) *KPI for annual bonus reflects the targets for the 2016 financial year.*
(2) *Participation by Group Financial Director only.*
(3) *Participation by Group Chief Executive only.*
(4) *Adjusted RoGEV for pre-2016 grants.*

Operational review by the Group Chief Executive

In this section:

- **Results per key performance indicator for each cluster**
- **Commentary providing key cluster highlights and lowlights**
- **Opportunities and priorities for the next year**
- **Operational risks and the ways in which these are mitigated**
- **Group outlook for 2017**

The RoGEV per share for 2016 of 11,8% was below the Group's hurdle rate of 14,1%, largely due to foreign currency translation differences following a sharp strengthening in the rand. Adjusted RoGEV per share, which excludes the impact of investment market return deviations from long-term assumptions, tax changes and other factors outside of management's control, and assumes normalised currency movements, amounted to 17,8%, and exceeded the target by a healthy margin.

Sanlam's five clusters contributed to RoGEV through their implementation of the Group strategy, with the major operational performance highlights and challenges set out below.

Sanlam Personal Finance (SPF)

Key indicators for shareholders	2016	2015	Change
Return on Group Equity value[1]	22,7%	12,1%	▲
Net result from financial services[1]	R4 099 million	R3 818 million	▲ 7%
New business volumes[1]	R61,7 billion	R61,2 billion	▲ 1%
Net fund flows[1]	R16,5 billion	R22,1 billion	▼ 26%
Net value of new life business[1]	R1 163 million	R955 million	▲ 22%
Net new life business margin[1]	2,80%	2,51%	▲ 29bps

[1] *Audited (Ernst & Young Inc.)*

Read more about SPF's financial performance in the Financial review on page 132.

SPF delivered solid results in a turbulent year, characterised by muted single premium investments and depressed fees as a result of flat equity markets. Discretionary flows were particularly impacted, with investors increasingly facing the harsh reality of political and investment market instability.

The year was shaped by the strategic theme of "re-imagine", which was initiated through a project to provide more competitive agility, and enable the business to respond better to future regulatory change. This followed a strategic recognition of constraints in the current business model, new and increasing competition and the changes in client needs and legislation.

Operational review by the Group Chief Executive continued

The project resulted in the implementation of a new operating model in August 2016. This followed on intense research, *inter alia* in the UK, to investigate the options and implications of RDR. The new operating model allows the business units to compete more effectively, with relationships that are governed by an agreed framework. A review of the incentive model was done in parallel to the development of the new business model to drive behaviour and alignment.

The business model is designed to facilitate:

- Less internal competition, as only one business would provide solutions for a particular client need;
- Less cross-subsidisation, as the outperformance of certain functions or product groups should not mask the underperformance of others;
- The right group of people being focused on achieving a particular objective, or providing a specific service to other units;
- Commercially sound external and internal business arrangements; and
- A more agile and responsive business.

This also entailed the formation of Sanlam Key Solutions as a unit within SPF Distribution, to address the large but underpenetrated lower middle market – a segment that demands a simplified product and speedier sales process.

The new operational structure creates more focus and accountability, which was enforced by the appointment of a head of client experience reporting to the CEO of SPF's Shared Services unit. This improves our ability to support the various SPF businesses in areas such as complaints resolution and client experience guidance.

The omnichannel and client-centric pursuit

The distribution business is strongly pushing towards an omnichannel client interaction model while maintaining the impact of face-to-face advice, and using more competitive partnering models. This was in response to a clearly emerging trend of consumers and intermediaries demanding value for money, more product and cost transparency, ease of doing business and improved online access to information. There is a strong expectation towards transacting online in certain market segments.

Omnichannel initiatives are aimed at enabling clients to interact with Sanlam through their channel of choice, throughout the stages and cycles of their relationship with us. For example, to enable this, we have created an online presence for all BlueStar practices, empowering them with a local market website that has a sales capability.

A further important aspect of our client centricity pertains to intermediaries, who require support that assists them in providing a seamless advice experience, and thereafter, in the case of risk products, a simple and predictable underwriting process with minimal friction. In this way, they can create good outcomes for clients for different life events, and save the client unnecessary costs. In the retail savings business, the right outcomes are, in many cases, becoming more important than beating the market. This is driving clients towards model portfolios – an approach that also protects the intermediary from advice risk, and where Sanlam is very well positioned and competitive through the skills that exist at Glacier and in Sanlam Investments.

The further enhanced Sanlam Reality offering continues to assist our persistency and lifetime client value. Its corporate application ensures Sanlam can create meaningful relationship offerings through expanded sets of benefits (see summary below).

To attract younger clients, several product design, pricing and incentive changes were made. We are also ensuring that the age profile of advisors becomes younger. An example of innovation targeted at this segment is the Sanlam Go cover app, which provides on-demand accidental injury and death cover from 24 hours to 30 days, starting at R10 per day per cover. It is aimed, among others, at participants at sport events or activities, for example, mountain biking, fun runs, etc.

SPF is investing significant development effort into Robo-advisor concepts, as it acknowledges the recent developments in artificial intelligence that can go a long way in defining and monitoring savings and investment portfolios. While it is hard to see how such solutions can serve more affluent clients with larger and complex needs, there is no doubt that there is a generation of clients who will use such tools, either during the initial research phase before a buying decision is made, or to actually transact their investments.

Sanlam reality

Wealth

- Sanlam Premier risk products
- TaxTim
- Online Will
- Sanlam savings products
- Sanlam Gap Cover

Entertainment

- Computicket shows & sport
- Dining
- Simfy Africa Music streaming
- Wi-Fi
- Reality Magazine
- NuMetro movies and refreshments

Day to day savings

- MoneySaver card
- Discount coupons
- Discounted magazines

Travel

- Mango flights
- Emirates flights
- Protea Hotels by Marriott®
- Tempest car hire
- Intercape bus
- Uber airport transfers
- Bidvest Premier lounges

Health

- VirginActive Gym
- Planet Fitness Gym
- Just Gym

Personal services

- Personal assistant
- Dial-a-Teacher
- Legal assistance
- Trauma & medical assist

Glacier expands client options

As part of the restructuring, Glacier now houses all single premium business, inclusive of traditional structured products and new generation, open-architecture investment products. The combination of these product sets in one business unit has now significantly improved Glacier's ability to ensure good appropriate client outcomes by enabling it to offer the full suite of investment and retirement solutions. Glacier's leading position in this market segment can be attributed to the sharing of good information (with clients and intermediaries), excellent client service and the exceptional support to intermediaries which strengthens their practice and advice capability.

The prolonged political and economic uncertainty and the resultant market volatility and depressed returns resulted in a slowdown in the flow of new discretionary lump sum investments to the Glacier platform and other product houses. While fewer people have discretionary capital, many of those that do are seeking safe havens – at least until markets show more direction and stability. While Glacier offers a wide range of investment options for the risk averse client, the platform cost can be an obstacle for clients wanting to invest in cash. Therefore, Glacier made a cash option available at a zero-platform administration fee – available to clients with a minimum of R100 000 to invest.

This investment option provides clients with a cost-effective cash solution and a guided advice process. This will help ensure that their investments get market exposure at the right time.

Operational review by the Group Chief Executive continued

To provide clients with guidance on when to move out of cash and back into markets, Glacier has partnered with Sanlam Alternative Investments within the Sanlam Investments cluster, to support advisers and intermediaries, based on their assessment of the economy and financial markets.

The Individual Life business

Middle market attrition rates in terms of the number of lapses, surrenders and paid-ups remained largely consistent with last year. Sanlam Personal Loans delivered satisfactory results, despite challenges in repeat business approval rates following the National Credit Amendment Act (NCAA) requirements for the provision of bank statements or pay slips.

As part of the "re-imagine" initiative, four businesses were created under Sanlam Individual Life:

- Sanlam Risk
- Sanlam Savings (recurring premium business)
- Closed Book
- Shared Services

The Sanlam Risk business focuses on ensuring that clients are properly covered, by meeting their needs to protect their family and their ability to earn an income. The business performed very well in 2016. During 2016, significant changes to the total Risk offering were implemented by introducing three different versions of risk solutions, aimed at clients with different needs and behaviours – namely Matrix Premier, Classic and Express. New benefits, including a cash back benefit and integration with Sanlam Reality, were introduced at the same time. Our simplified underwriting offering (Matrix Express) enables us to deliver a simpler and more convenient client and intermediary experience. In 2017, we will build on the excellent sales performance of 2016 by further vesting the offering for particular market segments and upgrading certain benefits. We will also do further work on improving the flexibility and speed of our underwriting and take-on process. The acquisition of BrightRock, announced in January 2017, once finalised, will complement the existing product set with innovative adaptive needs-based risk cover solutions. This will enhance SPF's attractiveness to a younger market, and raise its ability to gain further market share.

Our Sanlam Risk offering is also augmented by MiWayLife. To date, MiWayLife has predominantly sold to the MiWay Insurance client base via outbound sales. In the second half of 2016, an inbound sales capability was introduced, accompanied by marketing campaigns and activations. In 2017, the focus will be on aggressively growing inbound sales, while sustaining and further growing outbound sales. As the business grows, servicing and retention capabilities will be strengthened.

Sanlam Savings focuses on meeting clients' medium to long-term recurring premium savings needs. The business performed satisfactorily in 2016, despite the economic uncertainty and general pressure on disposable income. In 2017, significant focus will be placed on protecting and further growing our market share, especially in retirement annuities. The business is well positioned in terms of the new Effective Annual Cost (EAC) measure introduced in the fourth quarter of 2016, but will also work on renewing and broadening the offering to meet the evolving needs of a broader client set, and to position for regulatory change.

The Closed Book business is responsible for Sanlam Individual Life product lines that are closed for new business and upon which no voluntary (non-contractual) premium increases are allowed any more. The overall aim is to maximise shareholder value from this book of business while maintaining on going service and value delivery to clients. The business broadly focuses on three themes: commercial effectiveness (client engagement and retention, product optimisation, etc.), operational efficiencies and capital optimisation.

The Shared Services unit is responsible for the administration and client service of the Risk, Savings, Closed Book and Life Single Premium businesses, including IT. It also provides Business Change Services to SPF and, importantly, assists the various businesses to provide a consistent client experience. As such, the unit broadly focuses on providing a seamless client experience across products within a segment, operational and cost efficiencies and the delivery of business and IT solutions to implement business strategy.

Sanlam Sky remains agile

Sanlam Sky launched a tax free savings account in 2015 following the release of new regulations. However, it soon became evident that the product was making a significant loss as anticipated levels of persistency was not reached. It also sold higher volumes than anticipated that resulted in a negative impact on the mix of products sold.

Consequently, Sanlam Sky developed a new product geared to long term savings with a minimum term of 10 years. The marketing of the product explicitly informs clients that they have to sustain the investment for the term of the policy, otherwise the product is not suitable.

Sanlam Sky also introduced a new financial needs analysis and record of advice document to improve the advice process and ensure execution of a standardised advice process that is suitable for the entry level market where the focus is on a limited product set to meet a limited range of client needs. Adviser training was upgraded as part of the rollout of this new standardised advice process. These initiatives contributed to a major improvement in business mix and VNB growth in 2016.

Opportunities and priorities

SPF's overarching aim in South Africa is to retain its leadership position and maintain its core capital stream to support the Group's growth ambitions.

The focus on improving the mix of business in Sanlam Sky's Individual Life risk business will remain a priority. This forms part of a continuous adjustment to meet the changing demographic profiles in South Africa, particularly with increased urbanisation and expansion of higher LSM categories. SPF has to provide the appropriate products, communication channels and access points to tap into this market.

SPF has a future-orientated approach in its strategic actions. The distribution business will continue to drive an evolving omnichannel client interaction model, while maintaining the importance of face-to-face advice. The new structure will provide competitive agility and enable each business unit to respond better to regulatory change.

Key operational risks

The cluster's top risk relates to regulatory changes initiated to drive fundamental changes to the industry, products and services. This includes more stringent governance requirements, solvency regimes and increasing direct competition from Government. These changes could affect income streams negatively for Sanlam, its tied agents and other intermediaries.

To grow earnings, the cluster depends, *inter alia*, on profitable new business growth, to mitigate the pressure in the current book due to natural ageing contraction and a commensurate reduction in the long-term value of the insurance book. Adverse changes in the business mix, away from higher-margin recurring premium products, can affect future profitability. Market movements are tracked and managed proactively.

Cybercrime is an escalating threat with the number and severity of attacks increasing. The complexity of integrated systems increase vulnerabilities and the risk of system instability due to cyber attacks. This is exacerbated by constraints in capacity to effectively respond to the risk given the need for developmental resources to focus on operational business requirements. Careful capacity planning and investment in modernising platform architecture assist in managing this risk by replacing complex and more vulnerable legacy platforms with new technology.

The restructuring of SPF had to be implemented without business disruption in the short term. This included the need for effective integration, potential delayed implementation of existing projects, and the consequent impact on new business flows and costs. Migration activities were scheduled with proper consideration of the business calendar, and the transition was managed successfully through formal project plans, project management disciplines and oversight structures.

Sanlam Emerging Markets (SEM)

Key indicators for shareholders	2016	2015	Change
Return on Group Equity Value(1)	(2,3%)	29,9%	▼
Net result from financial services(1)	R1 557 million	R1 197 million	▲ 30%
New business volumes(1)	R23,7 billion	R14,6 billion	▲ 63%
Net fund flows(1)	R10,9 billion	(R6,6 billion)	▲ 265%
Net value of new life business(1)	R359 million	R294 million	▲ 22%
Net new life business margin(1)	5,26%	5,31%	▼ 5bps

(1) *Audited (Ernst & Young Inc.)*

Read more about SEM's financial performance in the Financial review on page 132.

Operational review by the Group Chief Executive continued

SEM's performance was underpinned by strong organic growth in the Rest of Africa, a recovery in earnings from the Indian credit operations and the first benefits from the Saham Finances, Shriram Life and General Insurance and Zimbabwe transactions.

The SEM partnership model sets Sanlam apart from many South African companies operating across Africa and other emerging markets. The model allows local management and boards to run independent businesses with Sanlam support and a clear demarcation of roles. For example, regional executives are positioned for support and not to manage any of the partner businesses.

The responsibility of governance is placed with local board members, complemented by risk management functions at SEM cluster level. The Sanlam governance framework principles have been communicated to all business partners, and they are required to confirm compliance. This includes, for example, financial reporting, risk management, risk escalation, ethics, internal audit, capital allocation and dividend policies.

An ethics survey was conducted to create awareness, and was supported by value workshops to enhance the understanding of ethical behaviour in all partner businesses.

SEM is also focusing on improving IT governance and information security across its partner businesses.

A growing presence

Through SEM, Sanlam has become the largest, most diversified financial services player in Africa. The creation of SEM in 2010 was followed by a series of acquisitions, taking the business further into Africa, India and Malaysia. These transactions were supported by a continuous review of brand positioning, cultural alignment and organisational capacity to support growth. The most recent finalised transaction was the acquisition of a further 23% direct stake in Shriram Life Insurance and Shriram General Insurance in India in October.

Following the Saham Finances transaction, effective February 2016, SEM has changed its approach from bolt-on acquisitions to also leverage its footprint through accelerated organic growth. This entails increased shareholdings and in-county consolidation. It recognises the reliance on strong local partners, boards and management, which is the essence of SEM's partnership model.

There is a stronger emphasis on the African continent, where SEM is deepening and enhancing its existing relationships and product ranges to become a leading Pan-African financial services player. While Botswana and Namibia are key markets in Southern Africa, Kenya remains SEM's largest business in the East African region, and will continue playing a meaningful role in driving synergies and integration. Kenya's role in contributing to the Pan-African vision has been elevated with the name change and brand relaunch that took place in August. The holding company in Kenya, Pan Africa Insurance Holdings Limited, has been rebranded and is now known as Sanlam Kenya PLC. This business comprises life insurance, general insurance as well as asset management.

Key facts about Saham Finances

Vision: to become the key player and one of the market leaders (top five) in each country where Saham Finances is located

- It recorded US$ 1.04 billion in turnover in 2015.
- It specialises in general and medical insurance, but also has life insurance interests.
- It is the leading motor insurer in Morocco and Côte d'Ivoire.
- The business is based in Morocco, with other principle interests in French-speaking West and Central Africa, Angola and Lebanon in the Middle East.
- Saham Finances employs more than 3 000 people across a network of more than 700 agencies.
- It has subsidiaries in 26 countries throughout Africa

The rebranding of a number of partner businesses started in 2015, at the request of Sanlam's partners in Tanzania, Uganda and Mozambique. In addition to Sanlam Kenya, the rebranding of African Life Assurance in Zambia to Sanlam Life Insurance Zambia was also successfully completed this year.

A number of SEM's markets are experiencing currency volatility and pressure on economic growth.

Read more in the economic and operating environment review on page 87.

Commodity dependent countries such as Zambia, Nigeria and Angola remain under pressure, with Zimbabwe also experiencing difficult conditions. Despite this, Nigeria and Zimbabwe were among the better performing countries. Botswana and Namibia remained strong and stable performers. Due to the high per capita income in these two countries, they deliver a disproportionate share of current profits. The fast-growing proportion of VNB written in the Rest of Africa indicates that future profit will be less reliant on these two markets.

Lowlights include financial irregularities that were uncovered at Soras Assurances Generales, relating to previous financial periods. Sanlam has a zero tolerance approach to financial crime and unlawful conduct, and took immediate corrective action.

Through its portfolio of investments, SEM is exposed to emerging market business units that provide consumer credit and retail banking. Consequently, the cluster conducted an external review of its exposure, risk management and governance processes in these areas. The review highlighted some opportunities for improvement, including the development of models to measure and monitor currency, liquidity and country risk. These are currently being addressed.

There is a continued focus on actively driving diversification across business lines, and providing support from the centre for all SEM partnerships. The SEM management team was expanded to drive results, synergies and optimisation on a regional level, thereby managing the Group's interests more actively. The SEM businesses also continue leveraging off the specialist and technical expertise available in the South African businesses, particularly Santam, as a major source of support. There is also recognition that the expertise in Saham Finances can be transferred, with outbound and inbound development and secondment policies and programmes being developed.

Opportunities and priorities

SEM continues taking a long-term investment view of emerging markets and cycles, with the aim to grow the cluster's contribution to the Group in support of diversification.

SEM's primary criteria for entering new markets are market potential in terms of size and growth prospects, low financial services penetration, paucity of technical skills, and relative political stability. The complementary nature of Sanlam and Saham Finances brings opportunities to develop new business in French-, Portuguese- and English-speaking countries on the continent. This is an attractive proposition to multi-national brokers, banks and corporates. Sanlam has various Pan-African bancassurance relationships which can now be expanded into new territories, while Saham Finances adds new capabilities to its portfolio.

Cross leveraging opportunities include Sanlam's access to Saham Finance's strength in medical insurance and assistance businesses, while Saham Finances can use Sanlam's technical assistance to further develop its life operations, reinsurance and specialist non-life insurance businesses. Markets in the North African, French- and Portuguese-speaking regions provide an attractive opportunity for Sanlam, as they're untapped, are high growth, and represent some of the continent's more developed and stable economies.

SEM will also be establishing a community of professionals, including representatives from other clusters, to improve cross-functional and multi-territory working relationships and knowledge sharing. The plan is to replicate this on a regional level as a way to address common challenges and transfer skills.

Key operational risks

The changing regulatory landscape presents a key operational risk for most of the SEM businesses. Emerging market regulators are thematically focusing on the implementation of risk-based solvency, sharpening up on financial crime regulations, and adopting conduct risk principles emerging from Europe. Skill shortages in local markets are making it difficult to influence the development of regulations and consider the impact on local businesses.

There are a large number of IT projects being implemented across emerging market entities. While no specific project is at risk of not being delivered, the sheer volume of projects is placing strain on local and central resources.

A material portion of SEM's profits arise from retail credit businesses, as it provides a useful diversification from insurance and asset management. Currently, all credit businesses are associate investments with oversight by SEM's board representation, but to a lesser extent than a position of control. SEM has therefore established a Retail Credit committee, which will provide additional oversight.

The Sanlam brand is one of the Group's most valuable intangible assets and require stringent governance wherever it is used due to the wider impact that reputational damage in a particular business can have. The roll-out of the Sanlam brand in the Rest of Africa, therefore also requires the roll-out of the related brand-governance.

Read more about the governance of the brand on page 77.

Operational review by the Group Chief Executive continued

Sanlam Investments

Key indicators for shareholders	2016	2015	Change
Return on Group Equity value(1)	(1,9%)	24,3%	
Net result from financial services(1)	R1 096 million	R1 056 million	4%
New business volumes(1)	R122,9 billion	R113,7 billion	8%
Net fund flows(1)	R5,2 billion	-R3,0 billion	273%
Net value of new life business(1)	R7 million	R26 million	73%
Net new life business margin(1)	0,21%	0,66%	45bps

(1) *Audited (Ernst & Young Inc.)*

Read more about Sanlam Investments' financial performance in the Financial review on page 132.

Pressure on fee income in the asset management operations of Sanlam Investments – from weak equity markets, lower performance fees and lower earnings in the UK – limited growth in the cluster's contribution to Group earnings to 4%. The new business and net fund flows performances were satisfactory given the challenging operating environment.

As the asset management industry globally evolves, there is recognition that vertically integrated asset managers, such as Sanlam Investments, are better able to weather change than independents. This is driven by a fundamental shift to solutions-based investment, rather than pure performance criteria. This approach provides an integrated position, offering synergies and benefits that are better suited to demographic and regulatory change, combined with market volatility.

To benefit from the integrated opportunity, Sanlam Investments has been refocusing people and capabilities by reviewing enabling structures and costs.

Sanlam Investments has a broad range of clients, each with their own investment objectives and constraints. These clients can be broadly categorised into third-party and Sanlam-specific entities. Consequently, a natural step was to strengthen the cluster's client-centric approach by restructuring to manage the investments of these two client categories – Sanlam and third-party clients – separately. This supports our client-centric approach, and will put more focus on growing the third-party client market, especially in the institutional segment.

Sanlam Investments also set up a client solutions and research unit to work across the businesses to generate knowledge and intellectual capital on outcome/solution-based investing. Their focus is on the development of client-specific solutions for high-value clients with multiple touch points across the Sanlam Group (including, for example, Employee Benefits in the Corporate cluster). This team will have a new business development and client servicing focus.

The credit management opportunity

Credit management has become a priority for the Group, with the establishment of a central function to manage Sanlam's corporate credit assets. Credit management at Sanlam had historically been fragmented, with corporate credit originating in several areas and featuring different approaches. Credit is an asset class that is best managed holistically, to extract the significant diversification benefits available. By taking a centralised approach, Sanlam can also operate in scale in the corporate credit markets which will allow it to earn significant fees, and access opportunities that have traditionally been dominated by banks.

Therefore, the formation of the central credit manager (CCM) was motivated by risk management considerations and by market opportunities. Risk management is assisted by having a single view and approach to credit which results in more informed and coherent decision-making. In terms of opportunity, Sanlam can further optimise its RoGEV through the assumption of additional credit risk. Initially, the focus will be on providing institutional credit.

As part of the initiation of the function, a centralised governance structure and process was established, aligning the unit with banking principles. Ernst & Young Denmark reviewed SCM's credit governance, processes, structures and models in December 2014 against world best practice, and determined that it was fit for purpose. At appropriate points in the future, further benchmarking against world best practice, particularly Basel principles, will be undertaken.

Advisor support and growth

The Implemented Consulting solution continues to add value for advisors, as it provides a robust investment process that involves the financial advisor, coupled with seamless implementation of investment changes and ease of reporting to the client. The solution also lowered the overall risk of inappropriate advice by the Sanlam distribution network. Sanlam Investments had a clear first mover advantage with this solution, and continues focusing on maintaining our leadership position.

Graviton Financial Partners, a wholly owned subsidiary of Sanlam Investments, acquired a 49% equity interest in FIRSTGLOBAL Asset Management in July, a company that provides financial planning and investment services to high net-worth private clients and small to medium enterprises. This forms part of a broader Sanlam Investments retail strategy that directs the cluster to acquire select stakes in independent financial advisory firms and multi-manager companies of high reputation.

Satrix is expanding

Sanlam Investments' passive investment platform, Satrix, is the largest brand in the South African index-tracking environment. Passive investing continues experiencing slower growth in South Africa compared to the international growth rate. To provide momentum for growth, Satrix launched SatrixNOW in December 2015. This is the first passive digital portal in South Africa giving investors easy access to exchange-traded funds (ETFs).

The Satrix team already pioneered the first 130-30 short-extension institutional fund and a balanced index-tracking unit trust fund with a smart equity core. It has been at the forefront of a global shift towards smart-beta investing, giving local investors access to a range of cost-effective investment options. SatrixNOW aims to, once again, change the client's investment experience through novel functionality and enhancements.

Competitive responsible investing

Sanlam Investments is a service provider to institutional investors and Sanlam. Sanlam Investments subscribes to the Code for Responsible Investing in South Africa (CRISA) and continues to incorporate sustainability considerations, including environmental, social and governance aspect, into investment analysis and activities. Environmental, social and governance (ESG) issues are addressed in the business unit's investment policy statement, and are assessed as potential risks and impacts for underlying asset portfolios.

Driving ESG also entails being competitive in passive indexing and the establishment of stronger capabilities in the higher margin alternatives segment, which includes renewables and infrastructure. These areas are priorities for Government, which can provide guarantees on long-dated infrastructure projects of reasonable size – and a good fit for long-term investors such as Sanlam Investments.

Opportunities and priorities

Constraining economic and market conditions continue to have a severe impact on Sanlam Investments' potential growth levels. Due to Sanlam Investments' size and Group integration, there are opportunities to increase market share, attract strong teams, acquire businesses, form partnerships and leverage the strong Sanlam Group balance sheet to gain a leadership position relative to competitors.

For sustained future success, the cluster aims to effectively collaborate across Sanlam Investments, and within the Group, to deliver market relevant solutions for clients. This is also in line with the clear shift to solution-driven investment models across the globe.

The foundation has been established for SCM to be a substantial business within the Group, with a strong growth trajectory.

The restructured Sanlam UK business will be focusing on strengthening its distribution and product capabilities, to ensure increased market share.

Operational review by the Group Chief Executive continued

Outcome-based funds are positioned according to their mandates and risk profiles, and will continue to be adjusted to remain compliant as the market moves. Financial advisors are continuously provided with information on the composition of Sanlam Investments' products to advise their clients accordingly. This enables them to meet client needs for all life stages, and with risk overlays to protect investment returns in falling markets, further enhancing the leading position in this product offering.

Key operational risks

Sanlam Investments has a successful track record of growing assets under management; however, the cluster's base of assets from the Sanlam Group is declining, and the rate of net outflows is accelerating. Under Sanlam's open architecture platform, Sanlam Investments is competing with pure-play asset managers for Sanlam's new business.

To mitigate the risk of a diminishing asset base, the cluster has to grow its third-party business by being able to compete more effectively against other asset managers. The Group has a significant distribution strength which, if applied successfully, can help to diminish the impact of the changing models.

The restructure of the cluster to retain and grow its institutional third-party assets under management, and overall profitability, created a transition risk that is managed through change management interventions.

Following the restructure of Sanlam UK, the business units are better integrated and operating more efficiently, while creating synergies that will assist in increased profitability. Risks during the integration process include focus on maintaining momentum of the existing business, the ability to execute the current plan, and talent retention. Initiatives have been launched to address all these risk elements, including an employee consultation process.

The regulatory risk in the UK has decreased, and relationships with the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) improved significantly. A new governance framework has been developed, and two new independent non-executive directors were appointed to the Sanlam UK Board.

To attract and retain client mandates, the cluster has to improve its BBBEE scorecard. Transformation has been elevated as one of the highest priorities and, as a result, received consistent and focused attention. The various businesses have devised specific employment equity and skills development plans to drive these elements aggressively.

Read more about progress with transformation in the Group Chief Executive's Strategic review on page 108.

Santam

Key indicators for shareholders	2016	2015	Change
Return on Group Equity value[1]	32,1%	(8,4%)	
Net result from financial services[1]	R814 million	R933 million	(13%)
New business volumes[1]	R19,8 billion	R18,5 billion	7%
Net fund flows[1]	R6,9 billion	R7,0 billion	(1%)

[1] *Audited (Ernst & Young Inc.)*

Read more about Santam's financial performance in the Financial review on page 132.

Santam's performance normalised, following an exceptional 2015. The impact of soft pricing and intensifying competition was evident across the group, but particularly in the Specialist businesses. Claims costs and frequencies in Santam Commercial and Personal, Santam Specialist and MiWay increased, with the weaker rand putting pressure on the profitability of most of these businesses. The higher procurement costs on imported motor parts negatively impacted the motor books.

The tied agent initiative with Sanlam progressed well, supported by a new remuneration model.

MiWayLife (underwritten by Sanlam Life), which launched just over a year ago, is consistently generating new sales with offerings such as MiFitLife cover, a life policy designed #ForAthletesByAthletes and the newly launched MiLittleLife maternity and child cover. The extending product range offered through MiWay improves the attractiveness of the platform, with a secondary benefit in supporting increased general insurance sales.

Santam Re continued to contribute to the group's diversification strategy. The business unit delivered higher-than-expected growth on group and non-group international business, with group business most positively impacted by growth in the Centriq portfolio.

Santam paid a special dividend in September 2016 to optimise its capital position. A new agreement was concluded with Munich Re of Africa for certain Santam businesses to use its international AA- S&P credit rating from 1 January 2017.

The cluster successfully issued R1 billion of subordinated debt in April 2016 with the purpose of investing the proceeds in an interest-bearing investment portfolio in order to enhance the group's regulatory position and to achieve economic benefits.

Santam was also certified as a Top Employer for 2017.

Future insurance contexts

As part of the annual strategy review for 2016, Santam's executive team initiated a cross-group Insurance 2025 scenario process to inquire into the fundamental shifts at play in the world and the cluster's target market. The approach ensured that the business formed a systemic, business portfolio-based and longer-term view of resource allocation, considering its current Vision 2020 commitments and the identified strategic issues that now require the cluster's attention.

A sustainable partnership approach

Santam expanded and accelerated its Partnership for Risk and Resilience programme in response to Government's request for increased assistance to support municipalities that are dysfunctional and therefore not able to proactively lower insurance related risk. The needs of vulnerable communities have also been increasing in these municipalities. The Santam Emthunzini BBEEE Community trust was approached for increased funding over the next five years to expand the programme from five to 53 local municipalities.

Santam continued its engagement with infrastructure decision-makers in Africa, as it recognises that sustainable infrastructure is a critical element to protect against loss events.

Operational review by the Group Chief Executive continued

The research included a workshop in Dar es Salaam in October 2016 between members of the insurance sector and Dar es Salaam city officials. A key outcome of the intervention was the request for insurers to demonstrate the cost/benefit at city level for risk protection and sensible regulation. The initiative pioneered a methodology of getting city management to engage with the insurance sector, which will be shared globally.

Opportunities and priorities

Santam's focus remains on profitable growth in South Africa and to increase its international diversification through the Santam Specialist business and Santam Re. This includes supporting the development of the SEM general insurance businesses in emerging markets by allocating appropriate technical resources. Focus areas in South Africa include developing Santam's full multichannel capability, MiWay's business insurance and broker-direct offerings, and the MiWayLife insurance initiative with SPF.

The optimisation of the claims and procurement value chains, to increase efficiency and counter the impact of the weakening rand, remains a priority. Santam will also maintain its focus on cost-efficiencies to improve the management expense ratio over the medium term.

A new transformation strategy for the South African business units has been contracted and is firmly on track. As such, the cluster expects improvements to become visible and measurable, as it continues to create a diverse workforce, intermediary and supplier base, and enables access for non-traditional markets to products and services.

Key operational risks

Santam's international exposure creates significant volatility in investment results relating to foreign currency movements, accumulation risks and the requirement for technical support to these investments. This is mitigated through governance and capital allocation initiatives.

Significant investments in strategic projects related to Santam's administration capability continue, and run the risk of not delivering on the intended business benefits. With the completion of the transition of the personal lines business, the commercial lines are in progress with no performance issues reported.

Uncertainty around regulatory reform and the potential impact remains a risk. A significant milestone for Santam was the approval from the FSB to launch a formal internal model approval process in preparation for SAM.

Sanlam Corporate

Key indicators for shareholders	2016	2015	Change
Return on Group Equity value[1]	9,6%	14,9%	
Net result from financial services[1]	R510 million	R374 million	36%
New business volumes[1]	R5,0 billion	R2,9 billion	73%
Net fund flows[1]	R1,4 billion	-R489 million	380%
Net value of new life business[1]	R76 million	R85 million	11%
Net new life business margin[1]	0,97%	1,96%	99bps

(1) *Audited (Ernst & Young Inc.)*

Read more about Sanlam Corporate's financial performance in the Financial review on page 132.

With the establishment of Sanlam Corporate, Sanlam Employee Benefits (SEB) and Sanlam's investments in Afrocentric and Sanlam Healthcare were moved from Sanlam Investments and SPF respectively to form the core of the new cluster.

The foundation year for the Sanlam Corporate cluster delivered a strategy, despite leadership changes and delays in the establishment of formal governance and administration structures. The strategy development process, led by Junior Ngulube, who has since been appointed as Chief Executive of SEM, included engagements with internal and external stakeholders, benchmark research and workshops.

The purpose of the new cluster is to become the partner of choice to targeted corporate clients by providing a "One Sanlam" experience and offering financial solutions – rather than products – underpinned by leading employee benefit and health products.

The cluster is being positioned to coordinate Sanlam activities and interactions with corporate clients and intermediaries, centrally. This will enable the Group to have a central view of corporate clients and their relationship profiles with Sanlam, while retaining the federal model.

Therefore, Sanlam Corporate sees its role as, *inter alia*, enabling the coordination between all internal and external partners, such as other clusters, intermediaries and labour unions, to serve potential public and private institutional clients.

The employee value proposition landscape

Employee benefits, as an element of the financial services market, is experiencing increasing pressure from the regulator, national treasury and employers to improve the offering, cost and benefits for employees – all to encourage savings.

The employee benefits market is also facing increasing competition from non-traditional start-ups that are able to meet changing client needs for simplicity and 'ease of use' offerings through new technology. This requires changing and individualising each member's unique experience with their retirement fund.

SEB consequently rolled out creative new stakeholder touchpoints, including a mobile application that offers a full range of retirement services for members, an application for intermediaries, 'robo-advice' online programmes with calculators and tools, and innovative digital enhancements for trustees.

Operational review by the Group Chief Executive continued

The Sanlam Umbrella Fund introduced a new retirement savings vehicle. This offers an appropriate and competitively priced default investment strategy, while allowing for significant flexibility at an appropriate price for members wanting customisation. Other innovative features for the Sanlam Umbrella Fund include:

- A phased retirement option (retirees will be able to keep their savings in the fund for longer);
- Allowing members who resign to preserve their savings in the fund; and
- An option to buy a pension from the fund instead of from an outside provider upon retirement.

A new healthcare offering

Sanlam acquired a 28,7% stake in Afrocentric Healthcare Assets (AHA) in December 2015. AHA owns Medscheme – SA's largest health risk management services provider and second largest medical scheme administrator. Combined with the SEB offering, it provides complementary support for corporate employers' value proposition to their employees – which starts with good medical aid and retirement provisions. Therefore, potential exists for synergies and cross-selling in the cluster and to develop feeder channels into other areas of the Group.

With the Afrocentric acquisition, the cluster is now able to offer clients a holistic solution which includes healthcare options such as medical aid, healthcare advice and gap cover. It also offers integration with Sanlam Reality.

The transaction also supported Sanlam's growth initiatives in South Africa and other emerging markets, with Medscheme having a presence in some of the countries where SEM operates, such as Botswana, Namibia, Swaziland, Kenya and Mauritius.

Opportunities and priorities

Immediate opportunities for the cluster include the available capacity in existing umbrella funds, the ability to provide Pan-African solutions to South African based corporates, and the potential to drive retail growth through corporate client relationships (gaining individual clients through corporate engagement).

The two cluster business units have started collaborating to develop bundled value propositions, acquire new clients and entrench existing institutional relationships by increasing Sanlam's share of the client's financial services spend.

The cluster is also developing an integrated health and wealth wellness programme to combine the medical scheme and financial needs analysis with corrective action programmes to help employers understand, and address the physical and mental triggers that can cause low workforce productivity.

Work is also being done to identify synergies in underwriting and risk rating methodologies.

Key operational risks

As a new entity in the process of setting up formal structures, the Sanlam Corporate cluster is at risk of delivering lower-than-expected new business growth as it is in the process of attracting adequately senior skilled individuals to permanently join the cluster.

Changing and uncertain regulations around retirement reform will impact SEB. The business unit is also vulnerable to large scale retrenchments, especially in the mining sector. These can have a significant impact on the processing of benefit payments, and will negatively affect future fee and premium income flow, with an additional potential increase in disability claims.

Benefit payments under the Sanlam Umbrella Fund are also monitored, as the current economic conditions might encourage higher numbers of exit payments.

Identifying and responding to risks

The Group considers risks 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 the key risks affecting the Group in the medium to long term. The bottom-up approach is undertaken by the clusters and business units, with the assistance of their risk management functions to assess all categories of risks from their perspectives. This involves identifying, managing and monitoring risks in each area of the business. This way, risk management is embedded into the day-to-day operations. Control of this process is provided through maintenance of risk registers and reports in each area. These risk registers are aggregated and reviewed by each cluster's Finance and Risk committees or forums, with significant and emerging risks escalated to Group level for consideration as appropriate.

The following have been identified as the key top-down strategic risks:

Risk description	Group response	Trend	Impact on results	Relevant strategic pillar/ Sustainability theme
Poor economic growth: Curtailed global economic growth could hamper the Group's new business and earnings growth prospects. Consumers' disposable income remains under pressure thus directly impacting retail business flows.	Diversification of the business portfolio (geographic, product type, market segment and distribution platform) is a key mitigating factor, combined with a significant reduction of risky asset classes in the shareholder capital portfolio. Read more in the Economic and operating environment review on page 87.	Some improvement in South Africa's economic growth expected in 2017, but still below the level required for meaningful job creation. Commodity-based economies in Africa will remain under pressure in 2017, with robust growth expected in North, West and East Africa, as well as India and Malaysia.	Slowdown in demand for discretionary single contribution savings products in South Africa in 2016. Lower earnings contribution in 2016 from Zambia and constrained currency liquidity in Angola.	
Threats to Group's relevance (The 4th industrial revolution and digital disruption): The technological revolution is fundamentally altering the way Sanlam's current and future clients, employees, partners and other stakeholders live, work and relate.	The Group is investigating options to improve business intelligence. A conceptual solution to enable the business to respond is under consideration. Sanlam Reality has the potential to link technology solutions to financial products, and various other experimental initiatives are being pursued within the clusters. Sanlam Go cover is the first product to be launched from these initiatives.	Technology-driven change expected to accelerate over the next few years with increased risk of disruption by non-traditional players.	Could compromise the Group's competitive position if it fails to respond appropriately.	

Operational review by the Group Chief Executive continued

Risk description	Group response	Trend	Impact on results	Relevant strategic pillar/ Sustainability theme
Simultaneous regulatory implementation and uncertainty impact the Group's business model, competitive position and operational efficiencies.	The Group takes a pro-active approach in investigating and formulating views on all regulatory proposals. Events are monitored and influenced where possible by participation in discussion with regulators, directly and through industry associations. The four South Africa based clusters are adapting their structures to align with and obtain a competitive advantage in an RDR environment. Geographic diversification limits the impact of regulatory interventions in a particular country. Read more in the Regulatory environment section on page 82.	Regulatory interventions are expected to accelerate after the introduction of the Twin Peaks model in South Africa. Most African countries will follow developments in South Africa over time.	Increase in regulatory compliance cost and management time spend on regulatory projects. Potential disruption of business model.	
Diversified growth initiatives come with greater operational complexity and other strategic risks as the Group's footprint grows.	SEM has expanded and created capacity with improved breadth of skills in some areas to support increased requirements. The cluster is also leveraging existing skills from other clusters. Read more in the Group Chief Executive's strategic review on page 107.	Increased focus on organic growth at SEM and expansion of central support function will alleviate some of the pressure.	There is a risk that operational capabilities have not expanded at an appropriate rate to provide necessary support to the acquired businesses or partners.	
Increased exposure to new areas or risk types outside the Group's core expertise due to acquisition, diversification and innovation.	New partners such as Saham Finances brings expertise that SEM can leverage for other businesses. SEM also launched an external review of its exposures, particularly credit, risk management and governance processes, and developed steps to mitigate this risk.	Increased focus on organic growth at SEM and expansion of central support function will alleviate some of the pressure.	Risk of financial loss.	

Risk description	Group response	Trend	Impact on results	Relevant strategic pillar/ Sustainability theme
Demographic change/ transformation challenges/ageing population including amendments to the BBBEE codes in South Africa, which are more strenuous with higher targets and penalties should certain minimum requirements not be met.	An in-depth investigation into the transformation challenge motivated strict recruitment targets across the Group. There are regular reports to the Executive committee on all senior appointments. Read more in the Group Chief Executive's Strategic review on page 108.	Pressure on transformation from institutional clients will continue to increase, as their own targets are becoming more strenuous.	Potential loss of business and limit on ability to gain new institutional business, especially investment management mandates.	
Cyber risk emanating from information and information technology infrastructure and related activities.	The Group developed a framework aimed at cyber resilience, including practical risk assessment techniques and planning for a learning event regarding cyber crisis decision-making and management. A proposal has been formulated to ensure improved outsourcing practices and centralised monitoring of security. Security incident intelligence sources are being monitored, and the Group has created capabilities to detect and defend against advanced persistence threats.	Incidences of cyberattacks expected to rise.	Risk of financial loss and damage to brand should access be gained to confidential client information.	
Rising income and wealth inequality that threatens social stability	The Group contributes to inclusive growth through the Sanlam Foundation as well as the business/government/ labour initiatives. Wealth is also widely distributed through Sanlam's shareholder base.	Pressure for change is mounting globally as is evident in recent election results.	N/A	

Operational review by the Group Chief Executive continued

Risk description	Group response	Trend	Impact on results	Relevant strategic pillar/ Sustainability theme
Human resource scarcity and stretched resources: There is a huge demand and strain on the Group's human resource capabilities. In addition to operational challenges, the Group might lose its better resources, as they seek alternative work environments with more manageable workloads.	Retention plans for key resources, additional roles, increased use of consultants, and change management processes in the projects which are currently impacting organisational structure. Over the long term, mitigating actions include an increase in talent pipeline feeder programmes, continued focus on work practices which make for a more compelling workplace, and building the capability of resources internally through development interventions. Read more in the supplementary People development report online.	Pressure will remain given the scarcity of skills in Africa.	Loss of key resources can hamper the Group's ability to execute on its strategy.	

The major bottom-up risks facing the Group are:

- Market risk, especially a fall in asset prices – particularly in the context of a possible downgrade of South Africa's foreign sovereign rating to below investment grade;
- Regulatory changes and interventions, including the introduction of the new "Twin Peaks" regulatory model, together with regulatory changes related to Government's social security and health management reform initiatives;
- Lack of growth in volumes and earnings;
- Risk of poor investment performance relative to competitors and benchmarks – a large part of Sanlam's business flows are influenced by the perceptions around Sanlam's investment performance;
- Maintaining profit margins in the light of ever-increasing competition, slow economic growth and upward pressures on the cost base;
- Credit risk, especially the failure of a big South African bank or a Government-related institution; and
- Retention of key employees, leadership succession and alignment with employment equity targets.

The Group's top IT risks remained consistent:

- Legacy application modernisation is still the top IT risk. Significant projects are in process at Santam and SPF.
- Unnecessary complexity of systems architecture is a risk that will increase in future, with the advent of new IT disruptors. Indications are that the requirement for faster and more frequent innovation will result in an increase in point solutions, additional integration and less re-use. Increased organisational complexity and the increasing complexity of technologies also contributes to this risk.

Read more in the Capital and Risk Management report included in the Annual Financial Statements online.

Our contribution to using natural resources responsibly

We remain committed to creating awareness among our clients', employees, business partners and other stakeholders on the sustainable use of our natural resources. The Group supports conservation efforts aimed at preserving critical ecosystems and protected areas as a means of impacting overall risk management positively. Sanlam has an ongoing partnership with the World Wide Fund for Nature South Africa (WWF-SA) which includes various projects to conserve and ensure the healthy functioning of South Africa's water systems.

Sanlam has committed R50 million to its partnership with WWF-SA to help secure SA's water source areas, promote water stewardship and empower local Governments to integrate freshwater protection into their policies and plans.

With drought being an increasing systemic risk in South Africa, Sanlam and WWF-SA launched a tool to assess water-related risks within companies in July. The tool uses local data to assess risks and identify whether these are faced in the company's operations or the broader basin, and are presented as physical, reputational or governance-based risks. The tool also provides users with a structured set of responses and up-to-date case studies that guide companies on ways to mitigate risk and develop a water stewardship strategy.

Together with Santam's buildings, Sanlam Group achieved a reduction of 554 124 kWh against the 2014 baseline year. This reduction can be attributed to the implementation of various initiatives including better management of electricity consumption.

Read more about environmental indicators and progress in the supplementary Environmental Impact report online.

Innovation for resilience

With asset owners' profiles, locations and natures changing, Sanlam has new opportunities to access growth. This demands innovation around product, distribution and operating efficiency.

Product innovation is a persistent feature within Sanlam to drive growth and market share. SPF's successful launch of new risk products in 2016, and the revamp and integration of Reality into the product set are tangible examples of innovation-driven growth. Other examples of recent product innovations include insurance for train commuters in India, with a combined insurance model that includes Government and their insurer general, as well as Sanlam Go cover that provides life insurance on demand through a mobile platform. The expanded SEM central support structure includes a team dedicated to product development and innovation. Within SI, much focus will be placed on alternative asset classes and passive investment solutions. These initiatives create new and profitable markets that did not exist before.

The Group's client-centric approach means that it has to approach potential clients in non-traditional ways, and through channels and platforms that are entirely new – and often disruptive to conventional models. The ability to innovate by exploiting new IT paradigms has become critical. This is not purely a technological capability, but relies on integrating various aspects of business architecture such as product, process, business model, experiences and branding. This will receive attention across all clusters, with Santam already having done innovative scenario work to create business contexts for 2025, which includes the rise of fintech as an enabler of disruptive technology that can gain significant market share in a short period of time. Sanlam Go cover is the first experimental product born from SPF's digital initiative. The opportunity to gain market share through new digital channels promises exceptional future growth potential in Africa, where many countries have leapfrogged traditional technology directly to mobile. Mobile is the only means to reach millions of clients in remote areas.

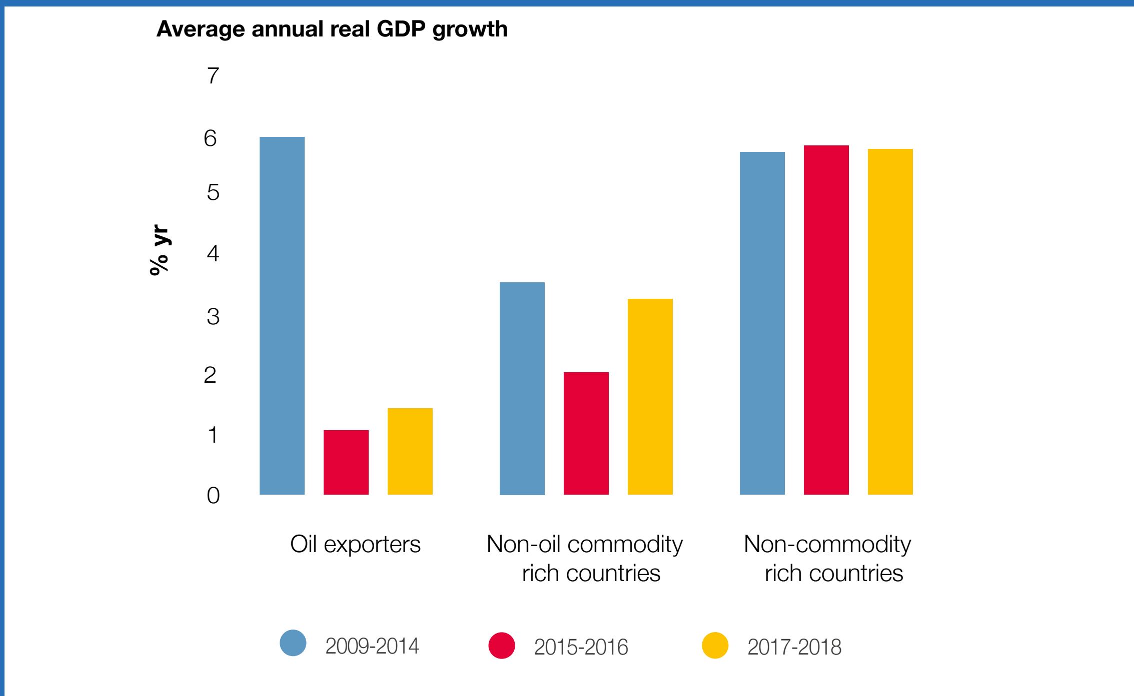
Exploiting the possibilities presented by new IT paradigms is not only important from a product and distribution perspective, but can be an enabler of improved cost efficiencies. The business intelligence evaluation referred to under the section for strategic risks is focused on attaining dual benefits – supporting product development and client service innovation while at the same time enabling more efficient regulatory compliance.

These technology-enabled initiatives will be priority for Sanlam going forward, and demand client-centric thinking.

Operational review by the Group Chief Executive continued

Group outlook summary for 2017

Economic growth in South Africa and the commodity-based economies in the Rest of Africa will remain below longer-term potential in 2017, with a resulting impact on the Group's key operational performance indicators. We, however, anticipate some improvement in general growth rates across most regions during the course of 2017, with some of the African markets and India expected to record robust growth. This should provide some support for improved levels of growth in new business.



Growth in GEV, new business volumes, VNB and net result from financial services is, however, not only dependent on economic growth, but will also be shaped by investment market performance, currency volatility, interest rate cycles and political events, which are even more unpredictable in the current global environment. The Group will remain focused on strategic execution, and we are confident that we have the depth of skills and experience to successfully navigate through these conditions and to continue delivering value to all of our stakeholders.

Investment opportunities will remain under consideration, with the focus more on organic growth in existing partnerships in support of the Group's positioning as a Pan-African diversified financial services group.

Key economic indicators

Algeria, Botswana, Zimbabwe forecasts: IMF (October 2016)
All other forecasts: Sanlam

	GDP %yr		CPI %yr		Current account % GDP		Fiscal balance[(1)] % GDP	
	2016	2017	2016	2017	2016	2017	2016	2017
Angola	0,2	1,4	32,1	35,0	(7,3)	(5,2)	(5,6)	(5,5)
Botswana	3,1	4,0	3,2	3,5	4,1	3,7	(3,3)	(3,8)
Côte d'Ivoire	8,0	8,0	1,0	1,5	(1,8)	(2,1)	(4,0)	(3,6)
Gabon	3,2	4,5	2,5	2,5	(5,3)	(4,7)	(2,8)	(2,7)
Ghana	3,5	6,7	17,5	10,9	(6,8)	(6,1)	(4,7)	(3,8)
India	7,1	7,3	4,8	5,1	(0,9)	(1,4)	(3,7)	(3,0)
Kenya	5,9	5,8	6,3	6,3	(6,4)	(5,5)	(7,4)	(6,7)
Malaysia	4,2	4,2	2,1	2,8	1,5	1,7	(3,3)	(3,0)
Morocco	1,6	4,2	1,6	1,4	(3,8)	(2,8)	(3,9)	(3,3)
Namibia	4,3	4,7	6,7	6,4	(13,8)	(8,9)	(7,3)	(5,6)
Nigeria	(1,6)	1,2	15,6	15,0	(0,6)	(0,8)	(3,9)	(3,3)
SA	0,3	1,3	6,3	5,8	(3,8)	(3,2)	(3,8)	(3,4)
Tanzania	7,1	6,9	5,2	6,0	(8,8)	(9,2)	(4,0)	(4,6)
Uganda	4,3	5,6	5,5	5,0	(7,1)	(8,1)	(4,0)	(3,4)
Zambia	3,0	3,9	18,2	9,4	(4,5)	(3,2)	(8,9)	(7,6)
Zimbabwe	(0,3)	(2,5)	(1,6)	4,6	(7,5)	(6,1)	(4,9)	(3,1)

[(1)] *Fiscal balance for Malaysia and Morocco reflects general Government net lending. Ghana excludes previously unrecorded expenditure of an estimated 7 billion cedi.*

Financial review

Key features of the 2016 annual results

Earnings

- Net result from financial services per share increased by 10%
- Normalised headline earnings per share down 6%

Business volumes

- New business volumes up 11% to R233 billion
- Net value of new covered business up 18% to R1 605 million
- Net new covered business margin of 2,69% (2,62% in 2015)
- Net fund inflows of R41 billion compared to R19 billion in 2015

Group Equity Value

- Group Equity Value per share of R54,07
- Return on Group Equity Value per share of 11,8%
- Adjusted Return on Group Equity Value per share of 17,8%; exceeding target of 14,1%

Capital management

- R3,4 billion redeployed during 2016
- Unallocated discretionary capital of R550 million at 31 December 2016
- Further planned releases of discretionary capital of R500 million – R1 billion per annum over next four years
- Sanlam Life Insurance Limited CAR cover ratio of 5,8 times
- Sanlam Group SAM cover ratio of 2,2 times; Sanlam Life Insurance Limited at 3,1 times

Dividend

- Dividend per share of 268 cents, up 9,4%

Where many companies face pressure from share-holders to deliver in the short-term, with too much focus on quarterly results, Sanlam is privileged to have shareholders who are fully supportive of our approach and invest for the longer term – many of our shareholders have been investors in Sanlam since 1998. Undue emphasis on short-term results is one of the most prevalent threats to long-term sustainability.

The operational performance of the Group in 2016 is testimony to a well-executed sustainable strategy. The five-pillar strategy introduced in 2003 transformed the Group into a business diversified across business lines, geographies, market segments and products, with an exceptionally strong capital base. The Group's strategy is by no means unique with many other multi-national insurance and financial services groups following a similar approach. Sanlam's ability to consistently execute on the strategy has, however, been a key differentiator, enabled by:

- A single-minded focus on execution across the Group operations. The strategy is well-communicated and understood by staff, supported by incentives that reward performance aligned with the five strategic pillars and the material sustainability themes.
- A client-centric approach that equitably balances value creation between Sanlam clients, shareholders and other stakeholders.
- A corporate culture embedded in ethics and prudence. Sanlam's prudent approach is unique, which often means forsaking short-term gains in support of long-term sustainable growth. Credit should also go to the shareholder base that Sanlam has built since demutualisation and listing in 1998. Where many companies face pressure from shareholders to deliver in the short-term, with too much focus on quarterly results, Sanlam is privileged to have shareholders who are fully supportive of our approach and invest for the longer term – many of our shareholders have been investors in Sanlam since 1998. Undue emphasis on short-term results is one of the most prevalent threats to long-term sustainability.
- Sanlam's ability to attract and retain the best skills available. The Group is fortunate to have a multi-level management team with some of the best financial services expertise and experience available in the market.

This enabled the Group to achieve particularly satisfactory results in the 2016 financial year, delivering double-digit growth in all key operating indicators despite a challenging environment.

Economic growth, supportive investment markets and political and social stability are some of the key drivers of growth for Sanlam. The Group, however, faced the opposite in 2016. On the domestic political front the year started in the aftermath of the unexpected changes in Ministers of Finance during December 2015, setting the stage for a year of political uncertainty along with poor economic growth. Positive developments since the end of December 2015 were successful local government elections and renewed cooperation between government, labour and business to address the structural challenges that are hampering economic and employment growth in South Africa. Various initiatives were launched, which assisted in South Africa maintaining its investment grade sovereign debt ratings. The Finance Ministry and private sector are committed to achieve the common goals of the initiatives of inclusive growth, which bode well for accelerated future economic growth should political stability be maintained.

As highlighted in the report on the Economic and operating environment on page 87, global markets have been impacted by various domestic and international events. These included fears of lower than expected global economic growth driven by a slowdown in China and the soft commodity cycle, rising geopolitical risks and the impact of potentially opposing monetary policy stances by central banks in the US, UK, Europe and Japan. The fragile outlook for global economic growth was dealt a further blow at the end of the second quarter by the UK electorate's surprise vote in favour of Britain leaving the European Union, signifying rising pressure in a number of countries for more protectionist policies. Protectionism also featured strongly in the US Presidential elections.

These conditions increased the pressure on the economic growth, currencies and investment market performance of the emerging market countries where the Group operates, with commodity-based economies such as Zambia, Nigeria and Angola particularly hard hit. The British pound was similarly under pressure. The exceptions were the rand exchange rate and returns on the bond market in South Africa. The changes in Finance Ministers in December 2015 sparked a sharp weakening in the rand and a significant rise in long-term interest rates at the end of 2015. The positive developments since then and South Africa's ability to retain its investment grade foreign credit rating, supported a rally in the rand exchange rate and a 15% return from the South African All-bond index as long-term interest rates declined by some 100 basis points. The rand strengthened by 12% and 26% against the US dollar and British pound respectively, with the pound weakening on a relative basis in the aftermath of Brexit. The rand also strengthened against the emerging market currencies where the Group operates. On an average basis, though, it was still weaker during 2016 compared to the 2015 financial year.

Foreign currency/Rand	Euro	GBP	US$	BWP	INR	MYR	Rest of Africa (weighted)
2014/12/31	14,01	18,05	11,57	1,233	0,183	3,321	
2015/12/31	16,84	22,83	15,49	1,405	0,235	3,620	
Change during 2015	20,2%	26,5%	33,9%	13,9%	28,7%	9,0%	6,7%
2015/12/31	16,84	22,83	15,49	1,405	0,235	3,620	
2016/12/31	14,43	16,92	13,68	1,299	0,202	3,051	
Change during 2016	(14,3%)	(25,9%)	(11,7%)	(7,5%)	(14,3%)	(15,7%)	(19,6%)
Average 2015	14,09	19,40	12,69	1,272	0,199	3,271	
Average 2016	16,22	19,69	14,65	1,368	0,219	3,560	
	15,1%	1,5%	15,5%	7,6%	10,1%	8,8%	1,5%

The impact of the operating environment is particularly evident in the following areas of the Group's results:

- Growth in single premium life and non-life business as well as institutional fund flows in South Africa, where retail and institutional clients remained risk averse in the uncertain environment.
- Fund-based fee income at SI and SPF, where the weak equity market performance limited growth in assets under management.
- Investment return earned on the Group's capital portfolio. The relative movement in the rand exchange rate during 2015 and 2016 had a pronounced impact on the investment return earned on the foreign exposure in the South African portfolio. The MSCI World index in rand returned 33% in 2015 compared to a negative return of 5% in 2016. This was aggravated by the relatively weaker performance of investment markets in the major SEM countries.
- The decline in long-term interest rates in South Africa resulted in a commensurate decline in the risk discount rate (RDR) used for the valuation of the South African businesses for GEV purposes and to determine VNB. This had a positive impact on RoGEV and growth in VNB.
- The strengthening of the rand contributed to the recognition of significant foreign currency translation losses in RoGEV in respect of the Group's non-South African operations due to the impact on the year-end GEV valuations.

Changes in tax legislation in South African also affected the Group's results for the year to 31 December 2016:

- The effective corporate capital gains tax (CGT) rate was increased from 19% to 22% during the first half of 2016, requiring re-measurement of the Group's deferred tax balances. This resulted in the recognition of a R192 million (net of non-controlling interests) one-off capital gains tax charge in the Group's earnings for the year to 31 December 2016 in respect of the capital portfolio investments held by the South African businesses.
- The taxation of risk business written by life insurance companies was amended through the introduction of a separate risk policyholder tax fund (RPF) for this business. The net effect was as follows:
  - For new business, tax relief for the upfront costs incurred in respect of writing new business is effectively delayed until the product becomes profitable from a cash flow perspective, having a negative effect on VNB and new business strain generated by risk business. This negative impact is somewhat countered by non-taxable investment return earned on risk reserves in the RPF. The impact on the risk business margin was substantially mitigated through product design changes and re-pricing in the market.
  - In respect of existing business transferred from the Individual Policyholder Fund (IPF) to the RPF, investment income earned on accumulated reserves is no longer taxable, resulting in a reduction in the policyholder reserves required to back risk business. A discretionary margin has been recognised to offset the reserve release to ensure profit is still recognised over the lifetime of the affected policies. This discretionary reserve led to an increase in the value of in-force life business.
- Group subsidiaries that wrote large volumes of risk business in the past, generated assessed losses within the IPF on an annual basis. The level of assessed losses generated annually by new risk business was of such an extent that it was not considered probable that it would be fully utilised. No deferred tax assets were therefore recognised in respect of these assessed losses. With all new risk business now being written within the RPF, taxable investment income generated by savings business remaining within the IPF will in future utilise the available assessed losses. The International Financial Reporting Standards (IFRS) requirement for the recognition of deferred tax assets in respect of the assessed losses are therefore met, with a total amount of R1,3 billion recognised in 2016. The recognition of these assets in respect of the policyholder fund did not result in a similar increase in investment contract liabilities in terms of IFRS, causing a mismatch between policyholder assets and liabilities. This mismatch is recognised in the Consolidation Reserve, with movements in the mismatch included in the Fund Transfers line in the shareholders' fund income statement. It therefore does not have any impact on the shareholders' fund net asset value included in GEV or normalised headline earnings, which are used by management for shareholder performance measurement. This treatment is in line with similar mismatches caused by Sanlam shares held in policyholder portfolios. (Refer to the basis of presentation and accounting policies of the Annual Financial Statements and Shareholders' Information for further information in respect of the Consolidation Reserve.)

Financial review continued

The more significant highlights and lowlights for the year are:

Highlights	Lowlights
Adjusted RoGEV of 17,8% exceeded the target of 14,1% by a healthy margin	Underperformance in Zambia, Kenya, UK and Malaysia
Strong growth in VNB at SPF and SEM	Losses from financial irregularities in Rwanda
Recovery in Shriram Capital operational performance	Higher claims experience at SPF, SEB, SEM Namibia and Santam
Solid growth in overall new business and net result from financial services despite major challenges	Lack of progress in diversifying Pacific & Orient product mix resulted in lower GEV valuation and recognition of IFRS impairment charge
Significant mandates of more than R4 billion awarded by Botswana Public Officers Pension Fund	Lower annuity sales in Botswana
Saham Finances, Shriram Life and Shriram General Insurance investments finalised	Lower discretionary flows at SPF
Good progress with Saham Finances co-operation	Impact of weak investment markets on returns
R3,4 billion of discretionary capital redeployed	
Good progress with capital and balance sheet management	
Recovery in operating experience variances in second half of the year	
Maiden contribution from Central Credit Manager	

This report provides an overview of the Group's performance, focussing on the key shareholder performance indicators identified on page 52. More detailed information is available in the Shareholders' information section from page 172, including balance sheet and income statement information for the shareholders' fund reconciled to the IFRS Statement of Financial Position and Statement of Comprehensive Income. Reconciliations between the IFRS net asset value and GEV are also provided.

Basis of presentation and accounting policies

The Sanlam Group IFRS financial statements for the year ended 31 December 2016 are presented based on and in compliance with IFRS. The basis of presentation and accounting policies for the IFRS financial statements and Shareholders' Information are in all material respects consistent with those applied in the 2015 Annual Report. For segmental reporting, the newly created Sanlam Corporate cluster is shown separately for the first time, initially comprising of SEB and the Sanlam Healthcare businesses.

All growth percentages reflected in this review are relative to the 12 months ended 31 December 2015, unless otherwise indicated.

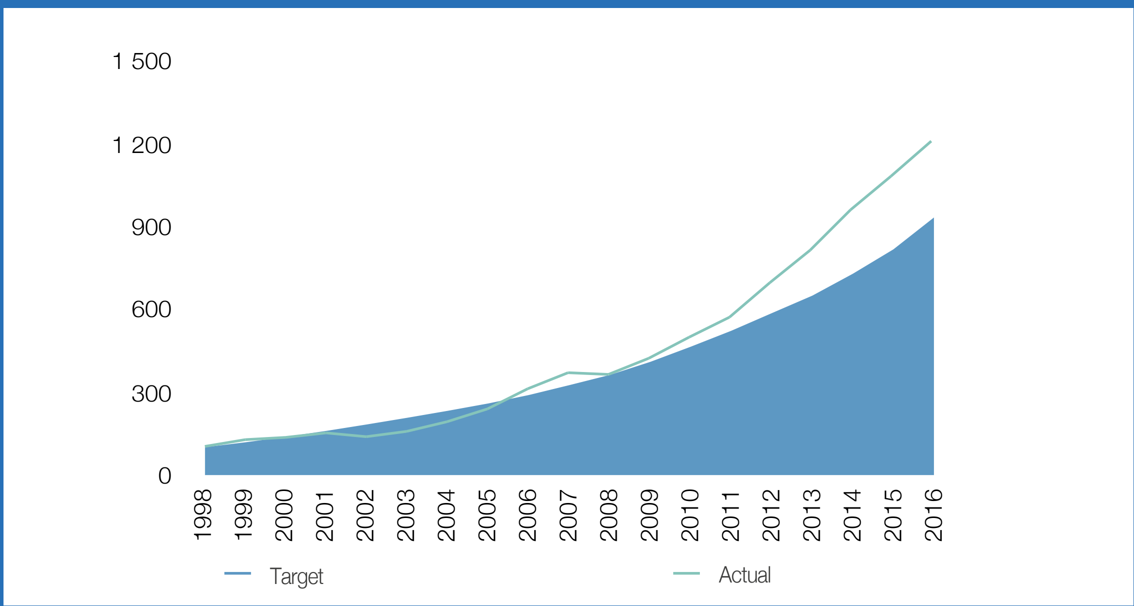
Financial performance measure

The Group has chosen RoGEV as its main measure of financial performance for many years. GEV provides an indication of the value of the Group's operations, but only values the Group's in-force covered (life insurance) business and excludes the value of future new life insurance business to be written by the Group. GEV is the aggregate of the following components:

- The embedded value of covered business, which comprises the required capital supporting these operations and the net present value of their in-force books of business (VIF);
- The fair value of other Group operations based on longer-term assumptions, which includes the investment management, capital markets, credit, general insurance and wealth management operations of the Group; and
- The fair value of discretionary and other capital.

Sustained growth in GEV is the combined result of delivery on a range of key performance drivers in the Group. RoGEV measured against a set performance hurdle is therefore used by the Group as its primary internal and external performance benchmark in evaluating the success of its strategy to maximise shareholder value.

The RoGEV target is to outperform the Group's cost of capital. The cost of capital is set at the risk free nine-year bond rate (RFR) plus 400bps. The compounded RoGEV of the Group since Sanlam demutualised and listed in 1998 comprehensively outperformed this target.



The RoGEV target for 2016 has been 14,1% (2% higher than 2015) and for 2017 it is set at 13,2% based on the RFR of 9,2% as at the end of December 2016.

Group Equity Value

GEV amounted to R110,7 billion or 5 407 cents per share at 31 December 2016. Including the dividend of 245 cents per share paid during the year, a RoGEV per share of 11,8% was achieved for 2016. This is lower than the 14,1% target for the year, principally due to negative foreign currency translation differences recognised in respect of the non-South African operations following the sharp recovery in the rand exchange rate during 2016. The benefits of a lower RDR in South Africa at 31 December 2016 compared to end-2015 were substantially offset by the weak equity market performance during 2016. Adjusted RoGEV per share, which excludes the impact of lower investment return than the long-term assumptions, interest rate changes and other one-off effects not under management control (such as tax changes), and assuming normalised exchange rate movements, amounted to 17,8% – well in excess of the target.

South African long-term interest rates declined by some 90bps during 2016, with a corresponding 90bps decline in the RDR used to value the Group's South African businesses for GEV purposes. A discounted cash flow (DCF) valuation basis is used for essentially all of the Group's operations, with the decline in RDR having a positive effect on the end-2016 valuations and RoGEV for 2016. This positive impact was largely negated by a weak equity market performance, which limited growth in assets under management and hence GEV valuations at SI and SPF. The strengthening of the rand against most currencies during 2016 had a pronounced negative impact of more than R5 billion on the rand-based valuations of the Group's operations outside of South Africa and Namibia. This resulted in an overall underperformance in RoGEV compared to target in 2016. Adjusted RoGEV is a more comparable measure of the underlying operational performance, which continues to reflect sound results despite the challenging operating environment during 2016.

Group Equity Value at 31 December 2016

R million	GEV December 2016	GEV December 2015	RoGEV	RoGEV %
Group operations	**102 035**	91 558	**12 432**	13,1
Sanlam Personal Finance	**41 878**	37 472	**8 503**	22,7
Sanlam Emerging Markets	**22 097**	18 047	**(491)**	(2,3)
Sanlam Investments	**15 807**	16 835	**(322)**	(1,9)
Santam	**15 868**	12 850	**4 129**	32,1
Sanlam Corporate	**6 385**	6 354	**613**	9,6
Covered business	**51 246**	47 222	**7 473**	15,8
Value of in-force	**35 845**	32 114	**7 751**	24,1
Adjusted net worth	**15 401**	15 108	**(278)**	(1,8)
Other operations	**50 789**	44 336	**4 959**	10,5
Group operations	**102 035**	91 558	**12 432**	13,1
Discretionary capital and other	**8 682**	11 948	**(162)**	(1,8)
Group Equity Value	**110 717**	103 506	**12 270**	11,9
Per share (cents)	**5 407**	5 057	**595**	11,8

Group operations yielded an overall return of 13,1% in 2016, the combination of 15,8% return on covered business and 10,5% on other Group operations.

The main components contributing to the return on covered business are included in the table below:

Return on covered business for the year ended 31 December 2016

%	2016	2015
Expected return – unwinding of the RDR	9,8	7,8
Value of new covered business	3,4	2,8
Consistent economic basis	3,2	3,2
Change in economic basis	0,2	(0,4)
Operating experience variances	2,1	2,2
Operating assumption changes	0,9	1,0
Economic assumption changes	1,0	(3,3)
Expected investment return on capital portfolio	2,5	2,6
Investment variances	(3,1)	0,7
Value of in-force	(0,3)	(0,2)
Capital portfolio	(2,8)	0,9
Foreign currency translation differences and other	(0,8)	0,7
Return on covered business	**15,8**	14,5

The Group's covered business operations (comprising 46% of GEV) achieved a good overall performance, exceeding the Group hurdle rate by a healthy margin despite the economic and currency headwinds faced in 2016. This was supported by a sterling return from the mature South African covered business operations of SPF, which exceeded the 14,1% hurdle rate by 7,3% with an overall return of 21,4% (20% on an adjusted basis). A strong VNB performance, positive operating experience variances and assumptions changes, tax changes and the positive effect of the lower RDR contributed to this performance. The weak investment return earned on the South African capital portfolio during 2016 suppressed Sanlam Corporate's covered business return to 7,8% given the large relative capital allocation to this business. SEM achieved a return of only 0,7% due to foreign currency translation losses – adjusted RoGEV of 21,1% was well in excess of its target. The Sanlam UK return on covered business of -24,7% (adjusted RoGEV of 9,6%) reflects the stronger rand exchange rate, but also operational underperformance emanating from the UK restructuring, lower than expected new business production and the strengthening of the reserving basis for regulatory changes (refer Earnings section below). The main items contributing to the return from covered business are:

- Value of new covered business: The strong new business performance of 2015 was maintained during 2016, with VNB on a consistent economic basis contributing 3,2% to the overall return.
- Operating experience variances improved markedly in the second half of 2016 compared to the first six months of the year. Risk experience at SPF, SEB and Namibia were particularly weak in the first half of 2016. This improved in the latter part of the year with all clusters reporting overall positive experience for the full 2016 year. Augmented by continued positive working capital and other experience, operating experience variances contributed 2,1% to RoGEV, at a similar level than 2015. Negative persistency experience of only R11 million is particularly satisfactory under current market conditions and testimony to the Group's focus on writing quality new business and maintaining a superior client experience.

Read more about the Group's client-centric approach and value proposition in the Value creation through the Sanlam business model section on page 54.

- Operating assumption changes made a similar contribution to RoGEV in 2016 than in the comparable 2015 period.
- The largest variances relate to economic assumption changes, investment variances and foreign currency translation differences. The lower RDR in 2016 supported the valuation of covered business in South Africa, partly reversing the negative economic assumption changes at the end of 2015 when long-term interest rates rose by 200bps. Negative investment variances largely reflect the weak equity market performance in South Africa and most of the Rest of Africa markets as well as the marked-to-market losses incurred on the non-South African exposure in the capital portfolio. The negative foreign currency translation differences reflect the negative impact of the stronger rand on the non-South African value of in-force covered business.

Capital allocated to covered business (adjusted net worth) increased only marginally on 2015, with Sanlam Life's capital requirement remaining unchanged (refer Capital management section below).

Other Group operations (comprising 46% of GEV) achieved a return of 10,5% (20,4% on an adjusted basis). The valuation and return of the South African businesses were positively impacted by the lower RDR, partly offset by low growth in assets under management at the SI asset management businesses. Foreign currency translation differences on the SEM and SI non-South African operations account for most of the difference between actual and adjusted RoGEV. All of the major businesses achieved good growth in adjusted RoGEV, apart from the following:

- Sanlam Investments' international businesses. The Sanlam UK businesses experienced expense overruns and weak new business growth during the restructuring process, which inevitably led to some internal focus. Assets under management at the Dublin platform business and the asset management businesses were impacted by large withdrawals from Sanlam FOUR and a repatriation of funds by South African clients (refer Business volumes section below).
- The Shriram Capital credit businesses, where a prudent valuation approach was followed in light of the uncertain impact that de-monetisation will have on the Indian economy and credit businesses in general.
- The general insurance operations of Pacific & Orient (P&O). Diversification of the P&O product lines is taking longer than expected, impacting negatively on the short-term growth prospects and valuation of the business.
- The Soras general insurance business, where financial irregularities uncovered during the year resulted in an impairment of the GEV valuation.

Central support functions at SEM were also strengthened during the year to more effectively support the expanding footprint. Capitalisation of the increased central support costs also had a negative impact on the non-life RoGEV returns, as the valuations do not explicitly allow for any potential future benefits arising from these initiatives.

The Group's investment in Santam is valued at its listed share price, which recorded a strong return of 32% in 2016 compared to a negative performance of 8,4% in 2015.

The low return on discretionary and other capital is essentially the combined effect of the following:

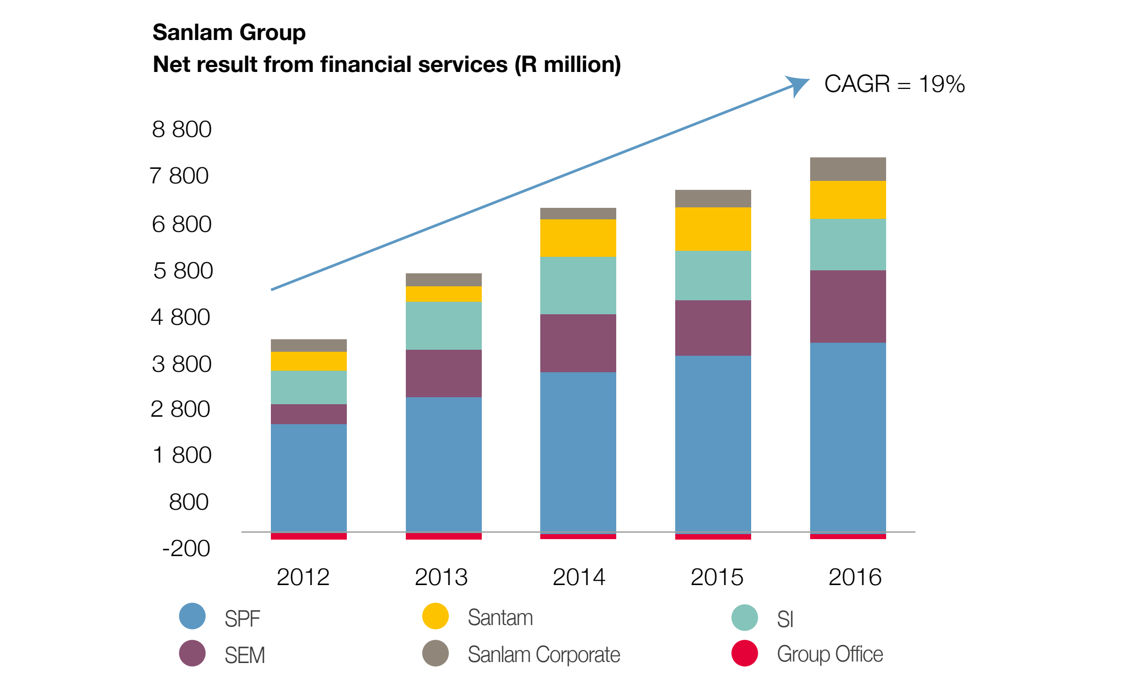
- Net corporate expenses of R107 million recognised in net result from financial services.
- A relatively low level of return earned on the portfolio's exposure to low yielding liquid assets.
- Hedging of the Saham Finances and Shriram Life and General Insurance transactions. (Refer Capital management section below.) The transactions were hedged through the acquisition of foreign currency, which earns a very low rate of interest due to the US Dollar denomination. The application of hedge accounting principles in the GEV presentation furthermore eliminated the foreign currency gains, essentially exposing the portfolio to some R5 billion of assets that earned close to zero return – R4 billion for two months (Saham Finances) and R1 billion for nine months (Shriram options).

Earnings

Shareholders' fund income statement for the year ended 31 December 2016

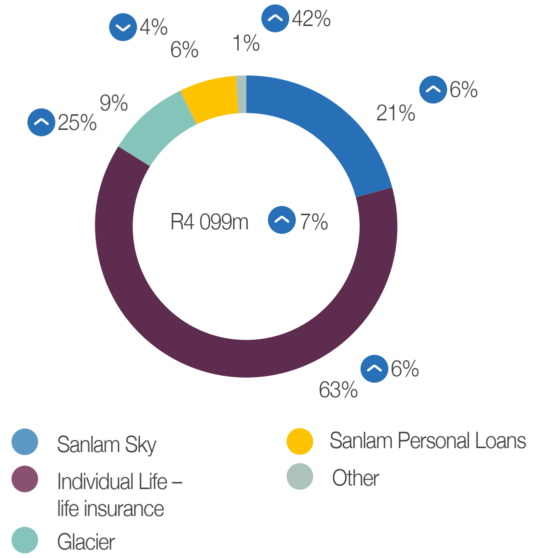
R million	2016	2015	
Net result from financial services	**7 969**	7 269	10%
Sanlam Personal Finance	**4 099**	3 818	7%
Sanlam Emerging Markets	**1 557**	1 197	30%
Sanlam Investments	**1 096**	1 056	4%
Santam	**814**	933	(13%)
Sanlam Corporate	**510**	374	36%
Group office and other	**(107)**	(109)	2%
Net investment return	**676**	1 946	(65%)
Project costs and amortisation	**(280)**	(321)	13%
Equity participation costs	**(5)**	(43)	88%
Normalised headline earnings	**8 360**	8 851	(6%)
Per share (cents)	**408,5**	432,5	(6%)

Net result from financial services (net operating profit) of R8 billion increased by 10% on 2015, with sterling contributions from SEM and Sanlam Corporate and solid performances by the other Group operations. Santam achieved lower operational earnings due to the normalisation in its underwriting margin from an exceptionally high base in 2015. Structural growth (Saham Finances, the Zimbabwean operations, Afrocentric and the 23% direct stakes acquired in Shriram Life Insurance and Shriram General Insurance) contributed R221 million to net result from financial services. Excluding these, organic growth of 7% represents a satisfactory performance in an unsupportive environment.



SPF delivered a solid performance for a largely mature business in an environment of stagnant economic growth and a weak equity market performance.

Sanlam Personal Finance
Net result from financial services (% contribution and growth on 2015)



Sanlam Individual Life remains the largest contributor to SPF's operating earnings with growth in its net result from financial services of 6% in 2016.

Profit from investment products declined by 2%, largely attributable to the impact of the weak equity market performance on assets under management, a relatively lower impact on profit from actuarial basis changes, a decline in asset mismatch profits and an acceleration in deferred acquisition cost amortisation following a rise in paid up and early retirement policies.

Profit from risk products declined by 53%, the combined effect of increased new business strain and weaker claims experience. The Group follows a prudent profit recognition approach for insurance contracts in terms of which all upfront acquisition costs are expensed instead of being capitalised and amortised over the duration of the contracts. The strong growth in new recurring premium risk business in 2016 (refer below) combined with the introduction of the RPF contributed to a 45% increase in new business strain. Mortality claims experience deteriorated significantly in the first half of 2016 after exceptionally favourable experience in 2015. Claims experience improved in the second half of the year, but were still at a lower overall level for the 2016 full-year compared to 2015.

Profit released from the asset mismatch reserve held in respect of non-participating risk business increased by 4% in line with the higher average level of this reserve during 2016.

Profit from the annuity book almost doubled due to increased risk margin releases in line with the larger size of the book, an increase in asset mismatch profits and higher spread generated by the newly established Central Credit Manager in SCM. Other life profits increased by 82%, benefiting from higher short-term interest rates through an 18% rise in working capital profit and lower negative actuarial basis changes in 2016 compared to the 2015 comparable period.

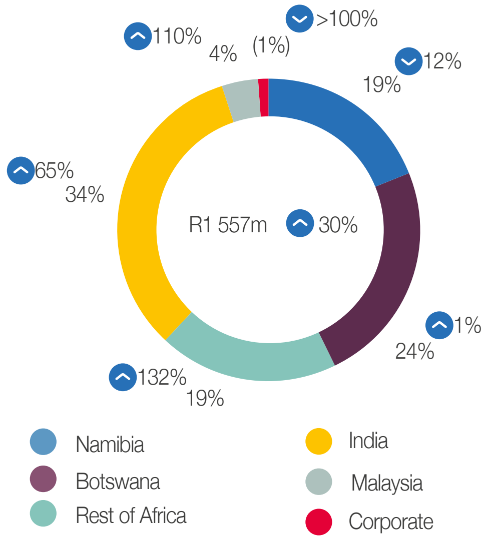
Sanlam Personal Loans profit declined by 4%, attributable to only a marginal increase in the size of the loan book. The implementation of the National Credit Amendment Act added substantially to the administration process surrounding loan applications and also introduced more strict affordability requirements. This resulted in a decline in activations, and also a decline in the number of clients qualifying for loans. Focus remained on maintaining the quality of the book. The bad debt ratio improved to 5,0% as a result, from 5,4% in 2015.

Sanlam Sky's net result from financial services increased by 6%. Growth in the size of the in-force book and positive mortality and persistency experience variances were somewhat offset by lower investment variances and economic assumption changes.

Glacier grew its profit contribution by 25% after tax. Fund-based fee income benefited from an increase in average assets under management. Stringent expense management and lower variable costs due to the lower level of growth in new business also supported the results.

SEM grew its net result from financial services by 30%, comprising organic growth of 18% and a 12% contribution from structural growth.

Sanlam Emerging Markets
Net result from financial services (% contribution and growth on 2015)



Namibia's net result from financial services declined by 12% (down 7% on a gross basis). Life earnings were suppressed by negative mortality and disability claims experience, an increase in new business strain following strong growth in entry-level market risk business and lower annuity mismatch profits. Santam Namibia also experienced a normalisation in underwriting margins, similar to Santam's South African operations. Bank Windhoek performed well and achieved double-digit profit growth.

The *Botswana* operations achieved mixed results with overall growth of only 1% in net result from financial services. Life insurance profit declined marginally due to lower annuity new business volumes and asset mismatch losses recognised following adverse movements in the yield curve. Letshego, the second largest profit contributor, experienced flat earnings compared to 2015. Increased competition from banks in Botswana limited growth in the loan book while foreign currency translation losses also dampened earnings growth. The asset management business experienced strong growth of 19%, benefiting from an increase in assets under management after being awarded a large new mandate by the Botswana Public Officers Pension Fund (BPOPF).

The *Rest of Africa* operations, excluding first time contributions of R112 million from Saham Finances and the Zimbabwe operations, achieved growth in net result from financial services of 45%. All countries delivered strong growth, apart from Malawi and Zambia. The general insurance operations in Malawi experienced pressure on claims, while Zambia continues to be impacted by a difficult operating environment. The Zimbabwean and Nigerian operations exceeded expectations, while Saham Finances performed only marginally below the business plan despite pressure on the Nigerian and Angolan operations that are affected by currency liquidity constraints and pressure on economic growth from lower oil prices.

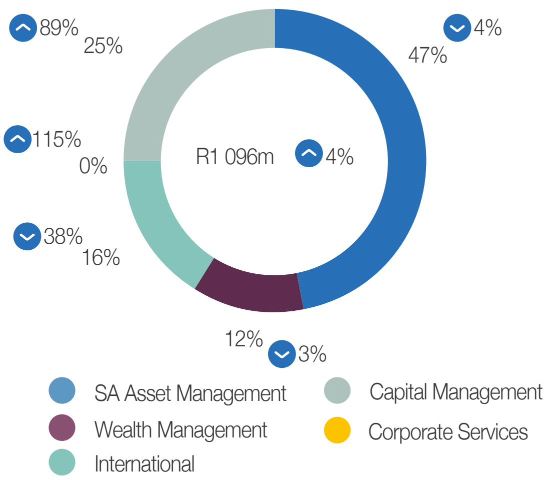
Net result from financial services in India rose 65%; 19% excluding profit contributed by the 23% direct stakes acquired in Shriram Life Insurance and Shriram General Insurance during the year as well as the R103 million equipment finance bad debt provision recognised in 2015, which did not reoccur in 2016. The credit businesses achieved strong growth pursuant to almost 20% growth in their loan books and an expansion in net interest margins. The general insurance business also contributed good growth despite higher than expected claims experience on the third party motor book, while the life insurance business incurred an operating loss due to increased new business strain and continued investment in expanding its distribution footprint.

The *Malaysian* businesses had a disappointing year, masked by one-off IBNR releases. Net result from financial services increased by 110%, the aggregate of more than threefold growth in general insurance earnings and a lower contribution from the life insurance business. Growth in general insurance business premiums remained under pressure, with diversification of the product lines taking longer than anticipated. This was however more than offset by releases of the IBNR reserves recognised in 2015 as experience develops. Product innovation is a key focus for the business to regain market share and to expand its product lines. A number of new products are planned for launch during 2017. The life insurance business had a difficult year with operating earnings declining by 38%. This is attributable to a number of one-off items:

- Higher reinsurance premiums payable in respect of Group Life products in terms of renewed treaties.
- Continued medical losses due to the delayed effect of repricing of the product while awaiting regulatory approvals. The approvals have recently been received.
- Strengthening of the reserving basis in a number of areas.

SI achieved overall growth of 4% in its net result from financial services, with an exceptional performance from Capital Management largely offset by a lower profit contribution from investment management.

Sanlam Investments
Net result from financial services (% contribution and growth on 2015)



Investment Management net result from financial services declined by 10% on 2015, predominantly caused by lower performance fees in the South African Asset Management business.

The ability of the South African Asset Management business to grow assets under management and fee income in 2016 was hampered by a number of factors:

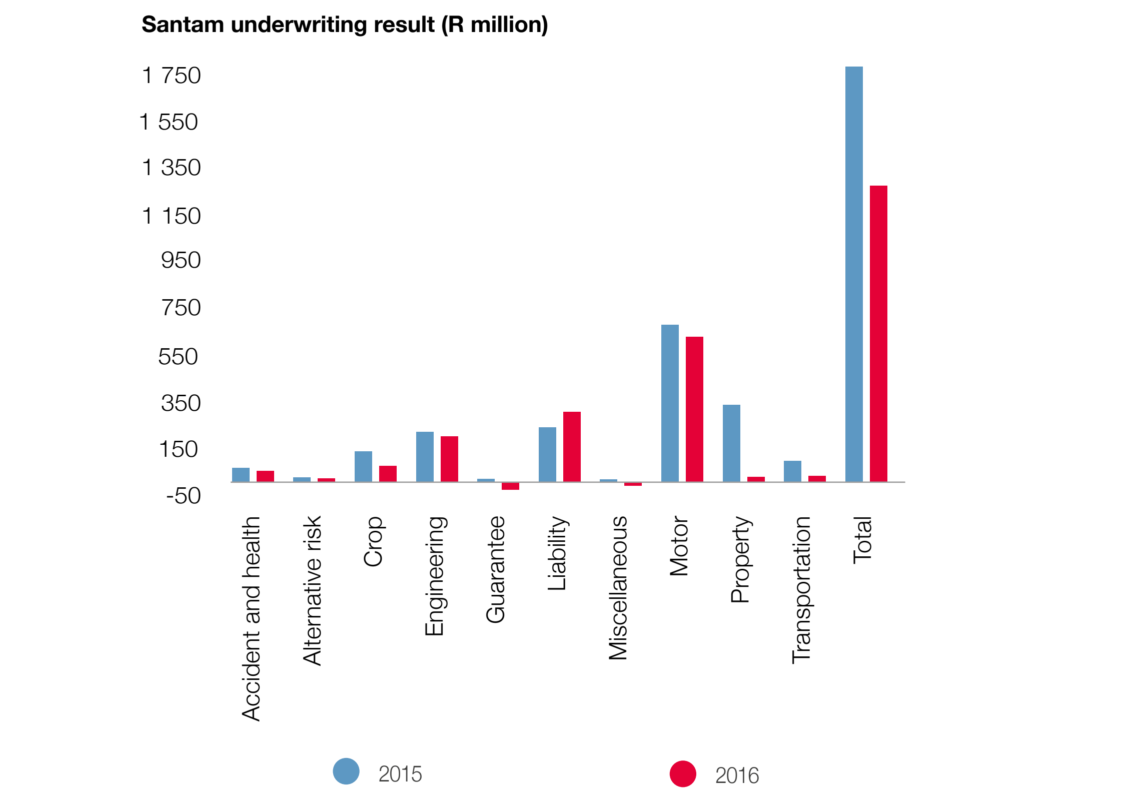
- The weak South African equity market performance in 2015 and 2016 impacted adversely on growth in assets under management with flat average market levels. Strong returns from the bond market could only compensate partially due to the lower fee base of the fixed interest asset class.
- Continued net outflows from the South African life book. The legacy life book managed by SI is running off while SPF's open architecture approach results in only a portion, albeit increasing, of its new business being managed by SI.
- The redeployment of discretionary capital during the year further reduced the SI asset base.
- Net performance fees declined by 41% from R214 million in 2015 to R127 million in 2016. Performance fees on the SPF and SEB portfolios are measured over a rolling 3-year period. The 2015 base still included the 2013 calendar year, which was a particularly strong year of outperformance. Its exclusion from the 2016 calculation muted growth in performance fees in 2016.

The impact of the weak equity markets on assets under management and related fee income was even more pronounced at the Wealth Management business given the larger exposure to equities in its underlying portfolios.

These businesses have done well to limit the decline in their operational earnings to only 4% under these conditions. This was achieved through diligent cost management and success in attracting higher margin retail flows (refer below).

The International business had a disappointing year, with net result from financial services declining by 38% on 2015. The weakening of the rand during 2015 caused breaches in a number of South African funds' foreign investment allowance, requiring a repatriation of assets from the international portfolios. This had a negative impact on administration and assets management fee income. Sanlam FOUR also experienced large outflows from its UK equity portfolio (refer below), further suppressing fee income growth. Sanlam UK earnings also came under pressure from one-off restructuring costs incurred in realigning the business for future growth, and strengthening of the reserving basis in the UK life operations following the introduction of regulatory caps on exit fees. The latter required an increase in policy liabilities of some R70 million, part of which is expected to emerge as positive experience in the future depending on persistency experience.

Capital Management achieved 89% growth in its net result from financial services. Credit spreads on Eurobonds narrowed during 2016 while commodity stock share prices linked to equity-backed financing structures rose sharply. This contributed to a reversal of the marked-to-market losses incurred on these instruments during the 2015 financial year, when credit spreads widened and share prices were under severe pressure.

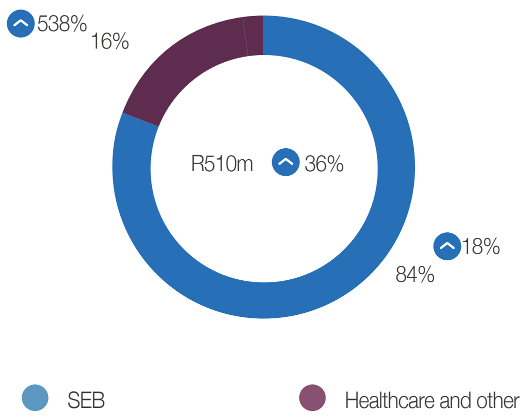


The underwriting margin at **Santam** normalised during 2016 to 6,4% from an exceptionally high base of 9,6% in 2015. The 2016 performance is in the middle of the target range of 4% to 8%, representing a solid performance. The benign claims environment of 2015 reversed with higher claims experienced across most lines of business. The crop and property business lines were severely affected by drought-related and large corporate claims respectively. Net premium growth was also less than planned for 2016 in a competitive environment for especially niche and specialist classes. Net result from financial services declined by 13% as a result.

Read more about Santam's performance in the Santam Integrated Report online at www.santam.co.za.

The 36% growth in **Sanlam Corporate**'s net result from financial services includes a first-time contribution of R82 million by Afrocentric (14% growth excluding Afrocentric). SEB's net result from financial services increased by 18%. SEB Investments benefited from asset mismatch profits, good mortality (annuity longevity) experience and lower new business strain, supporting a doubling in investment and other profit. Higher short-term interest rates increased interest earned on working capital by 38%. The retirement fund administration business on boarded a large new client, which increased administration fee income in 2016 and contributed to a pleasing decline in the business's operating loss from R18 million in 2015 to R5 million in 2016, which was partly offset by one-off system development costs. The adverse disability claims experience in the first half of 2016 improved in the second half of the year, but with this improvement partly offset by a few large mortality claims in December 2016. Group risk profits accordingly remained under pressure and declined by 38% compared to 2015.

Sanlam Corporate
Net result from financial services (% contribution and growth on 2015)

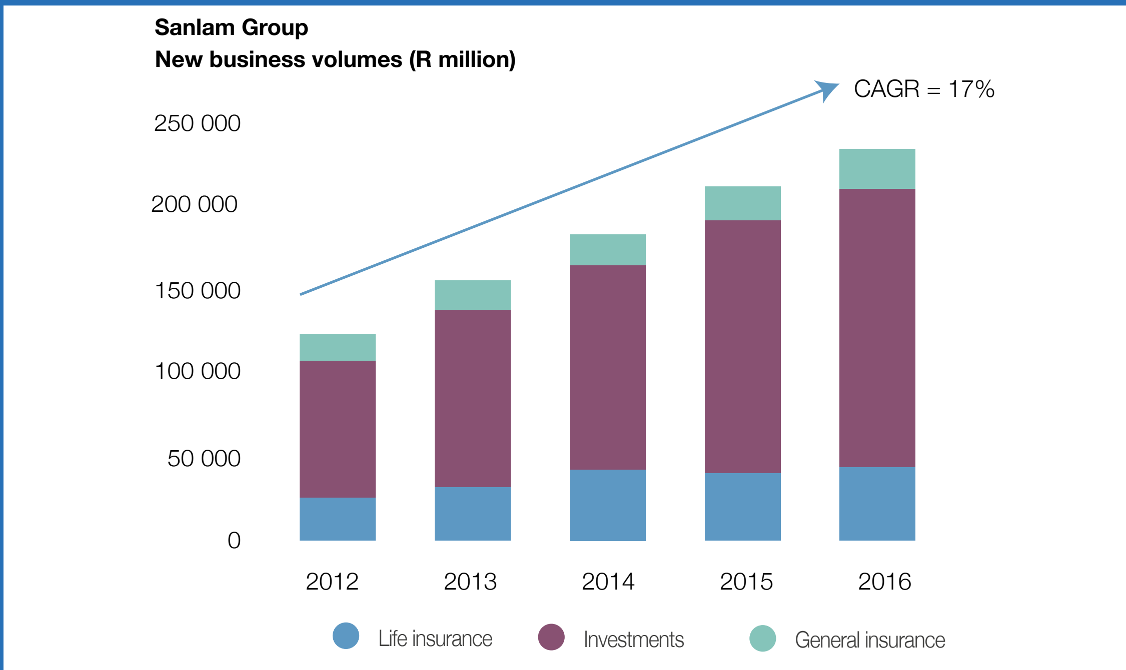


Normalised headline earnings of R8,4 billion are 6% down on 2015. This is the combined effect of the 10% increase in net result from financial services, a 65% decline in net investment return earned on the capital portfolio and an 22% decline in amortisation of intangible assets and equity participation costs. Net investment return was adversely affected by the following:

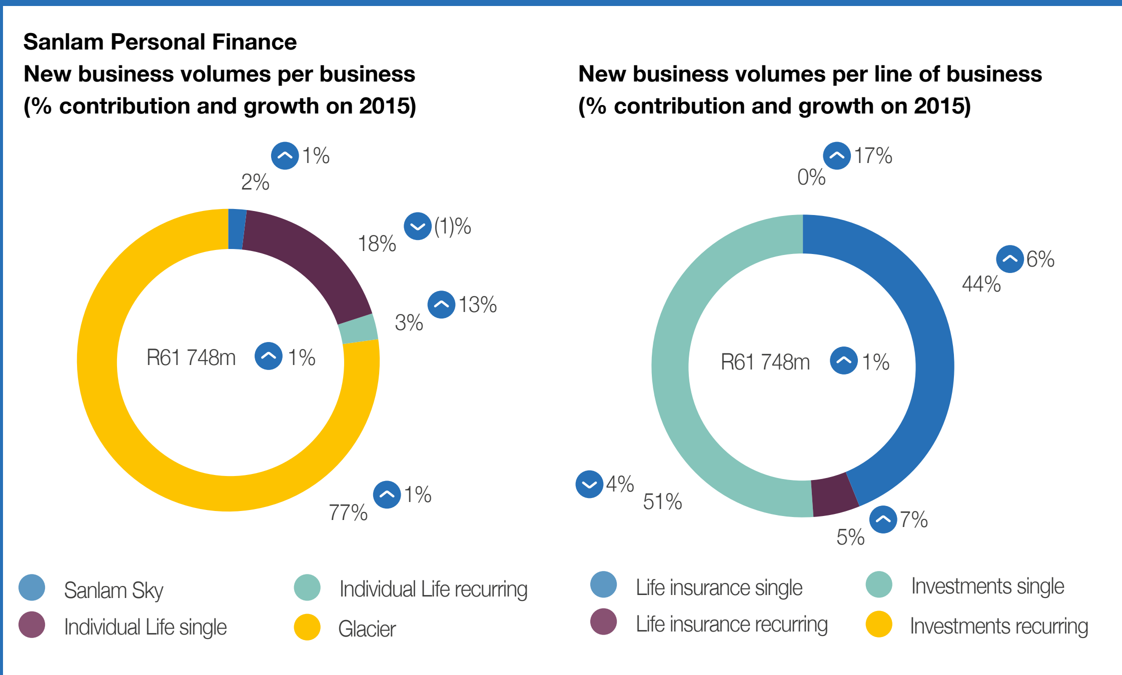
- The impact of the stronger rand on investment return earned on the international exposure in the South African portfolio;
- Weaker equity market returns in the major SEM geographies; and
- The additional deferred tax expense of R192 million recognised following the increase in the effective CGT rate from 19% to 22% during the first half of 2016.

Business volumes

The Group achieved overall growth of 11% in new business volumes, a credible performance. Excluding first-time contributions from structural growth, new business volumes increased by 9%. Life insurance new business volumes increased by 9%, investment business inflows by 10% and general insurance earned premiums by 18% (7% excluding structural growth). Structural growth did not contribute significantly to life insurance and investment new business.



SPF's new business sales grew by 1%, with lower discretionary single premium volumes concealing a strong recurring premium performance.



Sanlam Sky new business increased by 1%. Major progress was made in improving the mix of business between risk and savings solutions after disproportionate sales of tax free savings products in 2015. The design of the savings solution was also amended during 2016 as much weaker than expected persistency experience rendered the original product launched in 2015 unprofitable. Individual life recurring premium new business declined marginally due to the management actions implemented to improve the mix of business. Individual life risk business sales increased by a healthy 13%, offset by a 43% decline in savings business. The change in mix had a significant positive impact on VNB (refer below). Group recurring premium sales were supported by a few large new schemes written by Safrican during 2016 and increased by 17%, excluding the impact of the biennial renewal of the ZCC scheme that occurred in 2015. Including the ZCC, group recurring premium business increased by 8%.

New business volumes in the *Individual Life* segment, which is largely focused on the middle income segment in South Africa, increased by 1%. Single premium sales declined by 1%, the combined effect of some pressure on disposable income and increased investor risk aversion in the uncertain political and investment market environment. Guaranteed plan business did well under these conditions and increased by 9%, but was more than offset by lower sales of the other major product lines. New recurring premium sales grew by a strong 13%, with all lines of business contributing to the growth apart from credit life that reflects the low level of growth in the Sanlam Personal Loans book. Growth in sales of the more profitable risk business remained particularly strong at 20% following recent product innovation and improvements, and enhanced distribution focus. VNB benefited as a result (refer below), but new business strain recognised in operating earnings increased commensurately as highlighted above.

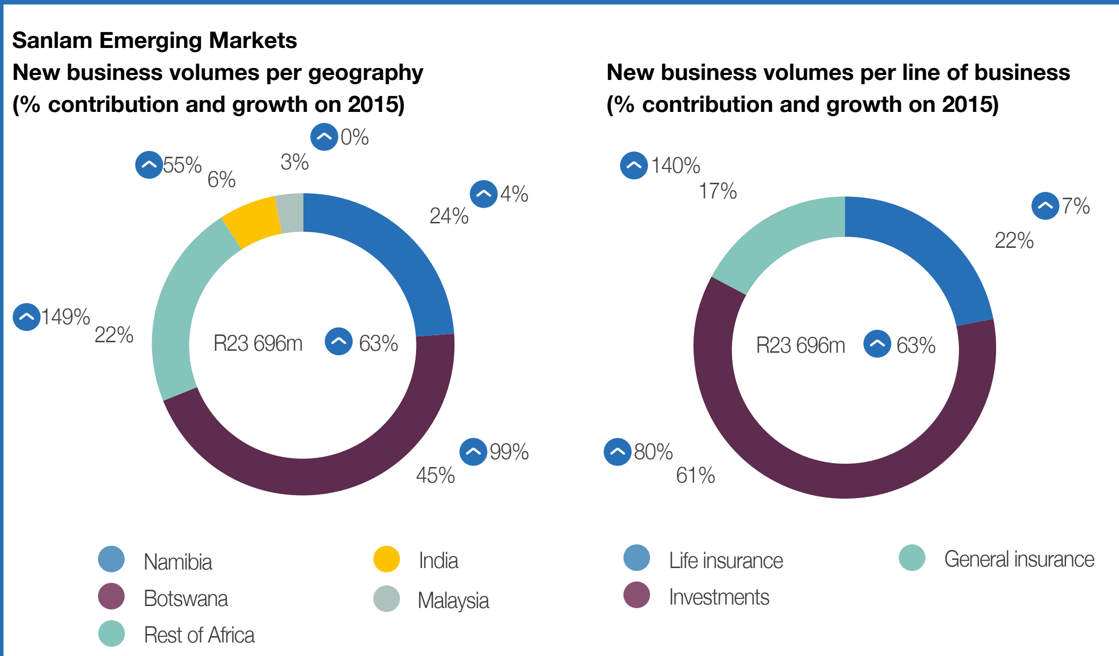
Glacier was also severely impacted by the heightened investor risk aversion, contributing to a 12% decline in discretionary non-life new business sales (excluding wrap funds). Demand for life licence and wrap solutions were more resilient with new business volumes increasing by 11% and 7% respectively. Within the life insurance sales, demand for both offshore and local funds persisted.

Financial review continued

The slowdown in single premium business had a negative impact on SPF's net fund inflows, which declined from R22 billion in 2015 to R16 billion in 2016.

SEM new business volumes grew by 63% (47% excluding structural growth). New life business increased by 7% (4% excluding structural growth), investment business inflows by 80% and general insurance earned premiums by 140% (10% excluding structural growth).

New business volumes in *Namibia* increased by 4%, the combined result of 16% and 1% growth in new life and investment business respectively. Entry-level market life business sales performed particularly well, supporting growth in the Namibian VNB (refer below). The low growth in investment business is attributable to only marginal growth in both collective investment scheme inflows and Glacier Namibia new business.



The *Botswana* operations almost doubled their new business contribution. This is largely attributable to a R4,6 billion asset management mandate received from the BPOPF, a welcome development after the large withdrawals by the BPOPF in 2015. Annuity sales declined from a high base in 2015, contributing to an overall 19% decline in life insurance new business.

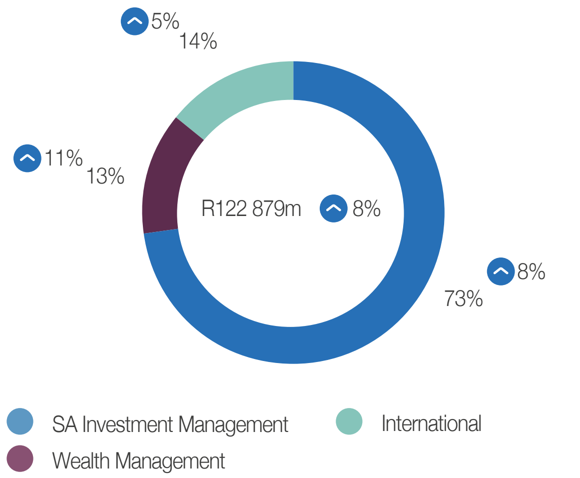
Rest of Africa new business volumes grew by 149%, supported by the first-time inclusion of Saham Finances and Zimbabwe. Excluding structural growth, new business volumes increased by 51%. All countries in the region contributed to the growth, apart from Zambia and Malawi. In Zambia, the operating environment remains under pressure from low copper prices, presenting headwinds to growth in new business volumes. In Malawi, general insurance premiums were under pressure, more than offsetting good growth in life business. The Kenyan business achieved good growth in single premium life and general insurance business, augmented by a threefold rise in new investment management mandates. Individual life recurring premium life sales, however, remained under pressure following a change in the agency remuneration model and declined by 17%. Particularly pleasing is the performance of the Nigerian business, which grew its new business contribution by 52% to R407 million despite a sluggish economy and a significantly weaker currency. This illustrates the benefits of low insurance penetration in Africa that enables the Group to maintain good growth despite a weaker economic environment.

Strong growth in *Indian* new business persisted, with overall growth of 55% in 2016 (21% excluding structural growth). New life and general insurance business sales increased by 86% (49% excluding structural growth) and 44% (10% excluding structural growth) respectively. The life business continued to benefit from the investments made in growing its distribution footprint. Organic growth in general insurance was less than expected due to slow progress in expanding the product mix to include new and more profitable lines of business.

New business volumes in *Malaysia* were in line with the 2015 financial year. The life business had a good sales year, experiencing growth of 22%. Pacific & Orient, however, disappointed with a 17% decline in net earned premiums. Progress with diversifying the lines of business was slower than anticipated, aggravated by some market share losses in its traditional two-wheeler line of business. Management focus in 2017 will be on accelerated diversification and effectively responding to the de-tariffing of the general insurance industry in Malaysia.

Net fund flows staged a recovery from net outflows of R7 billion in 2015 to R11 billion of net inflows in 2016. This is the combination of strong new business growth in 2016 and the large withdrawals by the BPOPF included in the 2015 comparative base.

Sanlam Investments
New business volumes (% contribution and growth on 2015)



SI's new business growth of 8% represents a satisfactory performance given the difficult operating environment during 2016. Retail and institutional clients in South Africa took a cautious stance given political and investment market instability. The SA Investment Management business struggled to win new third party mandates under these conditions as especially pension fund trustees refrained from changing mandates and asset managers. The implemented consulting product offering, however, continued to gain traction, contributing to good growth in primary retail inflows as well as an increase in the proportion of funds invested in SI products. This supported satisfactory growth of 8% in new inflows at the SA Investment Management business. The Wealth Management business did particularly well to grow by 11% despite the heightened investor risk aversion. The international businesses achieved new business growth of only 5% as management focus was partly on the restructuring.

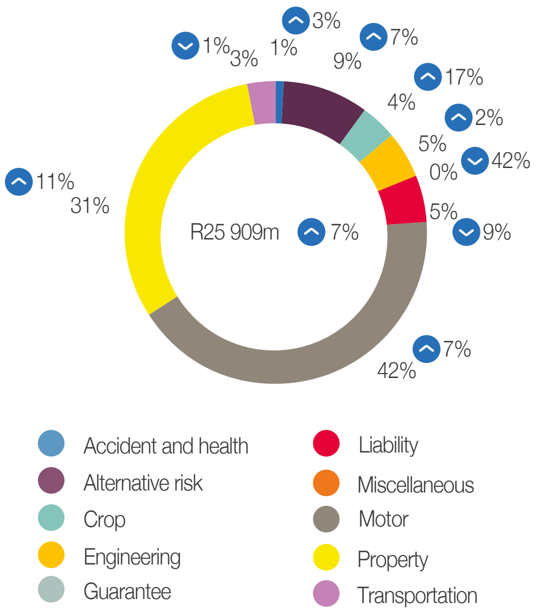
Net fund inflows improved from a R3 billion net outflow in 2015 to a net inflow of R5 billion in 2016. The turnaround is largely attributable to the R14 billion withdrawals by the BPOPF and the Public Investment Corporation included in the 2015 results. The International businesses experienced net outflows of some R5 billion in 2016, largely from Sanlam FOUR's UK equity portfolio which underperformed in the aftermath of the Brexit vote due to its exposure to UK small caps.

Financial review continued

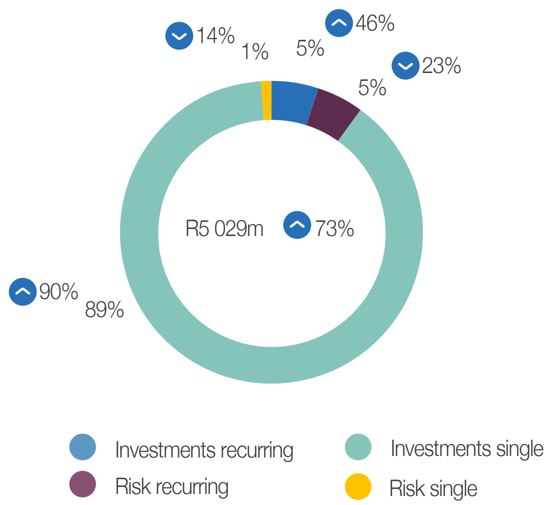
The majority of **Santam's** premiums are still written in the highly competitive South African market, where the niche classes were in particular under pressure. Gross written premiums and net earned premiums grew by 7%, reflecting the maturity of the South African market, competitive pressures and the current low-growth economic environment. MiWay, Santam's direct insurance business, continues to achieve strong growth and increased its premium base by 19%.

Sanlam Corporate achieved growth of 73% in new business volumes, with net fund flows commensurately improving from a R489 million net outflow in 2015 to net inflows of R1,4 billion in 2016. Linked and smoothed bonus investment business did well, but the more profitable recurring premium risk business declined by 23% as competitive market pressures to retain existing business persisted.

Santam
Gross written premiums
(% contribution and growth on 2015)



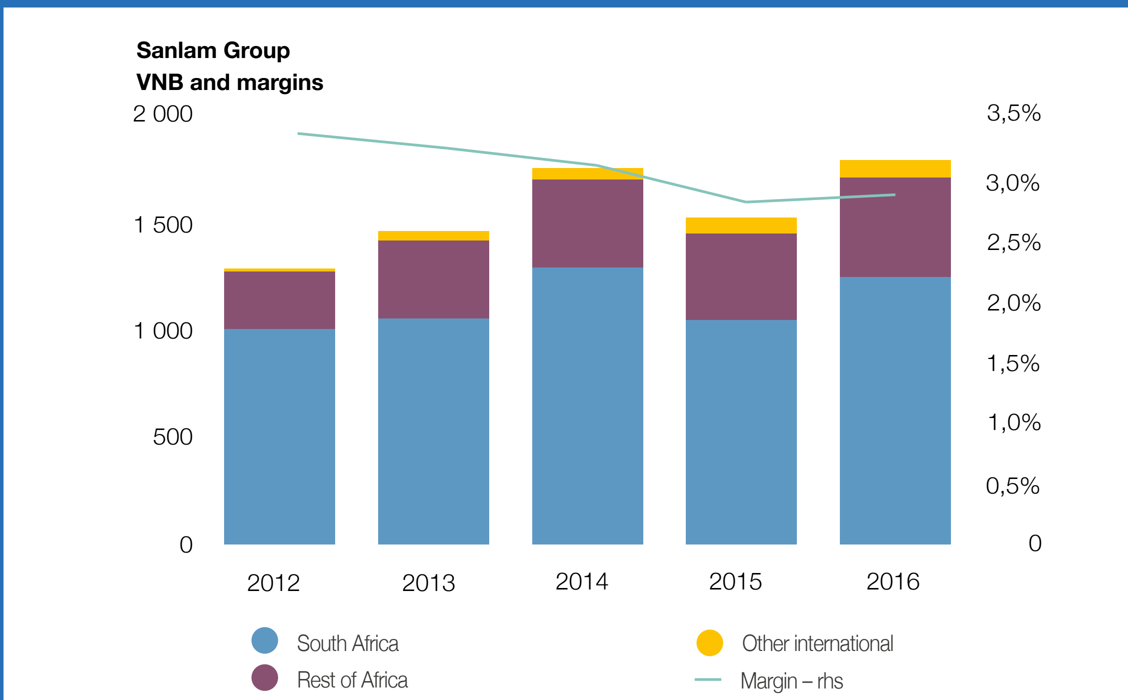
Sanlam Corporate
New business volumes
(% contribution and growth on 2015)



Overall net fund inflows of R41 billion in 2016 is a satisfactory performance given the challenging market conditions.

Business volumes for the year ended 31 December 2016

	New business			Net inflows		
R million	**2016**	**2015**	**%**	**2016**	**2015**	**%**
Sanlam Personal Finance	**61 748**	61 173	1	**16 493**	22 142	(26)
Sanlam Emerging Markets	**23 696**	14 565	63	**10 929**	(6 593)	> 100
Sanlam Investments	**122 879**	113 669	8	**5 215**	(3 023)	> 100
Santam	**19 826**	18 522	7	**6 915**	7 012	(1)
Sanlam Corporate	**5 029**	2 913	73	**1 369**	(489)	> 100
Total	**233 178**	210 842	11	**40 921**	19 049	115
Covered business	**43 599**	39 976	9	**11 356**	12 081	(6)
Investment business	**165 740**	150 670	10	**21 169**	(523)	> 100
General insurance	**23 839**	20 196	18	**8 396**	7 491	12
Total	**233 178**	210 842	11	**40 921**	19 049	115



The discount rate used to determine VNB is directly linked to long-term interest rates. The 90bps and 100bps decline in the South African nine- and five-year benchmark rates respectively during 2016 resulted in a commensurate decline in the risk discount rate with a positive impact on VNB growth and margins. In general, VNB margins were maintained on a per product basis. Changes in business mix at SPF had a significant positive impact on the Group's VNB performance in 2016, augmented by strong organic growth at SEM. Net VNB at actual discount rates increased by 18%. On a comparable basis (before economic assumption changes) net VNB increased by a pleasing 10%.

Financial review continued

SPF achieved overall growth of 11% on a comparable basis. The change in business mix in Sanlam Sky, together with an improvement in the profitability of the savings product, contributed to a 27% increase in its VNB contribution and an increase in VNB margin from 5,86% in 2015 to 6,8% in 2016 on a consistent economic basis. The good growth in new risk business in Individual Life similarly supported VNB, with this segment's contribution increasing by 9% on a comparable basis despite only marginal overall growth in new business sales. Individual Life VNB margins improved from 2,59% to 2,70%. Glacier's VNB growth was in line with its new business performance.

Net VNB at **SEM** grew by 19% on a comparable basis, with strong growth in Namibia, Nigeria, Tanzania, Uganda, India and Malaysia in line with these regions' new life business performance. Saham Finances made a first-time contribution of R16 million. Malawi reported lower VNB compared to 2015 due to an adverse change in business mix. Kenya disappointed with a negative VNB contribution of R7 million as lower individual life recurring premium business resulted in an increase in maintenance unit costs. Management focus remains on improving the new business performance.

SI's VNB declined by 73%, principally due to a 15% decline in life insurance new business in the UK and an increase in the cost of capital allowance.

Sanlam Corporate VNB declined by 5% on a comparable basis, due to the change in mix towards less profitable savings business.

Value of new covered business for the year ended 31 December 2016

	2016 economic basis			2015 economic basis		
R million	**2016**	**2015**		**2016**	**2015**	
Value of new covered business	1 779	1 514	18%	1 670	1 514	10%
Sanlam Personal Finance	1 163	955	22%	1 062	955	11%
Sanlam Emerging Markets	533	448	19%	520	448	16%
Sanlam Investments	7	26	(73%)	7	26	(73%)
Sanlam Corporate	76	85	(11%)	81	85	(5%)
Net of non-controlling interest	1 605	1 360	18%	1 501	1 360	10%
Present value of new business premiums	62 383	54 362	15%	61 763	54 362	14%
Sanlam Personal Finance	41 507	38 041	9%	40 952	38 041	8%
Sanlam Emerging Markets	9 654	8 041	20%	9 590	8 041	19%
Sanlam Investments	3 411	3 947	(14%)	3 411	3 947	(14%)
Sanlam Corporate	7 811	4 333	80%	7 810	4 333	80%
Net of non-controlling interest	59 556	51 856	15%	58 684	51 856	13%
New covered business margin	2,85%	2,79%		2,70%	2,79%	
Sanlam Personal Finance	2,80%	2,51%		2,59%	2,51%	
Sanlam Emerging Markets	5,52%	5,57%		5,42%	5,58%	
Sanlam Investments	0,21%	0,66%		0,21%	0,66%	
Sanlam Corporate	0,97%	1,96%		1,04%	1,96%	
Net of non-controlling interest	2,69%	2,62%		2,56%	2,62%	

Capital management

Solvency Assessment and Management

The South African insurance industry performed parallel solvency reporting during 2016 to prepare for the implementation of the new Solvency Assessment and Management (SAM) regime in 2017. The SAM regime is anticipated to replace the current Financial Soundness Valuation (FSV) solvency regime in the second half of 2017. As highlighted in previous communication, SAM is a risk-based solvency regime founded on the European Solvency II principles, but adapted for South African circumstances.

The initial focus of Sanlam's SAM programme was to prepare the Group and the South African insurance subsidiaries for SAM compliance. In a second phase, the strategic asset allocation of the balanced portfolio supporting Sanlam Life's covered business was amended during the 2015 financial year to optimise the capital base from a RoGEV perspective in line with the pending SAM environment. SAM is significantly more punitive in respect of unhedged equity exposures than FSV and accordingly require a more conservative asset allocation. Implementation of the revised strategic asset allocation (illustrated in the table below) concluded in the first half of 2016.

Asset class	%
Balanced portfolio	
Equities	–
Offshore investments	8
Hedged equities	80
Zero cost collars providing a 100% floor	60
Fences (100/80 and/or 100/85)	20
Cash	12
Total balanced portfolio	100
Subordinated debt	
Fixed interest	100
Total subordinated debt	100

For Sanlam Life, the Group's target under the FSV basis was to ensure that its CAR cover would be at least 1,5 times over a 10-year period, within a 95% confidence level. At the end of 2015 this translated into IFRS-based required capital of some R14,5 billion for Sanlam Life's life insurance business, which was covered as follows:

- R2,5 billion by Santam shares;
- R2 billion by the subordinated debt issued by Sanlam Life; and
- R10 billion by the balanced portfolio.

A prudent approach was followed in determining required capital at the end of 2015 as further modelling capability and certainty on the final SAM standard formula were required to confirm the level of required capital under SAM.

The third phase of the SAM programme involved expansion of the Group's capital management projection capability, specifically adapted for SAM. Good progress has been made during 2016 in this regard, which enabled the Group to set an appropriate level of IFRS required capital for Sanlam Life's covered business under SAM, based on the following principles:

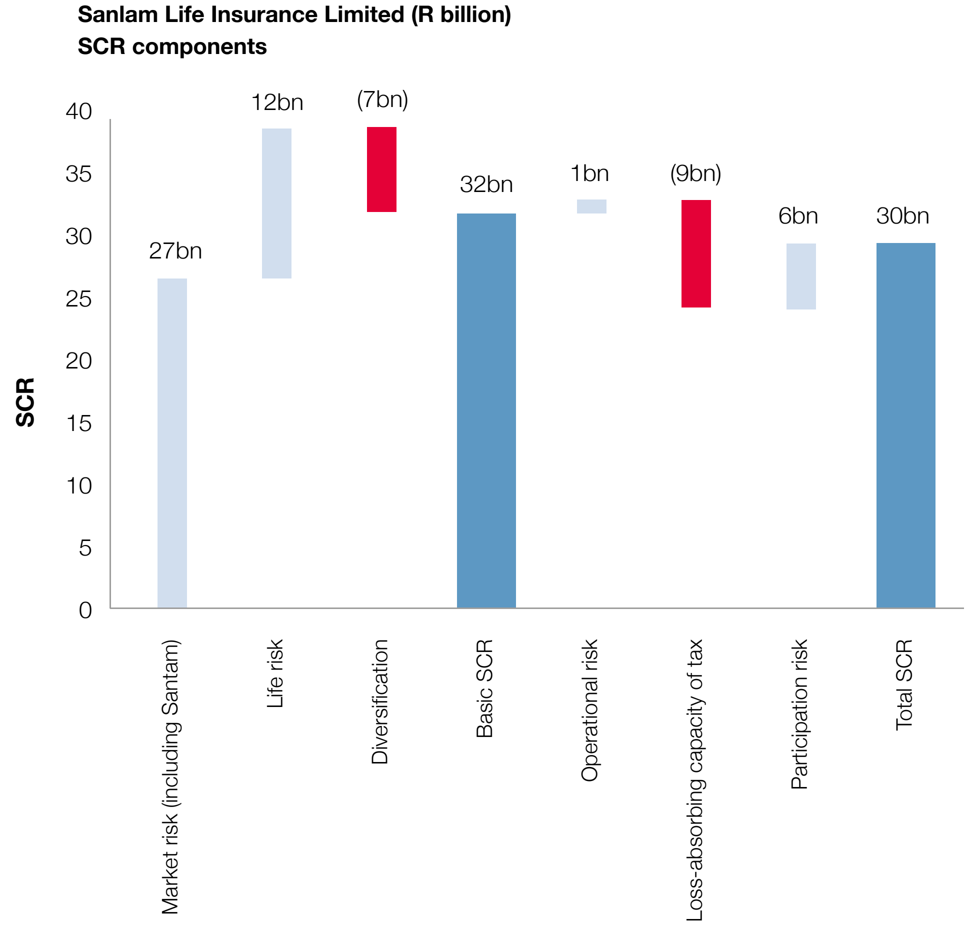
- A SAM Solvency Capital Requirement (SCR) cover range of between 1,7 times and 2,1 times is targeted over a 10-year projection period. At the lower end of the range Sanlam Life's covered business should be able to withstand two economic shock scenarios before reaching the minimum 1 times SCR cover (refer page 17 of the Capital and Risk Management report in the Annual Financial Statements online for a description of the shock scenario).
- Investment return earned on the balanced portfolio is excluded from the projections. Actual investment return earned will therefore be available for release to discretionary capital on an annual basis under normal circumstances. In severe scenarios that result in a breach of the lower threshold, investment return can be retained in the portfolio to restore the SCR cover to the lower end of the range. This allows for increased capital management flexibility.
- Transfers to discretionary capital will occur when the upper limit of the target range is breached over the full 10-year projection period.

The IFRS required capital for Sanlam Life's covered business has been set at R12 billion at 31 December 2016, covered by the R2 billion subordinated debt and R10 billion in the balanced portfolio.

On this basis, the SAM cover ratio for Sanlam Life's covered business amounted to 2,2 times on 31 December 2016. Including Sanlam Life's investments in Group businesses, the discretionary capital held on its balance sheet as well as the cash held for the anticipated dividend payment to Sanlam Limited in 2017, the SCR cover for the Sanlam Life legal entity (solo) amounted to 3,1 times on 31 December 2016. The solo solvency ratio will be reported to the regulator once SAM is effective and will also be relevant for clients, market participants and credit rating agencies in evaluating Sanlam Life's credit risk. The graphic below illustrates the build-up of Sanlam Life's available capital (own funds) and SCR cover.

Analysis of SAM solvency position as at 31 December 2016

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



SAM also requires the calculation of a Group solvency position, which is likely to become the more relevant solvency measure over time. The Sanlam Group had a healthy SCR cover of 2,2 times at 31 December 2016. The principle reason for the lower Group SCR cover compared to Sanlam Life, is the inclusion of Santam in the Group position. General insurance business can be conducted at lower cover ratios than life business given its different risk profile. Santam's well diversified book further reduces its capital requirement and hence SCR cover ratio. At a Group level a prudent approach was also followed by not including the Santam surplus capital, thereby effectively including it at a 1 times cover ratio.

Read more about the SAM solvency position in the Capital and Risk Management Report included in the online Annual Financial Statements.

Sanlam Life's capital requirement is expected to reduce over the next few years as the more capital intensive legacy business continue to decline as a proportion of the overall life book, settling at around R8 billion. The capital modelling conducted during 2016 indicate that, together with expected investment return to be earned on the balanced portfolio, between R500 million and R1 billion could be released per annum over the next four years to augment the discretionary capital available for deployment, assuming no significant change in regulations. Focus will also be placed in 2017 on opportunities to further optimise the capital position of the other South African life insurance licences.

The fourth phase of the SAM programme was also launched during 2016, focusing on optimising balance sheet management. The introduction of the Central Credit Management function in SCM is the first initiative flowing from this work.

Read more about the Central Credit Manager in the Operational Review by the Group Chief Executive from page 118.

Discretionary capital

The Group started the year with discretionary capital of R2,3 billion, which was earmarked for new growth and expansion opportunities as well as to strengthen existing relationships. This balance excluded the capital allocated for the Saham Finances transaction announced in 2015 and the acquisition of 23% direct stakes in Shriram Life Insurance and Shriram General Insurance. These transactions were concluded and payment made during 2016.

A net total of R3,4 billion was redeployed in 2016 in respect of new transactions, which included the following:

- An additional investment in Saham Finances was announced in December 2016. In terms of this second transaction, the Group will acquire a further 16,6% stake for some R4,6 billion. At least R2,7 billion will be funded from discretionary capital and has been formally allocated as such from the available discretionary capital, with the remainder to be funded through the raising of debt. The acquisition price is payable in US Dollars, which the Group hedged in the latter part of 2016 and beginning of 2017.
- In January 2017 SPF announced the acquisition of a 53% stake in BrightRock for some R700 million. BrightRock is an innovative provider of unique needs-based life insurance cover in South Africa that adapts in line with changing client needs. The BrightRock products will augment SPF's existing risk product offering and is expected to enhance SPF's market share of this profitable line of business. (Read more about the BrightRock acquisition in the Strategic Review by the Group Chief Executive on page 114.)
- SI concluded a number of smaller transactions, including:
  - A R150 million investment in Brackenham, a private client wealth management business.
  - An effective 49% shareholding in FirstGlobal Asset Management, a South African asset management company which also renders intermediary services in relation to participatory interests in collective investment schemes. The total acquisition consideration was R56 million.
  - The acquisition of the minority shareholders' interest in Blue Ink for R39 million.
  - R18 million for investment in its international asset managers, to set up an African wealth management business and for trail payments for the acquisition of the Vukile property management agreement.
- Some R140 million was invested by SEM to bolster the capital position of its Rwanda operations and to expand its bancassurance arrangement with Standard Chartered Bank to general insurance business.
- The disposal of SPF's interest in Anglo African Finance and Santam's contribution to SEM general insurance transactions during 2016 (including Shriram General Insurance) generated some R360 million of discretionary capital.

The discretionary capital portfolio was augmented by the following inflows:

- Sanlam's share of the Santam special dividend payment in 2016 amounted to R542 million.
- The investment return of R182 million earned on the Sanlam Life balanced portfolio was released to discretionary capital as the balance required in the portfolio remained unchanged at R10 billion.
- Some illiquid investments were disposed of, generating some R150 million.
- The 2015 dividend cover in excess of cash operating earnings and other smaller items added some R800 million.

Together with investment return earned on the discretionary capital portfolio, unallocated discretionary capital amounted to R550 million at the end of December 2016. Further discretionary capital is expected to be generated in 2017 through a release from the Sanlam Life balanced portfolio (refer above) as well as the 2016 excess dividend cover of some R700 million. Discretionary capital remains earmarked to be utilised for value-accretive investment opportunities.

Solvency

All of the life insurance businesses within the Group were sufficiently capitalised at the end of December 2016. The total admissible regulatory capital (including identified discretionary capital) of Sanlam Life Insurance Limited, the holding company of the Group's major life insurance subsidiaries, of R46,9 billion, covered its capital adequacy requirements (CAR) 5,8 times.

The Group's solvency position under the new SAM regime is also healthy, as indicated above.

Standard & Poors issued the following credit ratings to the Group during 2016: Sanlam Limited: South Africa National: zaA; Sanlam Life Insurance Limited: South Africa National: zaAAA, Subordinated debt: zaAA-.

Dividend

The Group only declares an annual dividend due to the costs involved in distributing an interim dividend to our large shareholder base. Sustainable growth in dividend payments is an important consideration for the Board in determining the dividend for the year. The Board uses cash operating earnings as a guideline in setting the level of the normal dividend, subject to the Group's liquidity and solvency requirements. Dividend cover of cash operating earnings is managed broadly within a 1 to 1,1 times range to target consistent real growth in the Group's normal dividend payment. The operational performance of the Group in the 2016 financial year enabled the Board to increase the normal dividend per share by 9,4% to 268 cents. This will maintain a cash operating earnings cover of approximately 1,1 times. The South African dividend withholding tax regime applies in respect of this dividend. The dividend does not carry any STC credits and will in full be subject to the 20% withholding tax, where applicable.

Shareholders are advised that the final cash dividend of 268 cents for the year ended 31 December 2016 is payable on Monday, 10 April 2017 by way of electronic bank transfers to ordinary shareholders recorded in the register of Sanlam at close of business on Friday, 7 April 2017. The last date to trade to qualify for this dividend will be Tuesday, 4 April 2017, and Sanlam shares will trade ex-dividend from Wednesday, 5 April 2017.

Share certificates may not be dematerialised or rematerialised between Wednesday, 5 April 2017 and Friday, 7 April 2017, both days included.

SHAREHOLDERS' INFORMATION

Independent auditor's report on the Sanlam Limited Shareholders' Information

To the directors of Sanlam Limited

Opinion

We have audited the Sanlam Limited Shareholders' Information ("Shareholders' Information") of Sanlam Limited set out on pages 164 to 221 for the year ended 31 December 2016, comprising Group Equity Value, Change in Group Equity Value, Return on Group Equity Value, Group Equity Value sensitivity analysis, Shareholders' fund at fair value, Shareholders' fund at net asset value; Shareholders' fund income statement; Embedded value of covered business; Change in embedded value of covered business; Value of new business; and notes to the embedded value of covered business and a summary of significant accounting policies and other explanatory information. In our opinion, the accompanying Shareholders' Information of Sanlam Limited for the year ended 31 December 2016 is prepared, in all material respects, in accordance with the basis of accounting described on pages 164 to 171 of the Shareholders' Information.

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 Shareholders' Information section of our report. We are independent of Sanlam Limited in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code), the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC Code) and other independence requirements applicable to performing the audit of Sanlam Limited. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, the IFAC Code, and in accordance with other ethical requirements applicable to performing the audit of Sanlam Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to pages 164 to 171 of the Shareholders' Information which describes the basis of accounting. The Shareholders' Information is prepared to provide additional information in respect of the Group Shareholders' Fund in a format that corresponds with that used by management in evaluating the performance of the Group. As a result, the Shareholders' Information may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation of the Shareholders' Information in accordance with the basis of accounting described on pages 164 to 171, for determining that the basis of accounting is acceptable in the circumstances and for such internal control as the directors determine is necessary to enable the preparation of the Shareholders' Information that is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Shareholders' Information

Our objectives are to obtain reasonable assurance about whether the Shareholders' Information 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 the Shareholders' Information.

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 Shareholders' Information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Shareholders' Information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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.

Other matter

Sanlam Limited has prepared a separate set of consolidated and separate annual financial statements for the year ended 31 December 2016, in accordance with International Financial Reporting Standards, on which we issued a separate auditor's report to the shareholders of Sanlam Limited, dated 8 March 2017.

Ernst & Young Inc.

Ernst & Young Inc.

Director: Johanna Cornelia de Villiers
Registered Auditor
Chartered Accountant (SA)

Ernst & Young House
35 Lower Long Street
Cape Town

8 March 2017

Basis of accounting – Shareholders' information

The purpose of this section is to provide additional information to users in respect of the Group shareholders' fund in a format that corresponds to that used by management in evaluating the performance of the Group and is additional information to the financial statements prepared in terms of IFRS.

It includes analyses of the Group shareholders' fund's consolidated financial position and results in a similar format to that used by the Group for internal management purposes. The Group Annual Financial Statements are prepared in accordance with IFRS and include the consolidated results and financial position of both the shareholder and policyholder activities. The IFRS financial statements also do not distinguish between the shareholders' operational and investment activities, which are separate areas of management focus and an important distinction in evaluating the Sanlam Group's financial performance. Information is presented in this section to provide this additional shareholders' fund information to users of Sanlam's financial information.

The Group also discloses Group Equity Value (GEV) information. The Group's key strategic objective is to maximise returns to shareholders. GEV has been identified by management as the primary measure of value, and return on GEV (RoGEV) is used by the Group as the main performance measure to evaluate the success of its strategies towards sustainable value creation in excess of its cost of capital. In the directors' view GEV more accurately reflects the performance of the Group than results presented under IFRS and provides a more meaningful basis of reporting the underlying value of the Group's operations and the related performance drivers. This basis allows more explicitly for the impact of uncertainty in future investment returns and is consistent with the Group's operational management structure.

The shareholders' information also includes the embedded value of covered business (EV), change in EV and value of new business.

A glossary containing explanations of technical terms used in these financial statements is presented on page 248.

Basis of accounting – Shareholders' information

The basis of accounting and accounting policies in respect of the financial information of the shareholders' fund are the same as those set out on pages 64 to 77 of the Annual Financial Statements, apart from the specific items described under separate headings in this section.

Management considers this basis of accounting applied for the shareholders' information to be suitable for the intended users of this financial information.

The application of the basis of accounting of the shareholders' information is also consistent with that applied in 2015 apart from the following structural changes:

- Sanlam Employee Benefits (previously reported in the Sanlam Investments cluster) and Sanlam Health (previously reported in the Sanlam Personal Finance cluster) were moved to the newly formed Sanlam Corporate cluster.
- A number of business units in the Sanlam Investments cluster have been reallocated between the International and Wealth Management sub-clusters. Sanlam Private Equity has been reallocated from Sanlam Capital Markets to Sanlam Investment Management.

Comparative information has been adjusted to reflect the new reporting structures.

The shareholders' fund information includes the following:

- Group Equity Value (refer page 172)
- Change in Group Equity Value (refer page 173)
- Return on Group Equity Value (refer page 174)
- Shareholders' fund financial statements consisting of the Shareholders' fund at fair value (refer page 176), Shareholders' fund at net asset value (refer page 178), Shareholders' fund income statement (refer page 180) and related notes.
- Embedded value of covered business, change in embedded value of covered business, value of new business and notes thereto.

Group Equity Value

GEV is the aggregate of the following components:

- The embedded value of covered business, which comprises the required capital supporting these operations (also referred to as adjusted net worth) and their net value of in-force business;
- The fair value of other Group operations based on longer-term assumptions, which includes the investment management, capital markets, general insurance and the non-covered wealth management operations of the Group; and
- The fair value of discretionary and other capital. Discretionary capital represents management's assessment of capital in excess of that required for current operations of the Group. Such capital may be used to fund future operations and acquisitions or be returned to shareholders.

GEV is calculated by adjusting the shareholders' fund at fair value with the following:

- Adjustments to net worth; and
- Goodwill and the value of business acquired intangible assets relating to covered business are replaced by the value of the in-force book of covered business.

Although being a measure of value, GEV is not equivalent to the economic value of the Group as the embedded value of covered business does not allow for the value of future new business. An economic value may be derived by adding to the GEV an estimate of the value of the future sales of new covered business, often calculated as a multiple of the value of new covered business written during the past year.

The GEV is inherently based on estimates and assumptions, as set out in this basis of presentation and as also disclosed under critical accounting estimates and judgements in the annual financial statements. It is reasonably possible that outcomes in future financial years will be different to the current assumptions and estimates, possibly significantly, impacting on the reported GEV. Accordingly, sensitivity analyses are provided for changes from the base estimates and assumptions within the Shareholders' information.

Adjustments to net worth

Present value of corporate expenses

GEV is determined by deducting the present value of corporate expenses, by applying a multiple to the after-tax corporate expenses. This adjustment is made as the embedded value of covered business and the fair value of other Group operations do not allow for an allocation of corporate expenses.

Share incentive schemes granted on subsidiaries' own shares

Where Group subsidiaries grant share incentives to staff on the entities' own shares, the fair value of the outstanding incentives at year-end is deducted in determining GEV. The expected cost of future grants in respect of these incentive schemes is allowed for in the calculation of the value of in-force covered business and the fair value of other Group operations as appropriate.

Share incentive schemes granted on Sanlam shares

Long-term incentives granted by the Group on Sanlam shares are accounted for as dilutive instruments. The GEV is accordingly not adjusted for the fair value of these outstanding shares, but the number of issued shares used to calculate GEV per share is adjusted for the dilutionary effect of the outstanding instruments at year-end. The expected cost of future grants in respect of these incentive schemes is allowed for in the calculation of the value of in-force covered business and the fair value of other Group operations.

Change in Group Equity Value

The Change in Group Equity Value consists of the embedded value earnings from covered business, earnings from other Group operations on a fair value basis, earnings on discretionary and other capital and capital transactions with shareholders.

Return on Group Equity Value

The RoGEV is equal to the change in GEV during the reporting period, after adjustment for dividends paid and changes in issued share capital, as a percentage of GEV at the beginning of the period.

Shareholders' fund at net asset value, income statement and related information

The analysis of the shareholders' fund at net asset value and the related shareholders' fund income statement reflects the consolidated financial position and earnings of the shareholders' fund, based on accounting policies consistent with those on pages 64 to 81 of the Annual Financial Statements, apart from the following:

Basis of consolidation

The shareholders' funds of Group companies are consolidated in the analysis of the Sanlam Group shareholders' fund at net asset value. The policyholders' and outside shareholders' interests in these companies are treated as non-controlling shareholders' interest on consolidation.

The segmental analysis of the shareholders' fund at net asset value is consistent with the Group's operational management structure.

Consolidation reserve

In terms of IFRS, the policyholders' fund's investments in Sanlam shares and Group subsidiaries are not reflected as equity investments in the Sanlam Group IFRS statement of financial position, but deducted in full from equity on consolidation (in respect of Sanlam shares) or reflected at net asset value (in respect of subsidiaries). The valuation of the related policy liabilities however includes the fair value of these investments, creating an artificial mismatch between policy liabilities and policyholder investments, with a consequential impact on the Group's shareholders' fund and earnings. In addition, IFRS requires the recognition of deferred tax assets in respect of policyholder fund assessed tax losses where it is probable that these losses will be utilised in future financial reporting periods against policyholder investment return. As these deferred tax assets are not recognised as a corresponding increase in policy liabilities, it also causes an artificial mismatch between policy liabilities and policyholder investments. The consolidation reserve created in the Group financial statements for these mismatches is not recognised in the shareholders' fund at net asset value as the related policyholder investments are recognised as equity instruments at fair value and the deferred tax assets are derecognised. The fund transfers between the shareholders' and policyholders' fund relating to movements in the consolidation reserve are commensurately also not recognised in the shareholders' fund's normalised earnings. This policy is applied, as these accounting mismatches do not represent economic profits and losses for the shareholders' fund.

Target shares

Strategic diversification activities between Sanlam Emerging Markets (SEM) and Santam consist of the investment in target shares issued by SEM to Santam and vice versa. These shares give the holder the right to participate in the growth of the underlying short-term insurance investments. For purposes of the Group's shareholder fund income statement, the total return on these short-term insurance investments are therefore split between SEM and Santam, after consideration of the respective non-controlling interests and presentation is based on the Group's rights to the investment rather than the individual segments' rights.

Segregated funds

Sanlam also manages and administers assets in terms of third-party mandates, which are for the account of and at the risk of the clients. As these are not the assets of the Sanlam Group, they are not recognised in the Sanlam Group statement of financial position in terms of IFRS and are also excluded from the shareholders' fund at net asset value and fair value. Fund flows relating to segregated funds are however included in the notes to the shareholders' fund information to reflect all fund flows relating to the Group's assets under management.

Equity-accounted earnings

Equity-accounted earnings are presented in the shareholders' fund income statement based on the allocation of the Group's investments in associates and joint ventures between operating and non-operating entities:

- Operating associates and joint ventures include investments in strategic operational businesses, namely Sanlam Personal Loans, Saham Finances, Shriram Capital (including the Group's direct interest in Shriram Transport Finance Company), Pacific & Orient, Capricon Investment Holdings, Letshego, Enterprise Insurance, Nico Holdings and the Group's life insurance associates in Africa. The equity-accounted earnings from operating associates and joint ventures are included in the net result from financial services.
- Non-operating associates and joint ventures include investments held as part of the Group's balanced investment portfolio. The Group's shares of earnings from these entities are reflected as equity-accounted earnings.

Normalised earnings per share

As discussed under the policy note for 'Consolidation reserve' above, the IFRS prescribed accounting treatment of the policyholders' fund's investments in Sanlam shares and Group subsidiaries, as well as deferred tax assets relating to the policyholder fund, create artificial accounting mismatches with a consequential impact on the Group's IFRS earnings. In addition, the number of shares in issue used for the calculation of IFRS basic and diluted earnings per share must also be reduced with the treasury shares held by the policyholders' fund. This is in the Group's opinion not a true representation of the earnings attributable to the Group's shareholders. The Group therefore calculates normalised diluted earnings per share to eliminate fund transfers relating to movements in the consolidation reserve.

Fund flows

The notes to the shareholders' fund information also provide information in respect of fund flows relating to the Group's assets under management. These fund flows have been prepared in terms of the following bases:

Funds received from clients

Funds received from clients include single and recurring life and general insurance premium income from insurance and investment policy contracts, which are recognised in the financial statements. It also includes contributions to collective investment schemes and non-life insurance linked-products as well as inflows of segregated funds, which are not otherwise recognised in the financial statements as they are funds held on behalf of and at the risk of clients. Transfers between the various types of business, other than those resulting from a specific client instruction, are eliminated. Funds received from clients include the Group's effective share of funds received from clients by strategic operational associates and joint ventures.

New business

In the case of long-term insurance business the annualised value of all new policies (insurance and investment contracts) that have been issued during the financial year and have not subsequently been refunded, is regarded as new business.

All segregated fund inflows, inflows to collective investment schemes and short-term insurance net earned premiums are regarded as new business.

New business includes the Group's share of new business written by strategic operational associates and joint ventures.

Payments to clients

Payments to clients include policy benefits paid in respect of life and general insurance and investment policy contracts, which are recognised in the financial statements. It also includes withdrawals from collective investment schemes and non-life insurance linked-products as well as outflows of segregated funds, which are not otherwise recognised in the financial statements as they relate to funds held on behalf of and at the risk of clients. Transfers between the various types of business, other than those resulting from a specific client instruction, are eliminated.

Payments to clients include the Group's effective share of payments to clients by strategic operational associates and joint ventures.

Shareholders' fund at fair value

The shareholders' fund at fair value is prepared from the consolidated shareholders' fund at net asset value by replacing the net asset value of the other Group operations that are not part of covered business, with the fair value of these businesses. Fair values for listed businesses are determined by using stock exchange prices or directors' valuations and for unlisted businesses by using directors' valuations. Where directors' valuations are used for listed businesses, the listed values of these businesses are disclosed for information purposes.

The valuation of businesses is based on generally accepted and applied investment valuation techniques, but is subject to judgement to allow for perceived risks. Estimates and assumptions are an integral part of business valuations and as such have an impact on the amounts reported. Management applies judgement in determining the appropriate valuation technique to be used. In addition, in applying the valuation techniques, judgement is utilised in setting assumptions of future events and experience, and where applicable, risk adjusted discount rates.

Estimates and judgements are regularly updated to reflect latest experience. Actual outcomes in future financial years may differ from current estimates and assumptions, possibly significantly, which could require a material adjustment to the business valuations.

The appropriateness of the valuations is regularly tested through the Group's approval framework, in terms of which the valuations of investments is reviewed and recommended for approval by the Audit, Actuarial and Finance Committee and Board by the Sanlam Non-Listed Asset Controlling Body.

Businesses may comprise legal entities or components of legal entities as determined by the directors.

Basis of accounting and presentation – embedded value of covered business

The Group's embedded value of covered business information is prepared in accordance with APN107 (version 7), the guidance note on embedded value financial disclosures of South African long-term insurers issued by the Actuarial Society of South Africa (Actuarial Society). Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders.

The embedded value results of the Group's covered business are included in the shareholders' information as it forms an integral part of GEV and the information used by management in evaluating the performance of the Group. The embedded value of covered business does not include the contribution to GEV relating to other Group operations or discretionary and other capital, which are included separately in the analysis of GEV.

The basis of presentation for the embedded value of covered business is consistent with that applied in the 2015 financial statements.

Covered business

Covered business includes all material long-term insurance business that is recognised in the Sanlam Group financial statements. This business includes individual stable bonus, linked and market-related business, reversionary bonus business, group stable bonus business, annuity business and other non-participating business written by Sanlam Personal Finance, Sanlam Emerging Markets, Sanlam UK and Sanlam Employee Benefits.

Acquisitions, disposals and other movements

The embedded value of covered business results are prepared taking cognisance of changes in the Group's effective shareholding in covered business operations.

Methodology

Embedded value of covered business

The embedded value of covered business is the present value of earnings from covered business attributable to shareholders, excluding any value that may be attributed to future new business. It is calculated on an after-tax basis taking into account current legislation and known future changes.

The embedded value of covered business comprises the following components:

- Adjusted net worth (ANW); and
- The net value of in-force business.

Adjusted net worth

ANW comprises the required capital supporting the covered business and is equal to the net value of assets allocated to covered business that does not back policy liabilities.

The required capital allocated to covered business reflects the level of capital considered sufficient to support the covered business, allowing for an assessment of the market, credit, insurance and operational risks inherent in the underlying products, subject to a minimum level of the local statutory solvency requirement for each business.

For insurance businesses regulated under SAM (or similar regimes) the level of required capital for covered business is set to ensure that Own Funds attributable to in-force covered business maintains a SAM SCR ratio within a specific range, for example between 170% and 210% for Sanlam Life, over the next 10 years. In addition these businesses may also need to maintain statutory cover ratios above a lower minimum level after severe but plausible stress scenarios.

The capital allocated to covered business is funded from a balanced investment portfolio, comprising investments in equities, hedged equities, fixed interest securities, cash and subordinated debt funding. The subordinated debt funding liability is matched by ring-fenced bonds and other liquid assets held as part of the balanced investment portfolio.

Transfers are made to or from adjusted net worth on an annual basis for the following:

- Transfers of net operating profit. These transfers relate to dividends paid from covered business in terms of the Group's internal dividend policy to fund the dividend payable to Sanlam Limited shareholders; and
- Transfers to or from the balanced investment portfolio. Any capital in the portfolio that is in excess of the requirements of the covered business is transferred to discretionary capital in terms of the Group's capital management framework.

Net value of in-force business

The net value of in-force business consists of:

- The present value of future shareholder profits from in-force covered business (PVIF), after allowance for
- The cost of required capital supporting the covered business.

Present value of future shareholder profits from in-force covered business

The long-term policy liabilities in respect of covered business in the financial statements are valued based on the applicable statutory valuation method for insurance contracts and fair value for investment contracts. These liabilities include profit margins, which can be expected to emerge as profits in the future. The discounted value, using a risk-adjusted discount rate, placed on these expected future profits, after taxation, is the PVIF.

The PVIF excludes the cost of required capital, which is separately disclosed.

Cost of required capital

A charge is deducted from the embedded value of covered business for the cost of required capital supporting the Group's existing covered business. The cost is the difference between the carrying value of the required capital at the valuation date and the discounted value, using a risk-adjusted discount rate, of the projected releases of the capital allowing for the assumed after-tax investment return on the assets deemed to back the required capital over the life of the in-force business.

Value of new business

The value of new business is calculated as the discounted value, at point of sale, using a risk-adjusted discount rate, of the projected stream of after-tax profits for new covered business issued during the financial year under review. The value of new business is also reduced by the cost of required capital for new covered business.

In determining the value of new business:

- A policy is only taken into account if at least one premium, that is not subsequently refunded, is recognised in the financial statements;

- Premium increases that have been allowed for in the value of in-force covered business are not counted again as new business at inception;
- Increases in recurring premiums associated with indexation arrangements are not included, but instead allowed for in the value of in-force covered business;
- The expected value of future premium increases resulting from premium indexation on the new recurring premium business written during the financial year under review is included in the value of new business;
- Continuations of individual policies and deferrals of retirement annuity policies after the maturity dates in the contract are treated as new business if they have been included in policy benefit payments at their respective maturity dates;
- For employee benefits, increases in business from new schemes or new benefits on existing schemes are included and new members or salary-related increases under existing schemes are excluded and form part of the in-force value;
- Renewable recurring premiums under Group insurance contracts are treated as in-force business; and
- Assumptions are consistent with those used for the calculation of the value of in-force covered business at the end of the reporting period.

Profitability of new covered business is measured by the ratio of the net value of new business to the present value of new business premiums (PVNBP). The PVNBP is defined as new single premiums plus the discounted value, using a risk-adjusted discount rate, of expected future premiums on new recurring premium business. The premiums used for the calculation of PVNBP are based on the life insurance new business premiums disclosed in note 1 on page 182.

Risk discount rates and allowance for risk

In accordance with the actuarial guidance, the underlying risks within the covered business are allowed for within the embedded value calculations through a combination of the following:

- Explicit allowances within the projected shareholder cash flows;
- The level of required capital and the impact on cost of required capital; and
- The risk discount rates, intended to cover all residual risks not allowed for elsewhere in the valuation.

The risk margins are set using a top-down approach based on Sanlam Limited's weighted average cost of capital (WACC), which is calculated based on a gross risk-free interest rate, an assumed equity risk premium, a market assessed risk factor (beta), and an allowance for subordinated debt on a market value basis. The beta provides an assessment of the market's view of the effect of all types of risk on the Group's operations, including operational and other non-economic risk.

To derive the risk discount rate assumptions for covered business, an adjusted WACC is calculated to exclude the non-covered Group operations included in Sanlam Limited's WACC and to allow for future new covered business. The covered business operations of the Group use risk margins of between 2,5% and 7,0% and the local gross risk-free rate at the valuation date.

Minimum investment guarantees to policyholders

An investment guarantee reserve is included in the reserving basis for policy liabilities, which makes explicit allowance for the best estimate cost of all material investment guarantees. This reserve is determined on a market consistent basis in accordance with actuarial guidance from the Actuarial Society (APN110). No further deduction from the embedded value of covered business is therefore required.

Share incentive schemes

The embedded value of covered business assumes the payment of long-term incentives in the future and allows for the expected cost of future grants within the value of in-force covered business and value of new business.

Sensitivity analysis

Sensitivities are determined at the risk discount rates used to determine the base values, unless stated otherwise. For each of the sensitivities, all other assumptions are left unchanged. The different sensitivities do not imply that they have a similar chance of occurring.

The risk discount rate appropriate to an investor will depend on the investor's own requirements, tax position and perception of the risk associated with the realisation of the future profits from the covered business. The disclosed sensitivities to changes in the risk discount rate provide an indication of the impact of changes in the applied risk discount rate.

Risk premiums relating to mortality and morbidity are assumed to be increased consistent with mortality and morbidity experience respectively, where appropriate.

Foreign currencies

Changes in the embedded value of covered business, as well as the present value of new business premiums, of foreign operations 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 changes in the embedded value of covered business, in which instances the exchange rate on transaction date is used. The closing rate is used for the conversion of the embedded value of covered business at the end of the financial year.

Assumptions

Best estimate assumptions

The embedded value calculation is based on best estimate assumptions. The assumptions are reviewed actively and changed when evidence exists that material changes in the expected future experience are reasonably certain. The best estimate assumptions are also used as basis for the statutory valuation method, to which compulsory and discretionary margins are added for the determination of policy liabilities in the financial statements.

It is reasonably possible that outcomes in future financial years will be different to these current best estimate assumptions, possibly significantly, impacting on the reported embedded value of covered business. Accordingly, sensitivity analyses are provided for the value of in-force and value of new business.

Economic assumptions

The assumed investment return on assets supporting the policy liabilities and required capital is based on the assumed long-term asset mix for these funds.

Inflation assumptions for unit cost, policy premium indexation and employee benefits salary inflation are based on an assumed long term gap relative to fixed-interest securities.

Future rates of bonuses for traditional participating business, stable bonus business and participating annuities are set at levels that are supportable by the assets backing the respective product asset funds at each valuation date.

Assets backing required capital

The assumed composition of the assets backing the required capital is consistent with Sanlam's practice and with the assumed long-term asset distribution used to calculate the statutory capital requirements and internal required capital assessments of the Group's covered business.

Demographic assumptions

Future mortality, morbidity and discontinuance rates are based on recent experience where appropriate.

HIV/Aids

Allowance is made, where appropriate, for the impact of expected HIV/Aids-related claims, using models developed by the Actuarial Society, adjusted for Sanlam's practice and product design. Premiums on individual business are assumed to be rerated, where applicable, in line with deterioration in mortality, with a three-year delay from the point where mortality losses would be experienced.

Expense assumptions

Future expense assumptions reflect the expected level of expenses required to manage the in-force covered business, including investment in systems required to support that business, and allow for future inflation. The rate of inflation is higher for business written on legacy systems. The allocation between acquisition and maintenance expenses is based on functional cost analyses and reflects actual expenses incurred in 2016.

Project expenses

A best estimate of future project expenses is allowed for in the embedded value of covered business, in addition to the expense assumptions outlined above, in both the value of policy liabilities and the PVIF as applicable. These projects relate to regulatory compliance, administration and existing distribution platforms of the life insurance business and are deemed to be business imperatives by management. No allowance is made for the expected positive impact these projects may have on the future operating experience of the Group.

Investment management fees

Future investment expenses are based on the current scale of fees payable by the Group's life insurance businesses to the relevant asset managers. To the extent that this scale of fees includes profit margins for Sanlam Investments, these margins are not included in the value of in-force covered business and value of new business, as they are incorporated in the valuation of the Sanlam Investments businesses at fair value.

Taxation

Projected taxation is based on the current tax basis that applies in each country.

Allowance has been made for the impact of capital gains tax on investments in South Africa, assuming a five-year roll-over period.

No allowance was made for tax changes announced by the Minister of Finance in his budget speech in February 2017.

Earnings from covered business

The embedded value earnings from covered business for the period are equal to the change in embedded value, after adjustment for any transfers to or from discretionary capital, and are analysed into the following main components:

Value of new business

The value of new business is calculated at point of sale using assumptions applicable at the end of the reporting period.

Net earnings from existing covered business

Expected return on value of covered business

The expected return on value of covered business comprises the expected return on the starting value of in-force covered business and the accumulation of value of new business from point of sale to the valuation date.

Operating experience variances

The calculation of embedded values is based on assumptions regarding future experiences including discontinuance rates (how long policies will stay in force), risk (mortality and morbidity) and future expenses. Actual experience may differ from these assumptions. The impact of the difference between actual and assumed experience for the period is reported as operating experience variances.

Operating assumption changes

Operating assumption changes consist of the impact of changes in assumptions at the end of the reporting period (compared to those used at the end of the previous reporting period) for operating experience, excluding economic or taxation assumptions. It also includes certain model refinements.

Expected investment return on adjusted net worth

The expected investment return on adjusted net worth attributable to shareholders is calculated using the future investment return assumed at the start of the reporting period.

The total embedded value earnings from covered business include two further main items:

Economic assumption changes

The impact of changes in external economic conditions, including the effect that changes in interest rates have on risk discount rates and future investment return assumptions, on the embedded value of covered business.

Investment variances

Investment variances – value of in-force

The impact on the value of in-force business caused by differences between the actual investment return earned on policyholder fund assets during the reporting period and the expected return based on the economic assumptions used at the start of the reporting period.

Investment variances – investment return on adjusted net worth

Investment return variances caused by differences between the actual investment return earned on shareholders' fund assets during the reporting period and the expected return based on economic assumptions used at the start of the reporting period.

Group Equity Value

at 31 December 2016

R million	Note	2016 Total	2016 Fair value of assets	2016 Value of in-force	2015 Total	2015 Fair value of assets	2015 Value of in-force
Sanlam Personal Finance		41 878	12 020	29 858	37 472	11 233	26 239
Covered business[1]		38 216	8 358	29 858	34 526	8 287	26 239
Glacier		2 192	2 192	–	1 605	1 605	–
Sanlam Personal Loans		999	999	–	913	913	–
Other operations[2]		471	471	–	428	428	–
Sanlam Emerging Markets		22 097	18 584	3 513	18 047	14 884	3 163
Covered business[1]		6 370	2 857	3 513	5 486	2 323	3 163
Shriram Capital		7 963	7 963	–	7 594	7 594	–
Saham Finances		3 197	3 197	–	–	–	–
Letshego		1 190	1 190	–	1 106	1 106	–
Pacific & Orient		476	476	–	812	812	–
Capricorn Investment Holdings		1 077	1 077	–	877	877	–
Other operations		1 824	1 824	–	2 172	2 172	–
Sanlam Investments		15 807	15 136	671	16 835	15 980	855
Covered business[1]		1 137	466	671	1 633	778	855
Investment Management		14 070	14 070	–	14 417	14 417	–
Capital Management		600	600	–	785	785	–
Santam		15 868	15 868	–	12 850	12 850	–
Sanlam Corporate		6 385	4 582	1 803	6 354	4 497	1 857
Covered business[1], [2]		5 523	3 720	1 803	5 577	3 720	1 857
Afrocentric[2]		775	775	–	703	703	–
Other operations[2]		87	87	–	74	74	–
Group operations		102 035	66 190	35 845	91 558	59 444	32 114
Discretionary capital		550	550	–	2 300	2 300	–
Balanced portfolio – other		9 916	9 916	–	11 199	11 199	–
Group Equity Value before adjustments to net worth		112 501	76 656	35 845	105 057	72 943	32 114
Net worth adjustments – present value of holding company expenses	10	(1 784)	(1 784)	–	(1 551)	(1 551)	–
Group Equity Value		110 717	74 872	35 845	103 506	71 392	32 114
Value per share (cents)	9	5 407	3 656	1 751	5 057	3 488	1 569
Analysis per type of business							
Covered business[1]		51 246	15 401	35 845	47 222	15 108	32 114
Sanlam Personal Finance		38 216	8 358	29 858	34 526	8 287	26 239
Sanlam Emerging Markets		6 370	2 857	3 513	5 486	2 323	3 163
Sanlam Investments		1 137	466	671	1 633	778	855
Sanlam Corporate		5 523	3 720	1 803	5 577	3 720	1 857
Other Group operations		50 789	50 789	–	44 336	44 336	–
Discretionary and other capital		8 682	8 682	–	11 948	11 948	–
Group Equity Value		110 717	74 872	35 845	103 506	71 392	32 114

(1) *Refer embedded value of covered business on page 211.*

(2) *Sanlam Employee Benefits and the Health Management businesses in Sanlam Personal Finance have been reallocated to the Sanlam Corporate cluster.*

Change in Group Equity Value

for the year ended 31 December 2016

R million	2016	2015
Earnings from covered business[(1)]	**7 473**	7 037
Earnings from other Group operations	**4 959**	5 154
Operations valued based on discounted cash flows	**798**	5 977
Expected return	**4 951**	3 519
Operating experience variances	**109**	56
Assumption changes	**(871)**	(1 131)
Foreign currency translation differences	**(3 391)**	3 533
Operations valued at net asset value - earnings for the year	**32**	399
Listed operations – investment return	**4 129**	(1 222)
Earnings from discretionary and other capital	**(162)**	35
Portfolio investments and other	**215**	178
Net corporate expenses	**(107)**	(109)
Share-based payments transactions	**(37)**	(39)
Change in net worth adjustments	**(233)**	5
Group Equity Value earnings	**12 270**	12 226
Dividends paid	**(4 967)**	(4 556)
Cost of treasury shares acquired		
Share incentive scheme and other	**(92)**	(100)
Group Equity Value at beginning of the year	**103 506**	95 936
Group Equity Value at end of the year	**110 717**	103 506

(1) *Refer embedded value of covered business on pag 212.*

Return on Group Equity Value

for the year ended 31 December 2016

	2016 Earnings R million	2016 Return %	2015 Earnings R million	2015 Return %
Sanlam Personal Finance	**8 503**	**22,7**	4 649	12,1
Covered business[1]	**7 402**	**21,4**	4 363	12,3
Other operations	**1 101**	**37,4**	286	9,8
Sanlam Emerging Markets	**(491)**	**(2,3)**	4 369	29,9
Covered business[1]	**37**	**0,7**	1 403	27,4
Other operations	**(528)**	**(3,4)**	2 966	31,2
Sanlam Investments	**(322)**	**(1,9)**	3 392	24,3
Covered business[1]	**(403)**	**(24,7)**	277	23,2
Other operations	**81**	**0,5**	3 115	24,5
Santam	**4 129**	**32,1**	(1 222)	(8,4)
Sanlam Corporate	**613**	**9,6**	1 003	14,9
Covered business[1]	**437**	**7,8**	994	15,0
Other operations	**176**	**22,7**	9	11,7
Discretionary and other capital	**(162)**		35	
Return on Group Equity Value	**12 270**	**11,9**	12 226	12,7
Return on Group Equity Value per share		**11,8**		12,8

(1) *Refer embedded value of covered business on page 212.*

R million	**2016**	2015
Reconciliation of return on Group Equity Value:		
The return on Group Equity Value reconciles as follows to normalised attributable earnings:		
Normalised attributable earnings per shareholders' fund income statement on page 180.	**8 123**	8 942
Net foreign currency translation gains recognised in other comprehensive income	**(3 818)**	3 011
Earnings recognised directly in equity		
Share-based payment transactions	**27**	45
Net cost of treasury shares delivered	**(298)**	(364)
Share-based payments	**325**	409
Other comprehensive income	**(664)**	461
Change in ownership of subsidiaries	**(95)**	(268)
Movement in fair value adjustment - shareholders' fund at fair value	**5 687**	(914)
Movement in adjustments to net worth	**(24)**	95
Present value of holding company expenses	**(233)**	5
Change in goodwill and value of business acquired adjustments less value of in-force acquired	**209**	90
Growth from covered business: value of in-force[1]	**3 034**	854
Return on Group Equity Value	**12 270**	12 226

(1) *Refer embedded value of covered business on page 212.*

Group Equity Value sensitivity analysis

at 31 December 2016

Given the Group's exposure to financial instruments, market risk has a significant impact on the value of the Group's operations as measured by Group Equity Value. The sensitivity of Group Equity Value to market risk is presented in the table below and comprises of the following two main components:

- Impact on net result from financial services (profitability): A large portion of the Group's fee income is linked to the level of assets under management. A change in the market value of investments managed by the Group on behalf of policyholders and third parties will commensurately have a direct impact on the Group's net result from financial services. The present value of this impact is reflected in the table below as the change in the value of in-force and the fair value of other operations.
- Impact on capital: The Group's capital base is invested in financial instruments and any change in the valuation of these instruments will have a commensurate impact on the value of the Group's capital. This impact is reflected in the table below as the change in the fair value of the covered businesses' adjusted net worth as well as the fair value of discretionary and other capital.

The following scenarios are presented:

- Equity markets and property values decrease by 10%, without a corresponding change in dividend and rental yields.
- Investment return and inflation decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately.
- The rand depreciates by 10% against all currencies, apart from the Namibian dollar.

The Group's covered business is also exposed to non-market risks, which includes expense, persistency, mortality and morbidity risk. The sensitivity of the value of in-force business, and commensurately Group Equity Value, to these risks is presented in note 1 on page 215.

R million	Base value	Equities and properties -10%	Interest rates -1%	Rand exchange rate depreciation +10%
2016				
Covered business	**51 246**	**49 392**	**52 517**	**51 932**
Adjusted net worth	**15 401**	**14 840**	**15 481**	**15 790**
Value of in-force	**35 845**	**34 552**	**37 036**	**36 142**
Other Group operations	**50 789**	**47 953**	**55 443**	**52 783**
Valued at net asset value	**2 362**	**2 362**	**2 362**	**2 438**
Listed	**15 868**	**14 281**	**15 868**	**15 868**
Other	**32 559**	**31 310**	**37 213**	**34 477**
Group operations	**102 035**	**97 345**	**107 960**	**104 715**
Discretionary and other capital	**10 466**	**10 455**	**10 456**	**10 749**
Group Equity Value before adjustments to net worth	**112 501**	**107 800**	**118 416**	**115 464**
Net worth adjustments – present value of holding company expenses	**(1 784)**	**(1 784)**	**(1 784)**	**(1 784)**
Group Equity Value	**110 717**	**106 016**	**116 632**	**113 680**
2015				
Covered business	47 222	45 555	48 164	47 967
Adjusted net worth	15 108	14 704	15 120	15 562
Value of in-force	32 114	30 851	33 044	32 405
Other group operations	44 336	42 044	47 844	46 211
Valued at net asset value	2 571	2 571	2 571	2 721
Listed	12 850	11 565	12 850	12 850
Other	28 915	27 908	32 423	30 640
Group operations	91 558	87 599	96 008	94 178
Discretionary and other capital	13 499	13 488	13 499	13 986
Group Equity Value before adjustments to net worth	105 057	101 087	109 507	108 164
Net worth adjustments – present value of holding company expenses	(1 551)	(1 551)	(1 551)	(1 551)
Group Equity Value	103 506	99 536	107 956	106 613

Shareholders' fund at fair value

at 31 December 2016

R million	Note	2016 Fair value	2016 Fair value adjustment	2016 Net asset value	2015 Fair value	2015 Fair value adjustment	2015 Net asset value
Covered business, discretionary and other capital		28 009	(36)	28 045	30 324	(419)	30 743
Property and equipment		416	–	416	458	–	458
Owner-occupied properties		652	–	652	668	–	668
Goodwill[(2)]		634	–	634	679	–	679
Value of business acquired[(2)]		986	–	986	1 177	–	1 177
Other intangible assets		273	–	273	195	–	195
Deferred acquisition costs		2 648	–	2 648	2 572	–	2 572
Investments		23 600	(50)	23 650	27 412	(574)	27 986
Properties		511	–	511	456	–	456
Associated companies		3 299	–	3 299	2 304	–	2 304
Equities and similar securities		975	–	975	3 130	–	3 130
Other interest-bearing and preference share investments		4 579	–	4 579	8 351	–	8 351
Structured transactions		573	–	573	821	–	821
Investment funds		9 038	–	9 038	4 780	–	4 780
Cash, deposits and similar securities		4 625	(50)	4 675	7 570	(574)	8 144
Net term finance		–	–	–	–	–	–
Term finance		(3 810)	–	(3 810)	(3 698)	–	(3 698)
Assets held in respect of term finance		3 810	–	3 810	3 698	–	3 698
Net deferred tax		(636)	–	(636)	(870)	–	(870)
Net working capital		1 762	14	1 748	803	155	648
Structured transactions liability		(16)	–	(16)	(31)	–	(31)
Non-controlling interest		(2 310)	–	(2 310)	(2 739)	–	(2 739)
Other Group operations		50 789	24 919	25 870	44 336	19 615	24 721
Sanlam Investments		14 670	10 247	4 423	15 202	10 645	4 557
Investment Management		14 070	10 247	3 823	14 602	10 645	3 957
Capital Management		600	–	600	600	–	600
Sanlam Personal Finance		3 662	2 588	1 074	2 946	1 898	1 048
Glacier		2 192	1 788	404	1 605	1 239	366
Sanlam Personal Loans[(3)]		999	376	623	913	314	599
Other operations		471	424	47	428	345	83
Sanlam Emerging Markets		15 727	1 822	13 905	12 561	512	12 049
Shriram Capital		7 963	1 526	6 437	7 594	863	6 731
Saham Finances		3 197	321	2 876	–	–	–
Letshego		1 190	124	1 066	1 106	83	1 023
Pacific & Orient		476	–	476	812	75	737
Capricorn Investment Holdings		1 077	168	909	877	31	846
Other operations		1 824	(317)	2 141	2 172	(540)	2 712
Santam		15 868	11 332	4 536	12 850	7 713	5 137
Sanlam Corporate		862	127	735	777	44	733
Afrocentric		775	104	671	703	–	703
Other operations		87	23	64	74	44	30
Goodwill held on Group level in respect of the above businesses		–	(1 197)	1 197	–	(1 197)	1 197
Shareholders' fund at fair value		78 798	24 883	53 915	74 660	19 196	55 464
Value per share (cents)	9	3 848	1 215	2 633	3 648	938	2 710

R million	2016 Total	2016 Fair value of assets	2016 Value of in-force	2015 Total	2015 Fair value of assets	2015 Value of in-force
Reconciliation to Group Equity Value						
Group Equity Value	110 717	74 872	35 845	103 506	71 392	32 114
Add: Net worth adjustments	1 784	1 784	–	1 551	1 551	–
Add: Goodwill and value of business acquired replaced by value of in-force	2 142	2 142	–	1 717	1 717	–
Sanlam Investments and Pensions	356	356	–	356	356	–
Sanlam Developing Markets	573	573	–	607	607	–
Saham Finances[(4)]	460	460	–	–	–	–
MCIS Insurance	399	399	–	446	446	–
Shriram Life Insurance[(5)]	285	285	–	210	210	–
Other	69	69	–	98	98	–
Less: Value of in-force	(35 845)	–	(35 845)	(32 114)	–	(32 114)
Shareholders' fund at fair value	78 798	78 798	–	74 660	74 660	–

(1) *Group businesses listed above are not consolidated, but reflected as investments at fair value.*

(2) *The value of business acquired and goodwill relate mainly to the consolidation of Sanlam Developing Markets, Channel Life, Sanlam Investments and Pensions and MCIS Insurance and are excluded in the build-up of the Group Equity Value, as the current value of in-force business for these life insurance companies are included in the embedded value of covered business.*

(3) *The life insurance component of Sanlam Personal Loans' operations is included in the value of in-force business and therefore excluded from the Sanlam Personal Loans fair value.*

(4) *The carrying value of Saham Finances includes goodwill and value of business acquired of R460 million that is excluded in the build-up of GEV, as the current value of in-force business for Saham Finances is included in the embedded value of covered business.*

(5) *The carrying value of Shriram Life Insurance includes goodwill of R285 million (2015: R210 million) that is excluded in the build-up of the Group Equity Value, as the current value of in-force business for Shriram Life Insurance is included in the embedded value of covered business.*

Shareholders' fund at net asset value

at 31 December 2016

R million	Note	Sanlam Life[1] 2016	Sanlam Life[1] 2015	Sanlam Emerging Markets[2] 2016	Sanlam Emerging Markets[2] 2015
Property and equipment		303	291	146	195
Owner-occupied properties		470	470	238	260
Goodwill		244	278	178	350
Other intangible assets		17	22	267	183
Value of business acquired		500	543	547	705
Deferred acquisition costs		2 949	2 851	16	2
Investments	3.3	29 117	33 383	22 722	18 393
Properties		143	130	821	880
Associated companies	3.1	760	706	18 636	13 557
Joint ventures	3.2	817	805	–	–
Equities and similar securities		8 118	10 206	536	707
Interest-bearing investments		5 134	8 061	1 060	1 648
Structured transactions		812	1 197	5	–
Investment funds		9 414	4 967	301	241
Cash, deposits and similar securities		3 919	7 311	1 363	1 360
Net deferred tax		(600)	(689)	(64)	(217)
Deferred tax asset		175	56	185	40
Deferred tax liability		(775)	(745)	(249)	(257)
Disposal groups classified as held for sale		–	–	–	–
Assets of disposal groups classified as held for sale		–	–	–	–
Liabilities of disposal groups classified as held for sale		–	–	–	–
Net general insurance technical provisions			–	(399)	(388)
General insurance technical assets		–	–	124	109
General insurance technical provisions		–	–	(523)	(497)
Net working capital assets/(liabilities)		585	(191)	87	(6)
Trade and other receivables		2 272	2 842	1 414	1 361
Cash, deposits and similar securities		6 406	4 618	564	599
Trade and other payables		(6 694)	(6 177)	(2 011)	(1 961)
Provisions		(131)	(134)	–	–
Taxation		(1 268)	(1 340)	120	(5)
Term finance		(2 159)	(2 260)	(115)	(69)
Structured transactions liabilities		(16)	(31)	–	–
Cell owners' interest		–	–	–	–
Non-controlling interest		–	(36)	(5 238)	(4 032)
Shareholders' fund at net asset value		31 410	34 631	18 385	15 376
Analysis of shareholders' fund					
Covered business		12 078	12 007	2 857	2 323
Other operations		1 809	1 781	13 905	12 049
Discretionary and other capital		17 523	20 843	1 623	1 004
Shareholders' fund at net asset value		31 410	34 631	18 385	15 376
Consolidation reserve		1 253	–	–	–
Shareholders' fund per Group statement of financial position on page 82 of the Annual Financial Statements online		32 663	34 631	18 385	15 376

Notes:

(1) *Includes the operations of Sanlam Personal Finance and Sanlam Corporate (which includes Sanlam Health and Sanlam Employee Benefits) as well as discretionary capital held by Sanlam Life. Equities and similar securities include an investment of R7 319 million (2015: R7 114 million) in Sanlam shares, which is eliminated in the consolidation column.*

(2) *Includes discretionary capital held by Sanlam Emerging Markets.*

(3) *Group Office and Other includes the assets of Genbel Securities and Sanlam Limited Corporate on a consolidated basis.*

(4) *The investment in treasury shares is reversed within the consolidation column. Intercompany balances, other investments and term finance between companies within the Group are also eliminated.*

Santam		Investment Management		Capital Management		Group Office and Other[3]		Consolidation entries[4]		Total	
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
321	296	61	71	9	12	–	–	–	1	840	866
1	1	115	114	–	–	–	–	–	–	824	845
774	770	1 203	1 300	–	–	–	–	1 197	1 197	3 596	3 895
81	35	179	203	–	–	–	–	–	–	544	443
–	–	559	695	–	–	–	–	–	–	1 606	1 943
–	–	–	–	–	–	–	–	–	–	2 965	2 853
11 987	10 668	1 927	2 282	–	–	1 660	1 746	(10 325)	(8 727)	57 088	57 745
–	–	–	–	–	–	–	–	–	–	964	1 010
2 624	996	418	404	–	–	–	–	(2 733)	(989)	19 705	14 674
65	66	–	1	–	–	–	–	–	–	882	872
1 404	1 694	222	288	–	–	493	543	(7 631)	(7 468)	3 142	5 970
5 892	5 076	109	180	–	–	1 165	1 195	74	(270)	13 434	15 890
714	503	–	3	–	–	–	–	(35)	–	1 496	1 703
388	310	594	837	–	–	–	–	–	–	10 697	6 355
900	2 023	584	569	–	–	2	8	–	–	6 768	11 271
25	63	60	43	73	67	–	–	(4)	3	(510)	(730)
144	140	73	57	73	67	–	–	3	8	653	368
(119)	(77)	(13)	(14)	–	–	–	–	(7)	(5)	(1 163)	(1 098)
8	540	–	–	–	–	–	–	–	–	8	540
8	540	–	–	–	–	–	–	–	–	8	540
–	–	–	–	–	–	–	–	–	–	–	–
(9 136)	(8 884)	–	–	–	–	–	–	–	–	(9 535)	(9 272)
4 898	4 142	–	–	–	–	–	–	–	–	5 022	4 251
(14 034)	(13 026)	–	–	–	–	–	–	–	–	(14 557)	(13 523)
6 744	7 081	1 672	1 637	811	725	(518)	(480)	100	339	9 481	9 105
3 720	3 584	1 902	1 619	15 963	21 365	3 000	2 899	(2 700)	(5 586)	25 571	28 084
7 278	7 489	1 889	1 983	1 695	3 771	378	650	(104)	(195)	18 106	18 915
(4 065)	(3 629)	(1 859)	(1 819)	(16 793)	(24 380)	(3 856)	(4 032)	2 914	6 123	(32 364)	(35 875)
(41)	(45)	(123)	(102)	–	–	(20)	(21)	(17)	(17)	(332)	(319)
(148)	(318)	(137)	(44)	(54)	(31)	(20)	24	7	14	(1 500)	(1 700)
(2 054)	(998)	(239)	(419)	–	–	(1 651)	(1 438)	–	–	(6 218)	(5 184)
–	(3)	–	–	–	–	–	–	–	–	(16)	(34)
(1 153)	(980)	–	–	–	–	–	–	–	–	(1 153)	(980)
(3 062)	(3 452)	(54)	(73)	–	–	–	–	2 749	1 022	(5 605)	(6 571)
4 536	5 137	5 483	5 853	893	804	(509)	(172)	(6 283)	(6 165)	53 915	55 464
–	–	466	778	–	–	–	–	–	–	15 401	15 108
4 536	5 137	3 823	3 957	600	600	–	–	1 197	1 197	25 870	24 721
–	–	1 194	1 118	293	204	(509)	(172)	(7 480)	(7 362)	12 644	15 635
4 536	5 137	5 483	5 853	893	804	(509)	(172)	(6 283)	(6 165)	53 915	55 464
–	–	–	–	–	–	–	–	(1 778)	(1 843)	(525)	(1 843)
4 536	5 137	5 483	5 853	893	804	(509)	(172)	(8 061)	(8 008)	53 390	53 621

Shareholders' fund income statement

for the year ended 31 December 2016

R million	Note	Sanlam Personal Finance[1] 2016	Sanlam Personal Finance[1] 2015	Sanlam Emerging Markets 2016	Sanlam Emerging Markets 2015
Financial services income	4	**16 421**	15 103	**7 462**	6 078
Sales remuneration	5	**(2 955)**	(2 656)	**(1 177)**	(1 091)
Income after sales remuneration		**13 466**	12 447	**6 285**	4 987
Underwriting policy benefits		**(3 492)**	(3 236)	**(1 574)**	(1 258)
Administration costs	6	**(4 283)**	(3 913)	**(1 815)**	(1 481)
Result from financial services before tax		**5 691**	5 298	**2 896**	2 248
Tax on result from financial services		**(1 590)**	(1 476)	**(800)**	(579)
Result from financial services after tax		**4 101**	3 822	**2 096**	1 669
Non-controlling interest		**(2)**	(4)	**(539)**	(472)
Net result from financial services		**4 099**	3 818	**1 557**	1 197
Net investment income		**794**	746	**198**	129
Dividends received – Group companies		**288**	263	**–**	–
Other investment income	7	**658**	642	**345**	277
Tax on investment income		**(152)**	(159)	**(98)**	(101)
Non-controlling interest		**–**	–	**(49)**	(47)
Project expenses		**–**	–	**(28)**	(14)
Amortisation of value of business acquired and other intangibles		**(39)**	(46)	**(45)**	(58)
Equity participation costs		**–**	–	**–**	–
Net equity-accounted headline earnings		**–**	–	**31**	7
Equity-accounted headline earnings		**–**	–	**59**	16
Tax on equity-accounted headline earnings		**–**	–	**(2)**	(3)
Non-controlling interest		**–**	–	**(26)**	(6)
Net investment surpluses		**114**	(800)	**18**	238
Investment surpluses – Group companies		**279**	(1 099)	**–**	–
Other investment surpluses		**(92)**	345	**87**	426
Tax on investment surpluses		**(73)**	(46)	**(52)**	14
Non-controlling interest		**–**	–	**(17)**	(202)
Normalised headline earnings		**4 968**	3 718	**1 731**	1 499
Net profit/(loss) on disposal of subsidiaries and associated companies		**15**	–	**16**	(1)
Profit/(loss) on disposal of subsidiaries and associated companies		**18**	–	**16**	(2)
Tax on profit/(loss) on disposal of subsidiaries and associated companies		**(3)**	–	**–**	–
Non-controlling interest		**–**	–	**–**	1
Impairments		**(5)**	–	**(230)**	(53)
Net equity accounted non-headline earnings		**–**	–	**–**	–
Normalised attributable earnings		**4 978**	3 718	**1 517**	1 445
Fund transfers		**1 259**	–	**–**	–
Attributable earnings per Group statement of comprehensive income		**6 237**	3 718	**1 517**	1 445
Diluted earnings per share	8				
Adjusted weighted average number of shares (million)					
Net result from financial services (cents)		**200,3**	186,6	**76,1**	58,5

(1) *Comparative information has been adjusted for the reallocation of business units from Sanlam Personal Finance and Sanlam Investments to the Sanlam Corporate cluster as described in the basis of presentation.*

(2) *Group Office and Other includes the consolidation entries in respect of the dividends received and the investment surpluses on the Sanlam Limited shares held by Sanlam Life Insurance Limited.*

Sanlam Investments[1]		Santam		Sanlam Corporate[1]		Group Office and Other[2]		Total	
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
5 546	5 286	20 608	19 066	4 217	3 691	128	141	54 382	49 365
(193)	(198)	(2 379)	(2 004)	(54)	(50)	–	–	(6 758)	(5 999)
5 353	5 088	18 229	17 062	4 163	3 641	128	141	47 624	43 366
–	–	(12 911)	(11 510)	(2 355)	(2 135)	–	–	(20 332)	(18 139)
(3 848)	(3 712)	(3 268)	(3 231)	(1 096)	(990)	(304)	(305)	(14 614)	(13 632)
1 505	1 376	2 050	2 321	712	516	(176)	(164)	12 678	11 595
(388)	(286)	(582)	(670)	(202)	(142)	69	55	(3 493)	(3 098)
1 117	1 090	1 468	1 651	510	374	(107)	(109)	9 185	8 497
(21)	(34)	(654)	(718)	–	–	–	–	(1 216)	(1 228)
1 096	1 056	814	933	510	374	(107)	(109)	7 969	7 269
15	9	49	93	154	180	(270)	(189)	940	968
–	–	–	–	–	–	(288)	(263)	–	–
18	8	107	191	174	216	10	19	1 312	1 353
–	1	(20)	(28)	(20)	(36)	8	55	(282)	(268)
(3)	–	(38)	(70)	–	–	–	–	(90)	(117)
(1)	–	–	–	–	–	–	(1)	(29)	(15)
(153)	(179)	(9)	(19)	(5)	(4)	–	–	(251)	(306)
–	–	(5)	(43)	–	–	–	–	(5)	(43)
(3)	1	17	24	(9)	–	–	–	36	32
(3)	1	28	40	(9)	–	–	–	75	57
–	–	–	–	–	–	–	–	(2)	(3)
–	–	(11)	(16)	–	–	–	–	(37)	(22)
(41)	(15)	10	210	(93)	212	(308)	1 101	(300)	946
–	–	–	–	–	–	(279)	1 099	–	–
(48)	(13)	65	448	(42)	256	(29)	2	(59)	1 464
7	(2)	(32)	(105)	(51)	(44)	–	–	(201)	(183)
–	–	(23)	(133)	–	–	–	–	(40)	(335)
913	872	876	1 198	557	762	(685)	802	8 360	8 851
–	–	–	201	–	–	–	–	31	200
–	–	–	428	–	–	–	–	34	426
–	–	–	(99)	–	–	–	–	(3)	(99)
–	–	–	(128)	–	–	–	–	–	(127)
–	(7)	(30)	(32)	–	(17)	–	–	(265)	(109)
–	–	–	–	(3)	–	–	–	(3)	–
913	865	846	1 367	554	745	(685)	802	8 123	8 942
–	–	–	–	–	–	241	449	1 500	449
913	865	846	1 367	554	745	(444)	1 251	9 623	9 391
								2 046,5	2 046,3
53,6	51,6	39,7	45,6	24,9	18,3	(5,2)	(5,3)	389,4	355,2

Notes to the shareholders' fund information

for the year ended 31 December 2016

1. Business volumes

1.1 Analysis of new business and total funds received

Analysed per business, reflecting the split between life insurance, general insurance and investment business

R million	Life insurance[1] 2016	Life insurance[1] 2015	General insurance 2016	General insurance 2015	Investment business[2] 2016	Investment business[2] 2015	Total 2016	Total 2015
Sanlam Personal Finance	30 175	28 443	–	–	31 573	32 730	61 748	61 173
Sanlam Sky	1 295	1 279	–	–	–	–	1 295	1 279
Individual Life	12 652	12 562	–	–	254	267	12 906	12 829
Glacier[3]	16 228	14 602	–	–	31 319	32 463	47 547	47 065
Sanlam Emerging Markets	5 208	4 869	4 013	1 674	14 475	8 022	23 696	14 565
Namibia	1 188	1 022	–	–	4 461	4 410	5 649	5 432
Recurring	191	151	–	–	–	–	191	151
Single[3]	997	871	–	–	4 461	4 410	5 458	5 281
Botswana	1 700	2 087	162	57	8 854	3 254	10 716	5 398
Recurring	356	299	162	57	–	–	518	356
Single	1 344	1 788	–	–	8 854	3 254	10 198	5 042
Rest of Africa (excluding Saham Finances)	1 446	1 185	758	556	1 160	358	3 364	2 099
Recurring	832	690	758	556	–	–	1 590	1 246
Single	614	495	–	–	1 160	358	1 774	853
Saham Finances	23	–	1 833	–	–	–	1 856	–
India	435	234	902	628	–	–	1 337	862
Recurring	260	147	902	628	–	–	1 162	775
Single	175	87	–	–	–	–	175	87
South-East Asia	416	341	358	433	–	–	774	774
Recurring	357	255	358	433	–	–	715	688
Single	59	86	–	–	–	–	59	86
Sanlam Investments[4]	3 187	3 751	–	–	119 692	109 918	122 879	113 669
Investment Management	3 187	3 751	–	–	119 692	109 909	122 879	113 660
Investment Management SA	–	–	–	–	89 917	83 132	89 917	83 132
Wealth Management[5]	–	–	–	–	15 993	14 346	15 993	14 346
International[5]	3 187	3 751	–	–	13 782	12 431	16 969	16 182
Recurring	58	52	–	–	22	16	80	68
Single	3 129	3 699	–	–	13 760	12 415	16 889	16 114
Capital Management	–	–	–	–	–	9	–	9
Santam	–	–	19 826	18 522	–	–	19 826	18 522
Sanlam Corporate[4]	5 029	2 913	–	–	–	–	5 029	2 913
Recurring	504	487	–	–	–	–	504	487
Single	4 525	2 426	–	–	–	–	4 525	2 426
Total new business	43 599	39 976	23 839	20 196	165 740	150 670	233 178	210 842

(1) *Life insurance business relates to business written under a life licence that is included in the calculation of embedded value of covered business.*

(2) *Includes life licence and investment business. Life licence business relates to investment products provided by means of a life insurance policy where there is very little or no insurance risk. Life licence business is excluded from the calculation of embedded value of covered business.*

(3) *Comparative information has been adjusted for the reallocation of Glacier Namibia single premiums from Sanlam Personal Finance to Sanlam Emerging Markets.*

(4) *Comparative information has been adjusted for the reallocation of Sanlam Employee Benefits from Sanlam Investments to Sanlam Corporate.*

(5) *Comparative information has been adjusted for the reallocation of business units between the International and Wealth Management sub-clusters.*

1. Business volumes (continued)

1.1 Analysis of new business and total funds received (continued)

R million	Life insurance[1] 2016	Life insurance[1] 2015	General insurance 2016	General insurance 2015	Investment business[2] 2016	Investment business[2] 2015	Total 2016	Total 2015
Recurring premiums on existing funds:								
Sanlam Personal Finance	16 094	15 454	–	–	197	221	16 291	15 675
Sanlam Sky	4 338	4 039	–	–	–	–	4 338	4 039
Individual Life	11 756	11 415	–	–	197	221	11 953	11 636
Sanlam Emerging Markets	5 040	4 407	–	–	–	57	5 040	4 464
Namibia	1 011	916	–	–	–	–	1 011	916
Botswana	1 126	1 008	–	–	–	–	1 126	1 008
Rest of Africa (excluding Saham Finances)	907	865	–	–	–	57	907	922
Saham Finances	166	–	–	–	–	–	166	–
India	199	124	–	–	–	–	199	124
South-East Asia	1 631	1 494	–	–	–	–	1 631	1 494
Sanlam Investments[3]	407	404	–	–	2 332	2 548	2 739	2 952
Investment Management SA	–	–	–	–	2 272	2 480	2 272	2 480
International	407	404	–	–	60	68	467	472
Sanlam Corporate [3]	5 169	4 257	–	–	–	–	5 169	4 257
Total funds received	70 309	64 498	23 839	20 196	168 269	153 496	262 417	238 190

[1] *Life insurance business relates to business written under a life licence that is included in the calculation of embedded value of covered business.*

[2] *Includes life licence and investment business. Life licence business relates to investment products provided by means of a life insurance policy where there is very little or no insurance risk. Life licence business is excluded from the calculation of embedded value of covered business.*

[3] *Comparative information has been adjusted for the reallocation of Sanlam Employee Benefits from Sanlam Investments to Sanlam Corporate.*

Notes to the shareholders' fund information continued

for the year ended 31 December 2016

1. Business volumes (continued)

1.2 Analysis of payments to clients

R million	Life insurance[1] 2016	Life insurance[1] 2015	General insurance 2016	General insurance 2015	Investment business[2] 2016	Investment business[2] 2015	Total 2016	Total 2015
Sanlam Personal Finance	38 971	34 983	–	–	22 575	19 723	61 546	54 706
Sanlam Sky	2 460	2 579	–	–	–	–	2 460	2 579
Surrenders	433	468	–	–	–	–	433	468
Other	2 027	2 111	–	–	–	–	2 027	2 111
Individual Life	29 090	26 896	–	–	524	574	29 614	27 470
Surrenders	4 011	3 945	–	–	–	–	4 011	3 945
Other	25 079	22 951	–	–	524	574	25 603	23 525
Glacier[3]	7 421	5 508	–	–	22 051	19 149	29 472	24 657
Sanlam Emerging Markets	7 307	5 848	2 532	1 195	7 968	18 579	17 807	25 622
Namibia	1 678	1 401	–	–	5 115	3 836	6 793	5 237
Surrenders	169	147	–	–	–	–	169	147
Other[3]	1 509	1 254	–	–	5 115	3 836	6 624	5 090
Botswana	2 098	1 632	78	19	2 621	14 536	4 797	16 187
Surrenders	441	450	–	–	–	–	441	450
Other	1 657	1 182	78	19	2 621	14 536	4 356	15 737
Rest of Africa (excluding Saham Finances)	1 205	1 055	371	300	232	207	1 808	1 562
Surrenders	268	186	–	–	–	–	268	186
Other	937	869	371	300	232	207	1 540	1 376
Saham Finances	192	–	1 009	–	–	–	1 201	–
Surrenders	–	–	–	–	–	–	–	–
Other	192	–	1 009	–	–	–	1 201	–
India	306	164	912	559	–	–	1 218	723
Surrenders	180	88	–	–	–	–	180	88
Other	126	76	912	559	–	–	1 038	635
South-East Asia	1 828	1 596	162	317	–	–	1 990	1 913
Sanlam Investments[4]	3 846	3 927	–	–	116 557	115 717	120 403	119 644
Investment Management	3 846	3 927	–	–	116 522	115 706	120 368	119 633
Investment Management SA	–	–	–	–	83 404	86 365	83 404	86 365
Wealth Management[5]	–	–	–	–	14 786	14 013	14 786	14 013
International[5]	3 846	3 927	–	–	18 332	15 328	22 178	19 255
Capital Management	–	–	–	–	35	11	35	11
Santam	–	–	12 911	11 510	–	–	12 911	11 510
Sanlam Corporate[4]	8 829	7 659	–	–	–	–	8 829	7 659
Terminations	1 843	1 706	–	–	–	–	1 843	1 706
Other	6 986	5 953	–	–	–	–	6 986	5 953
Total payments to clients	58 953	52 417	15 443	12 705	147 100	154 019	221 496	219 141

[1] *Life insurance business relates to business written under a life licence that is included in the calculation of embedded value of covered business.*

[2] *Includes life licence and investment business. Life licence business relates to investment products provided by means of a life insurance policy where there is very little or no insurance risk. Life licence business is excluded from the calculation of embedded value of covered business.*

[3] *Comparative information has been adjusted for the reallocation of Glacier Namibia from Sanlam Personal Finance to Sanlam Emerging Markets.*

[4] *Comparative information has been adjusted for the reallocation of Sanlam Employee Benefits from Sanlam Investments to Sanlam Corporate.*

[5] *Comparative information has been adjusted for the reallocation of business units between the International and Wealth Management sub-clusters.*

1. Business volumes (continued)

1.3 Analysis of net inflow/(outflow) of funds

R million	Life insurance[1] 2016	Life insurance[1] 2015	General insurance 2016	General insurance 2015	Investment business[2] 2016	Investment business[2] 2015	Total 2016	Total 2015
Sanlam Personal Finance	7 298	8 914	–	–	9 195	13 228	16 493	22 142
Sanlam Sky	3 173	2 739	–	–	–	–	3 173	2 739
Individual Life	(4 682)	(2 919)	–	–	(73)	(86)	(4 755)	(3 005)
Glacier[3]	8 807	9 094	–	–	9 268	13 314	18 075	22 408
Sanlam Emerging Markets	2 941	3 428	1 481	479	6 507	(10 500)	10 929	(6 593)
Namibia[3]	521	537	–	–	(654)	574	(133)	1 111
Botswana	728	1 463	84	38	6 233	(11 282)	7 045	(9 781)
Rest of Africa (excluding Saham Finances)	1 148	995	387	256	928	208	2 463	1 459
Saham Finances	(3)	–	824	–	–	–	821	–
India	328	194	(10)	69	–	–	318	263
South-East Asia	219	239	196	116	–	–	415	355
Sanlam Investments[4]	(252)	228	–	–	5 467	(3 251)	5 215	(3 023)
Investment Management	(252)	228	–	–	5 502	(3 249)	5 250	(3 021)
Investment Management SA	–	–	–	–	8 785	(753)	8 785	(753)
Wealth Management[5]	–	–	–	–	1 207	333	1 207	333
International[5]	(252)	228	–	–	(4 490)	(2 829)	(4 742)	(2 601)
Capital Management	–	–	–	–	(35)	(2)	(35)	(2)
Santam	–	–	6 915	7 012	–	–	6 915	7 012
Sanlam Corporate[4]	1 369	(489)	–	–	–	–	1 369	(489)
Total net inflow	11 356	12 081	8 396	7 491	21 169	(523)	40 921	19 049

(1) *Life insurance business relates to business written under a life licence that is included in the calculation of embedded value of covered business.*

(2) *Includes life licence and investment business. Life licence business relates to investment products provided by means of a life insurance policy where there is very little or no insurance risk. Life licence business is excluded from the calculation of embedded value of covered business.*

3) *Comparative information has been adjusted for the reallocation of Glacier Namibia from Sanlam Personal Finance to Sanlam Emerging Markets.*

(4) *Comparative information has been adjusted for the reallocation of Sanlam Employee Benefits from Sanlam Investments to Sanlam Corporate.*

(5) *Comparative information has been adjusted for the reallocation of business units between the International and Wealth Management sub-clusters.*

2. Cluster information

2.1 Sanlam Personal Finance

Analysis of Group Equity Value (GEV)

R million	GEV at the beginning of period	Earnings	Net capital invest-ment	Dividend paid	GEV at the end of period	RoGEV (%)
2016						
Covered business	34 526	7 402	(32)	(3 680)	38 216	21,4
Non-life operations	2 946	1 101	(21)	(364)	3 662	37,4
Glacier	1 605	772	–	(185)	2 192	48,1
Sanlam Personal Loans	913	212	–	(126)	999	23,2
Other operations	428	117	(21)	(53)	471	27,3
Group Equity Value	37 472	8 503	(53)	(4 044)	41 878	22,7
2015						
Covered business	35 444	4 363	(1 835)	(3 446)	34 526	12,3
Non-life operations	2 932	286	66	(338)	2 946	9,8
Glacier	1 542	257	–	(194)	1 605	16,7
Sanlam Personal Loans	907	111	–	(105)	913	12,2
Other operations	483	(82)	66	(39)	428	(17,0)
Group Equity Value	38 376	4 649	(1 769)	(3 784)	37 472	12,1

Comparative information has been adjusted for the reallocation of of the health businesses to Sanlam Corporate.

2. Cluster information (continued)

2.1 Sanlam Personal Finance (continued)

Business volumes

R million	Life business 2016	Life business 2015	Investment business 2016	Investment business 2015	Total 2016	Total 2015
New business volumes						
Sanlam Sky	1 295	1 279	–	–	1 295	1 279
Individual life	1 004	1 009	–	–	1 004	1 009
Group life	291	270	–	–	291	270
Individual life	12 652	12 562	254	267	12 906	12 829
Recurring premiums	1 714	1 523	28	24	1 742	1 547
Single premiums	10 938	11 039	226	243	11 164	11 282
Glacier[1]	16 228	14 602	31 319	32 463	47 547	47 065
Total	30 175	28 443	31 573	32 730	61 748	61 173
Net fund flows	7 298	8 914	9 195	13 228	16 493	22 142
Sanlam Sky	3 173	2 739	–	–	3 173	2 739
Individual life	(4 682)	(2 919)	(73)	(86)	(4 755)	(3 005)
Glacier[1]	8 807	9 094	9 268	13 314	18 075	22 408

Value of new covered business

R million	Value of new business 2016	Value of new business 2015	Present value of new business premiums 2016	Present value of new business premiums 2015	New business margin – % 2016	New business margin – % 2015
Sanlam Sky	354	241	4 684	4 114	7,56	5,86
Individual life	601	502	20 644	19 347	2,91	2,59
Glacier[1]	208	212	16 179	14 580	1,29	1,45
Total	1 163	955	41 507	38 041	2,80	2,51

(1) *Comparative information has been adjusted for the reallocation of Glacier Namibia from Sanlam Personal Finance to Sanlam Emerging Markets.*

2. Cluster information (continued)

2.1 Sanlam Personal Finance (continued)

Analysis of earnings

R million	Life insurance 2016	Life insurance 2015	Non-life operations 2016	Non-life operations 2015	Total 2016	Total 2015
Gross result from financial services	5 124	4 778	567	520	5 691	5 298
Sanlam Sky	1 194	1 125	–	–	1 194	1 125
Individual Life – life and investment	3 574	3 348	54	30	3 628	3 378
Investment products	1 241	1 269	–	–	1 241	1 269
Risk products	385	826	–	–	385	826
Asset mismatch reserve release	487	468	–	–	487	468
Annuities, combined products and other	1 461	785	54	30	1 515	815
Glacier	232	184	284	242	516	426
Sanlam Personal Loans	124	121	208	225	332	346
Other operations	–	–	21	23	21	23
Tax on result from financial services	(1 444)	(1 332)	(146)	(144)	(1 590)	(1 476)
Non-controlling interest	–	–	(2)	(4)	(2)	(4)
Net result from financial services	3 680	3 446	419	372	4 099	3 818
Net investment return	149	676	759	(730)	908	(54)
Operations	149	676	18	14	167	690
Sanlam Limited shares	–	–	567	(836)	567	(836)
Discretionary capital and other	–	–	174	92	174	92
Net other earnings	(34)	(34)	5	(12)	(29)	(46)
Profit on disposal of subsidiaries and associated companies	–	–	15	–	15	-
Amortisation of value of business acquired and other intangibles	(34)	(34)	(5)	(12)	(39)	(46)
Impairments	–	–	(5)	–	(5)	-
Normalised attributable earnings	3 795	4 088	1 183	(370)	4 978	3 718

Comparative information has been adjusted for the reallocation of the health businesses to Sanlam Corporate.

2. Cluster information (continued)

2.1 Sanlam Personal Finance (continued)

Assets under management

R million	2016	2015
Sanlam Sky: Life insurance operations	5 372	5 318
Individual life	228 580	226 626
Life insurance operations	226 299	224 302
Investment operations	2 281	2 324
Glacier[(1)]	205 467	184 545
Life insurance operations	86 735	77 984
Investment operations	118 732	106 561
Total	439 419	416 489
Life insurance operations	318 406	307 604
Investment operations	121 013	108 885
	439 419	416 489

(1) *Comparative information has been adjusted for the reallocation of Glacier Namibia from Sanlam Personal Finance to Sanlam Emerging Markets.*

Sanlam Personal Loans		
Gross size of loan book (R million)	4 398	4 195
Interest margin	16,9%	17,0%
Bad debt ratio	5,0%	5,4%
Administration cost as % of net interest	30,1%	27,4%

2. Cluster information (continued)

2.2 Sanlam Emerging Markets

Analysis of Group Equity Value (GEV)

R million	GEV at the beginning of period	Earnings	Net capital investment	Dividend paid	GEV at the end of period	RoGEV %
2016						
Covered business	5 486	37	1 446	(599)	6 370	0,7
Non-life operations	12 561	(528)	4 574	(880)	15 727	(3,4)
Shriram Capital	7 594	143	308	(82)	7 963	1,9
Saham Finances	–	(214)	3 411	–	3 197	(7,5)
Letshego	1 106	17	120	(53)	1 190	1,4
Pacific & Orient	812	(260)	–	(76)	476	(32,0)
Capricorn Investment Holdings	877	219	–	(19)	1 077	25,0
Sanlam Emerging Markets other operations	2 172	(433)	735	(650)	1 824	(19,3)
Group Equity Value	18 047	(491)	6 020	(1 479)	22 097	(2,3)
2015						
Covered business	5 116	1 403	(430)	(603)	5 486	27,4
Non-life operations	9 455	2 966	831	(691)	12 561	31,2
Shriram Capital	5 595	2 068	28	(97)	7 594	37,0
Letshego	923	229	–	(46)	1 106	24,8
Pacific & Orient	704	128	–	(20)	812	18,2
Capricorn Investment Holdings	845	47	–	(15)	877	5,6
Sanlam Emerging Markets other operations	1 388	494	803	(513)	2 172	34,7
Group Equity Value	14 571	4 369	401	(1 294)	18 047	29,9

2. Cluster information (continued)

2.2 Sanlam Emerging Markets (continued)

Business volumes

R million	New business volumes 2016	New business volumes 2015	Net fund flows 2016	Net fund flows 2015	Value of new business 2016	Value of new business 2015	Present value of new business premiums 2016	Present value of new business premiums 2015	New business margin (%) 2016	New business margin (%) 2015
Namibia[1]	5 649	5 432	(133)	1 111	123	86	1 918	1 563	6,41	5,50
Botswana	10 716	5 398	7 045	(9 781)	216	204	2 849	2 923	7,58	6,98
Rest of Africa (excluding Saham Finances)	3 364	2 099	2 463	1 459	106	110	2 349	1 925	4,47	5,71
Saham Finances	1 856	–	821	–	16	–	155	–	10,32	–
India	1 337	862	318	263	16	7	752	441	2,13	1,59
South-East Asia	774	774	415	355	56	41	1 633	1 189	3,43	3,45
	23 696	14 565	10 929	(6 593)	533	448	9 656	8 041	5,51	5,57

[1] *Comparative information has been adjusted for the reallocation of Glacier Namibia from Sanlam Personal Finance to Sanlam Emerging Markets.*

Analysis of earnings

R million	2016	2015
Net result from financial services	1 557	1 197
Life insurance	599	603
General insurance	254	93
Investment management	49	47
Credit and banking	684	468
Other	(29)	(14)
Net investment return	216	367
Net investment income	198	129
Net investment surpluses	18	238
Net other earnings	(256)	(119)
Project expenses	(28)	(14)
Amortisation of value of business acquired and other intangibles	(45)	(58)
Profit/(loss) on disposal of subsidiaries and associated companies	16	(1)
Net equity-accounted headline earnings	31	7
Impairments	(230)	(53)
Normalised attributable earnings	1 517	1 445

2. Cluster information (continued)

2.2 Sanlam Emerging Markets (continued)

Analysis of net result from financial services

	Life insurance		Non-life operations		Total	
R million	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Namibia	**151**	197	**151**	148	**302**	345
Botswana	**231**	232	**146**	141	**377**	373
Rest of Africa (excluding Saham Finances)	**200**	138	**11**	(9)	**211**	129
Saham Finances	**18**	–	**70**	–	**88**	–
South-East Asia	**13**	21	**48**	8	**61**	29
India	**(14)**	12	**548**	311	**534**	323
Corporate and other	**–**	3	**(16)**	(5)	**(16)**	(2)
Net result from financial services	**599**	603	**958**	594	**1 557**	1 197

Analysis of net investment return

	Life insurance		Non–life operations		Total	
R million	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Namibia	**59**	40	**12**	8	**71**	48
Botswana	**3**	42	**10**	45	**13**	87
Rest of Africa (excluding Saham Finances)	**39**	92	**20**	46	**59**	138
Saham Finances	**6**	–	**20**	–	**26**	–
South-East Asia	**23**	48	**8**	8	**31**	56
India	**41**	16	**61**	40	**102**	56
Corporate and other	**–**	–	**(86)**	(18)	**(86)**	(18)
Net investment return	**171**	238	**45**	129	**216**	367

Assets under management

R million	**2016**	**2015**
Life insurance operations[(1)]	**42 033**	44 498
Investment operations	**32 793**	26 623
Namibia[(1)]	**19 679**	18 912
Botswana	**11 721**	7 482
Rest of Africa	**1 393**	229
Assets under management	**74 826**	71 121

(1) *Comparative information has been adjusted for the reallocation of Glacier Namibia from Sanlam Personal Finance to Sanlam Emerging Markets.*

2. Cluster information (continued)

2.3 Sanlam Investments

Analysis of Group Equity Value (GEV)

R million	GEV at the beginning of period	Earnings	Net capital invest-ment	Dividend paid	GEV at the end of period	RoGEV (%)
2016						
Investment Management	16 235	(603)	326	(751)	15 207	(1,4)
Investment Management SA	6 287	1 030	296	(542)	7 071	16,4
Wealth Management	1 759	337	156	(97)	2 155	19,2
International	8 189	(1 970)	(126)	(112)	5 981	(24,1)
Covered business	1 633	(403)	(82)	(11)	1 137	(24,7)
Other operations	6 556	(1 567)	(44)	(101)	4 844	(23,9)
Sanlam Capital Management	600	281	–	(281)	600	46,8
Group Equity Value	16 835	(322)	326	(1 032)	15 807	(1,9)
2015						
Sanlam Investment Management	12 882	3 249	1 144	(1 040)	16 235	25,2
Investment Management SA	4 908	1 178	566	(365)	6 287	22,0
Wealth Management[1]	1 497	390	19	(147)	1 759	25,9
International	6 477	1 681	559	(528)	8 189	26,0
Covered business	1 193	277	237	(74)	1 633	23,2
Other operations[1]	5 284	1 404	322	(454)	6 556	26,7
Sanlam Capital Management	600	143	–	(143)	600	23,8
Group Equity Value	13 482	3 392	1 144	(1 183)	16 835	24,3

[1] *Comparative information has been adjusted for the reallocation of business units between the International, Wealth Management, Capital Management and Investment Management SA sub-clusters. Sanlam Employee Benefits was also reallocated to the Sanlam Corporate cluster.*

2. Cluster information (continued)

2.3 Sanlam Investments (continued)

Business volumes

	New business volumes	
R million	**2016**	**2015**
Investment Management	122 879	113 660
Investment Management SA	89 917	83 132
Wealth Management [1]	15 993	14 346
International[1]	16 969	16 182
Sanlam Capital Management	–	9
Total	122 879	113 669

[1] *Comparative information has been adjusted for the reallocation of business units between the International and Wealth Management sub-clusters.*

Analysis of earnings

R million
Financial services income[2]
Sales remuneration
Income after sales remuneration
Administration cost[2]
Results from financial services before performance fees
Net performance fees
Results from financial services
Tax on result from financial services
Non-controlling interest
Net result from financial services
Net investment return
Net investment income
Net investment surpluses
Net other earnings
Project expenses
Amortisation of intangible assets
Other
Normalised attributable earnings

[2] *Financial services income and administration costs on page 180 includes performance fees and the related administration costs.*

[3] *Comparative information has been adjusted for the reallocation of Sanlam Private Equity from Capital Management to Investment Management.*

Net fund flows 2016	Net fund flows 2015	Value of new business 2016	Value of new business 2015	Present value of new business premiums 2016	Present value of new business premiums 2015	New business margin % 2016	New business margin % 2015
5 250	(3 021)	7	26	3 411	3 947	0,21	0,66
8 785	(753)	–	–	–	–	–	–
1 207	333	–	–	–	–	–	–
(4 742)	(2 601)	7	26	3 411	3 947	0,21	0,66
(35)	(2)	–	–	–	–	–	–
5 215	(3 023)	7	26	3 411	3 947	0,21	0,66

Investment Management[3] 2016	Investment Management[3] 2015	Capital Management[3] 2016	Capital Management[3] 2015	Total 2016	Total 2015
4 617	4 518	707	418	5 324	4 936
(193)	(198)	–	–	(193)	(198)
4 424	4 320	707	418	5 131	4 738
(3 393)	(3 303)	(360)	(273)	(3 753)	(3 576)
1 031	1 017	347	145	1 378	1 162
127	214	–	–	127	214
1 158	1 231	347	145	1 505	1 376
(311)	(284)	(77)	(2)	(388)	(286)
(21)	(34)	–	–	(21)	(34)
826	913	270	143	1 096	1 056
(20)	6	–	(12)	(20)	(6)
21	9	–	–	21	9
(41)	(3)	–	(12)	(41)	(15)
(163)	(185)	–	–	(163)	(185)
(1)	–	–	–	(1)	–
(153)	(179)	–	–	(153)	(179)
(9)	(6)	–	–	(9)	(6)
643	734	270	131	913	865

2. Cluster information (continued)

2.3 Sanlam Investments (continued)

Investment management

Analysis of net result from financial services

R million	2016	2015
Investment management	815	839
Investment Management SA[2]	513	534
Wealth Management[1]	127	131
International[1]	169	214
Support services	6	(40)
Capital Management[2]	270	143
Asset management operations	1 085	982
Covered business:		
Sanlam UK	11	74
Sanlam Investments total	1 096	1 056

[1] *Comparative information has been adjusted for the reallocation of business units between the International and Wealth Management sub-clusters.*

[2] *Comparative information has been adjusted for the reallocation of Sanlam Private Equity from Capital Management to Investment Management SA.*

Assets under management

	Assets under management		Fee Income		Administration cost	
	2016	2015	2016	2015	2016	2015
	R million	R million	%	%	%	%
Investment Management SA[1]	672 154	627 274	0,31	0,32	0,22	0,23
Wealth Management[1]	142 360	133 606	0,77	0,69	0,61	0,53
International[1]	141 411	188 011	0,71	0,75	0,59	0,61
Inter-cluster eliminations	(163 622)	(162 346)	–	–	–	–
Asset management operations	792 303	786 545				
Covered business:						
Sanlam UK	42 827	51 787				
Sanlam Investments total	835 130	838 332				

[1] *Comparative information has been adjusted for the reallocation of business units between the International, Wealth Management, Capital Management and Investment Management SA sub-clusters.*

2. Cluster information (continued)

2.3 Sanlam Investments (continued)

Asset mix of assets under management

R million	Fixed interest	Equities	Offshore	Properties	Cash	Total
2016						
Investment Management SA	**160 501**	**308 452**	**67 703**	**19 865**	**115 633**	**672 154**
Wealth Management	**–**	**108 791**	**29 464**	**–**	**4 105**	**142 360**
International	**–**	**–**	**141 411**	**–**	**–**	**141 411**
Inter-cluster consolidation						**(163 622)**
Assets under management – Sanlam Investments	**160 501**	**417 243**	**238 578**	**19 865**	**119 738**	**792 303**
2015						
Investment Management SA[1]	143 451	279 328	71 566	17 088	115 841	627 274
Wealth Management[1]	-	103 407	26 583	-	3 616	133 606
International[1]	-	-	188 011	-	-	188 011
Inter-cluster consolidation						(162 346)
Assets under management – Sanlam Investments	143 451	382 735	286 160	17 088	119 457	786 545

[1] *Comparative information has been adjusted for the reallocation of business units between the International, Wealth Management, Capital Management and Investment Management SA sub-clusters.*

2. Cluster information (continued)

2.3 Sanlam Investments (continued)

Sanlam Investments and Pensions

(included in Investment Management on page 195)

R million	2016	2015
Analysis of attributable earnings		
Financial services income	306	292
Sales remuneration	(131)	(129)
Income after sales remuneration	175	163
Administration cost	(164)	(89)
Gross result from financial services	11	74
Tax on result from financial services	–	–
Net result from financial services	11	74
Net investment return	2	2
Normalised attributable earnings	13	76

2.4 Santam

	2016	2015
Business volumes		
Gross written premiums	25 909	24 319
Net earned premiums	19 826	18 522
Net fund flows	6 915	7 012
Analysis of earnings		
Gross result from financial services	2 050	2 321
Net result from financial services	814	933
Ratios		
Admin cost ratio	17,9%	18,9%
Claims ratio	65,1%	62,1%
Underwriting margin	6,4%	9,6%

2. Cluster information (continued)

2.5 Sanlam Corporate

Analysis of Group Equity Value (GEV)

R million	GEV at the beginning of period	Earnings	Net capital investment	Dividend paid	GEV at the end of period	RoGEV (%)
2016						
Covered business	5 577	437	(64)	(427)	5 523	7,8
Non-life operations	777	176	–	(91)	862	22,7
Afrocentric	703	156	–	(84)	775	22,2
Other operations	74	20	–	(7)	87	27,0
Group Equity Value	6 354	613	(64)	(518)	6 385	9,6
2015						
Covered business	6 640	994	(1 696)	(361)	5 577	15,0
Non-life operations	77	9	703	(12)	777	11,7
Afrocentric	–	–	703	–	703	–
Other operations	77	9	–	(12)	74	11,7
Group Equity Value	6 717	1 003	(993)	(373)	6 354	14,9

Business volumes

Sanlam Employee Benefits

R million	2016	2015
New business volumes	5 029	2 913
Recurring premiums	504	487
Guaranteed	272	186
Risk	232	301
Single premiums	4 525	2 426
Guaranteed	1 428	1 069
Risk	60	70
Retirement	2 310	566
Annuity	374	565
Special structures	353	156
Net fund flows	1 369	(489)
Value of new business	76	85
Present value of new business	7 811	4 333
New business margin	0,97%	1,96%

2. Cluster information (continued)

2.5 Sanlam Corporate (continued)

Analysis of earnings

R million	Sanlam Employee Benefits 2016	Sanlam Employee Benefits 2015	Sanlam Healthcare and other 2016	Sanlam Healthcare and other 2015	Total 2016	Total 2015
Financial services income	3 974	3 573	243	118	4 217	3 691
Sales remuneration	(54)	(50)	–	–	(54)	(50)
Income after sales remuneration	3 920	3 523	243	118	4 163	3 641
Underwriting policy benefits	(2 355)	(2 135)	–	–	(2 355)	(2 135)
Administration cost	(971)	(887)	(125)	(103)	(1 096)	(990)
Result from financial services	594	501	118	15	712	516
Tax on result from financial services	(167)	(140)	(35)	(2)	(202)	(142)
Non-controlling interest	–	–	–	–	–	–
Net result from financial services	427	361	83	13	510	374
Risk underwriting	131	210	–	–	131	210
Investment and other	256	128	–	–	256	128
Working capital management	58	42	–	–	58	42
Administration	(18)	(19)	83	13	65	(6)
Net investment return	61	392	(9)	–	52	392
Net investment income	154	180	–	–	154	180
Net investment surpluses	(93)	212	–	–	(93)	212
Net equity-accounted headline earnings	–	–	(9)	–	(9)	–
Net other earnings	–	–	(5)	(4)	(5)	(4)
Normalised attributable earnings	488	753	69	9	557	762

2. Cluster information (continued)

2.6 Valuation methodology

The fair value of the unlisted Sanlam businesses has been determined by the application of the following valuation methodologies:

R million	Fair value 2016	Fair value 2015
Valuation method		
Discounted cash flows	**32 559**	28 915
Sanlam Investments	**13 240**	13 785
Investment Management SA[1]	**6 514**	5 742
Wealth Management[1]	**2 066**	1 808
International[1]	**4 660**	6 235
Sanlam Emerging Markets	**14 795**	11 407
Shriram Capital[2]	**7 963**	7 594
Saham Finances	**3 197**	–
Letshego[2]	**1 190**	1 106
Pacific & Orient	**476**	812
Capricorn Investment Holdings[2]	**1 077**	877
Other operations	**892**	1 018
Sanlam Personal Finance	**3 662**	2 946
Glacier	**2 192**	1 605
Sanlam Personal Loans	**999**	913
Other operations[3]	**471**	428
Sanlam Corporate[3]	**862**	777
Afrocentric	**775**	703
Other operations	**87**	74
Net asset value	**2 362**	2 571
Sanlam Investments	**1 430**	1 417
Investment Management SA[1]	**557**	578
Wealth Management[1]	**89**	(49)
International[1]	**184**	288
Capital Management	**600**	600
Sanlam Emerging Markets	**932**	1 154
	34 921	31 486

(1) *Comparative information has been adjusted for the reallocation of business units between the International and Wealth Management sub-clusters and Sanlam Private Equity from Capital Manangement to Investment Management SA.*

(2) *Includes the listed businesses at directors' valuation of R6 189 million (2015: R6 183 million) for Shriram Capital, R1 190 million (2015: R1 106 million) for Letshego and R1 077 million (2015: R877 million) for Capricorn Investment Holdings. The listed values of these operations are R5 923 million (2015: R6 634 million), R1 008 million (2015: R1 250 million) and R1 159 million (2015: R1 169 million) respectively.*

(3) *Comparative information has been adjusted for the reallocation of business units between Sanlam Personal Finance and Sanlam Corporate.*

2. Cluster information (continued)

2.6 Valuation methodology (continued)

The main assumptions applied in the primary valuation for the unlisted businesses are presented below. The sensitivity analysis is based on the following changes in assumptions:

	Change in assumption	
	2016	2015
Risk discount rate (RDR)	1,0	1,0
Perpetuity growth rate (PGR)	1,0	1,0

R million	Weighted average assumption	Base value	Decrease in assumption	Increase in assumption
Discounted cash flows	RDR = 14,5% (2015: 15,4%)	32 559	37 212	28 929
Perpetuity growth rate	PGR = 2 – 5% (2015: 2,5 – 5%)	32 559	30 675	34 952

3. Investments

3.1 Investment in associated companies

R million	2016	2015
Shriram Capital	5 680	6 425
Shriram Transport Finance Company – direct investment	1 214	1 279
Shriram General Insurance – direct investment	721	–
Shriram Life Insurance – direct investment	453	–
Saham Finances	4 810	–
Pacific & Orient	777	1 043
Capricorn Investment Holdings	1 020	920
Letshego	1 842	1 784
Afrocentric	753	703
Other associated companies	2 435	2 520
Total investment in associated companies	**19 705**	14 674

Details of the investments in the material associated companies are reflected in note 7.2 on page 92 of the Sanlam Group Annual Financial Statements online.

3.2 Investment in joint ventures

	2016	2015
Sanlam Personal Loans	748	739
Other joint ventures	134	133
Total investment in joint ventures	**882**	872

Details of the investments in material joint ventures are reflected in note 7.2 on page 92 of the Sanlam Group Annual Financial Statements online.

3.3 Investments include the following offshore investments

R million	2016	2015
Investment properties	909	880
Equities	521	305
Structured transactions	2	(10)
Interest-bearing investments	2 181	2 518
Investment funds	1 672	2 519
Cash, deposits and similar securities	4 726	7 255
Total offshore investments	10 011	13 467

4. Financial services income

	2016	2015
Equity-accounted earnings included in financial services income		
Sanlam Personal Finance	214	225
Sanlam Emerging Markets	2 180	1 392
Santam	46	45
Sanlam Investments	163	37
Sanlam Corporate	114	–
	2 717	1 699

5. Sales remuneration

	2016	2015
Life operations	4 204	3 830
Non-life operations	2 554	2 169
	6 758	5 999

6. Administration costs

	2016	2015
Life operations	6 146	5 502
Non-life operations	8 468	8 130
	14 614	13 632
Depreciation included in administration costs:		
Sanlam Personal Finance	112	106
Sanlam Emerging Markets	66	66
Santam	27	21
Sanlam Investments	73	67
Sanlam Corporate	2	–
	280	260

7. Investment income

	2016	2015
Equities and similar securities	572	654
Interest-bearing, preference shares and similar securities	691	679
Properties	49	20
Rental income	50	21
Contingent rental income	4	4
Rental-related expenses	(5)	(5)
Total investment income	1 312	1 353
Interest expense netted off against investment income	505	398

8. Normalised diluted earnings per share

Cents	2016	2015
Normalised diluted earnings per share:		
Net result from financial services	389,4	355,2
Headline earnings	408,5	432,5
Profit attributable to shareholders' fund	396,9	437,0
R million		
Analysis of normalised earnings (refer shareholders' fund income statement on page 180):		
Net result from financial services	7 969	7 269
Headline earnings	8 360	8 851
Profit attributable to shareholders' fund	8 123	8 942
Reconciliation of normalised headline earnings:		
Headline earnings per note 28 on page 120 of the Annual Financial Statements	9 860	9 300
Less: Fund transfers	(1 500)	(449)
Normalised headline earnings	8 360	8 851
	Million	**Million**
Adjusted number of shares:		
Weighted average number of shares for diluted earnings per share (refer note 28 on page 120 of Annual Financial Statements)	2 020,1	2 024,0
Add: Weighted average Sanlam shares held by policyholders	26,4	22,3
Adjusted weighted average number of shares for normalised diluted earnings per share	2 046,5	2 046,3

9. Value per share

R million	2016	2015
Fair value per share is calculated on the Group shareholders' fund at fair value of R78 798 million (2015: R74 660 million), divided by 2 047,5 million (2015: 2 046,6 million) shares.		
Net asset value per share is calculated on the Group shareholders' fund at net asset value of R53 915 million (2015: R55 464 million), divided by 2 047,5 million (2015: 2 046,6 million) shares.		
Equity value per share is calculated on the Group Equity Value of R110 717 million (2015: R103 506 million), divided by 2 047,5 million (2015: 2 046,6 million) shares.		
Number of shares for value per share		
Number of ordinary shares in issue	**2 166,5**	2 166,5
Shares held by subsidiaries in shareholders' fund	**(138,9)**	(141,2)
Outstanding shares in respect of Sanlam Limited long-term incentive schemes	**19,9**	21,3
Adjusted number of shares for value per share	**2 047,5**	2 046,6

10. Present value of holding company expenses

The present value of holding company expenses has been calculated by applying a multiple of 8,9 (2015: 8,8) to the after tax recurring corporate expenses.

11. Share repurchases

Sanlam shareholders granted general authorities to the Group at the 2016 and 2015 annual general meetings to repurchase Sanlam shares in the market. The Group did not acquire any shares in 2016.

12. Reconciliations

12.1 Reconciliation between Group statement of comprehensive income and shareholders' fund income statement

R million	2016 Total	Shareholder activities	Policyholder activities[1]	IFRS adjustments[2]
Net income	86 695	55 666	29 913	1 116
Financial services income	58 189	54 382	–	3 807
Reinsurance premiums paid	(7 626)	–	–	(7 626)
Reinsurance commission received	1 396	–	–	1 396
Investment income	28 413	1 312	20 190	6 911
Investment surpluses	9 150	(28)	9 723	(545)
Finance cost – margin business	(106)	–	–	(106)
Change in fair value of external investors liability	(2 721)	–	–	(2 721)
Net insurance and investment contract benefits and claims	(49 329)	(20 332)	(29 005)	8
Long-term insurance contract benefits	(24 143)	(7 421)	(15 801)	(921)
Long-term investment contract benefits	(13 204)	–	(13 204)	–
General insurance claims	(17 423)	(12 911)	–	(4 512)
Reinsurance claims received	5 441	–	–	5 441
Expenses	(24 731)	(21 406)	–	(3 325)
Sales remuneration	(8 140)	(6 758)	–	(1 382)
Administration costs	(16 591)	(14 648)	–	(1 943)
Impairments	(340)	(265)	–	(75)
Amortisation of intangibles	(326)	(251)	–	(75)
Net operating result	11 969	13 412	908	(2 351)
Equity-accounted earnings	2 095	75	–	2 020
Finance cost – other	(460)	–	–	(460)
Profit before tax	13 604	13 487	908	(791)
Tax expense	(3 026)	(3 981)	(908)	1 863
Shareholders' fund	(1 832)	(3 981)	–	2 149
Policyholders' fund	(1 194)	–	(908)	(286)
Profit for the year	10 578	9 506	–	1 072
Attributable to:				
Shareholders' fund	9 623	8 123	–	1 500
Non-controlling interest	955	1 383	–	(428)
	10 578	9 506	–	1 072

(1) *Policyholder activities relate to the inclusion of policyholders' after-tax investment return, and the allocation thereof to policy liabilities, in the Group Statement of Comprehensive Income.*

(2) *IFRS adjustments relate to amounts that have been set-off in the shareholders' fund income statement that is not permitted in terms of IFRS, and fund transfers relating to investments in treasury shares and subsidiaries held by the policyholders' fund.*

	2015		
Total	Share-holder activities	Policy-holder activities[(1)]	IFRS adjust-ments[(2)]
85 293	52 608	30 018	2 667
53 754	49 365	–	4 389
(6 831)	–	–	(6 831)
1 275	–	–	1 275
25 241	1 353	17 903	5 985
13 942	1 890	12 115	(63)
(101)	–	–	(101)
(1 987)	–	–	(1 987)
(47 675)	(18 139)	(29 550)	14
(15 247)	(6 629)	(7 814)	(804)
(21 736)	–	(21 736)	–
(14 206)	(11 510)	–	(2 696)
3 514	–	–	3 514
(23 024)	(19 689)	–	(3 335)
(7 269)	(5 999)	–	(1 270)
(15 755)	(13 690)	–	(2 065)
(173)	(109)	–	(64)
(382)	(306)	–	(76)
14 039	14 365	468	(794)
1 310	57	–	1 253
(580)	–	–	(580)
14 769	14 422	468	(121)
(3 859)	(3 651)	(468)	260
(3 078)	(3 651)	–	573
(781)	–	(468)	(313)
10 910	10 771	–	139
9 391	8 942	–	449
1 519	1 829	–	(310)
10 910	10 771	–	139

12. Reconciliations (continued)

12.2 Reconciliation between Group statement of financial position and shareholders' fund at net asset value

R million	Total	Share-holder activities	Policy-holder activities[1]	Consoli-dation reserve
	31 December 2016			
ASSETS				
Equipment	881	840	41	–
Owner-occupied properties	1 171	824	347	–
Goodwill	3 596	3 596	–	–
Other intangible assets	575	544	31	–
Value of business acquired	1 606	1 606	–	–
Deferred acquisition costs	3 597	2 965	632	–
Long-term reinsurance assets	958	–	958	–
Investments	592 945	57 088	537 641	(1 784)
Properties	10 664	964	9 700	–
Associated companies	19 705	19 705	–	–
Joint ventures	1 855	882	973	–
Equities and similar securities	176 944	3 142	175 586	(1 784)
Interest-bearing investments	170 584	13 434	157 150	–
Structured transactions	13 756	1 496	12 260	–
Investment funds	161 050	10 697	150 353	–
Cash, deposits and similar securities	38 387	6 768	31 619	–
Deferred tax	1 880	621	–	1 259
Assets of disposal groups classified as held for sale	663	8	655	–
General insurance technical assets	5 022	5 022	–	–
Working capital assets	59 665	43 677	15 988	–
Trade and other receivables	40 904	25 571	15 333	–
Cash, deposits and similar securities	18 761	18 106	655	–
Total assets	672 559	116 791	556 293	(525)
EQUITY AND LIABILITIES				
Shareholders' fund	53 390	53 915	–	(525)
Non-controlling interest	5 696	5 605	91	–
Long-term policy liabilities	483 748	–	483 748	–
Insurance contracts	177 675	–	177 675	–
Investment contracts	306 073	–	306 073	–
Term finance	6 466	6 218	248	–
External investors in consolidated funds	55 486	–	55 486	–
Cell owners' interest	1 153	1 153	–	–
Deferred tax	2 069	1 131	938	–
Structured transactions liabilities	1 298	16	1 282	–
General insurance technical provisions	14 557	14 557	–	–
Working capital liabilities	48 696	34 196	14 500	–
Trade and other payables	46 636	32 364	14 272	–
Provisions	332	332	–	–
Taxation	1 728	1 500	228	–
Total equity and liabilities	672 559	116 791	556 293	(525)

[1] *Includes the impact of the consolidation of investment funds under IFRS 10.*

	31 December 2015		
Total	Share-holder activities	Policy-holder activities[1]	Consoli-dation reserve
892	866	26	–
1 329	845	484	–
3 895	3 895	–	–
487	443	44	–
1 943	1 943	–	–
3 463	2 853	610	–
945	–	945	–
590 894	57 745	534 992	(1 843)
11 606	1 010	10 596	–
14 674	14 674	–	–
1 325	872	453	–
189 214	5 970	185 087	(1 843)
165 260	15 890	149 370	–
14 179	1 703	12 476	–
157 289	6 355	150 934	–
37 347	11 271	26 076	–
368	368	–	–
540	540	–	–
4 251	4 251	–	–
65 501	46 999	18 502	–
45 360	28 084	17 276	–
20 141	18 915	1 226	–
674 508	120 748	555 603	(1 843)
53 621	55 464	–	(1 843)
6 571	6 571	–	–
480 910	–	480 910	–
183 972	–	183 972	–
296 938	–	296 938	–
5 637	5 184	453	–
53 641	–	53 641	–
980	980	–	–
2 180	1 098	1 082	–
2 374	34	2 340	–
13 523	13 523	–	–
55 071	37 894	17 177	–
52 751	35 875	16 876	–
319	319	–	–
2 001	1 700	301	–
674 508	120 748	555 603	(1 843)

Notes to the shareholders' fund information continued

for the year ended 31 December 2016

13. Geographical analysis

R million	Per shareholders fund' income statement on page 180	IFRS adjustments (refer note 12.1)	Total
Financial services income			
Financial services income is attributed to individual countries, based on where the holding company or subsidiaries are located.			
2016	**54 382**	**3 807**	**58 189**
South Africa	**44 948**	**5 228**	**50 176**
Rest of Africa	**5 669**	**(841)**	**4 828**
Other international[1]	**3 765**	**(580)**	**3 185**
2015	49 365	4 389	53 754
South Africa	41 327	5 094	46 421
Rest of Africa	4 769	(462)	4 307
Other international[1]	3 269	(243)	3 026

R million	Per analysis of shareholders' fund on page 178	Policyholders' fund	Total
Non-current assets[2]			
2016	**10 383**	**1 706**	**12 089**
South Africa	**8 169**	**1 088**	**9 257**
Rest of Africa	**412**	**242**	**654**
Other international[1]	**1 802**	**376**	**2 178**
2015	11 385	1 164	12 549
South Africa	8 509	437	8 946
Rest of Africa	513	219	732
Other international[1]	2 363	508	2 871

R million	2016	2015
Attributable earnings (per shareholders' fund income statement on page 180)	**9 623**	9 391
South Africa	**7 710**	7 940
Rest of Africa	**1 204**	1 015
Other international[1]	**709**	436

[1] *Other international comprises business in Europe, United Kingdom, Australia, India and South-East Asia.*

[2] *Non-current assets include property and equipment, owner-occupied properties, goodwill, value of business acquired, other intangible assets, non-current assets held for sale and deferred acquisition costs.*

Embedded value of covered business

at 31 December 2016

R million	Note	2016	2015
Sanlam Personal Finance		**38 216**	34 526
Adjusted net worth		**8 358**	8 287
Net value of in-force covered business		**29 858**	26 239
Value of in-force covered business		**31 823**	28 139
Cost of capital		**(1 965)**	(1 900)
Sanlam Emerging Markets		**6 370**	5 486
Adjusted net worth		**2 857**	2 323
Net value of in-force covered business		**3 513**	3 163
Value of in-force covered business		**5 712**	5 317
Cost of capital		**(562)**	(525)
Non-controlling interest		**(1 637)**	(1 629)
Sanlam UK[1]		**1 137**	1 633
Adjusted net worth		**466**	778
Net value of in-force covered business		**671**	855
Value of in-force covered business		**828**	1 066
Cost of capital		**(157)**	(211)
Sanlam Employee Benefits[2]		**5 523**	5 577
Adjusted net worth		**3 720**	3 720
Net value of in-force covered business		**1 803**	1 857
Value of in-force covered business		**2 857**	2 804
Cost of capital		**(1 054)**	(947)
Embedded value of covered business		**51 246**	47 222
Adjusted net worth[3]		**15 401**	15 108
Net value of in-force covered business	1	**35 845**	32 114
Embedded value of covered business		**51 246**	47 222

[1] *Sanlam UK is part of the Sanlam Investments cluster.*

[2] *Sanlam Employee Benefits is part of the Sanlam Corporate cluster.*

[3] *Excludes subordinated debt funding of Sanlam Life.*

Change in embedded value of covered business

for the year ended 31 December 2016

R million	Note	2016 Total	2016 Value of in-force	2016 Cost of capital	2016 Adjusted net worth	2015 Total	2015 Value of in-force	2015 Cost of capital	2015 Adjusted net worth
Embedded value of covered business at the beginning of the year		47 222	35 506	(3 392)	15 108	48 393	34 299	(3 092)	17 186
Value of new business	2	1 605	3 818	(224)	(1 989)	1 360	3 364	(200)	(1 804)
Net earnings from existing covered business		6 042	(721)	139	6 624	5 328	(703)	19	6 012
Expected return on value of in-force business		4 634	4 468	166	–	3 759	3 594	165	–
Expected transfer of profit to adjusted net worth		–	(5 723)	–	5 723	–	(5 177)	–	5 177
Operating experience variances	3	983	(33)	10	1 006	1 081	281	(5)	805
Operating assumption changes	4	425	567	(37)	(105)	488	599	(141)	30
Expected investment return on adjusted net worth		1 199	–	–	1 199	1 256	–	–	1 256
Embedded value earnings from operations		8 846	3 097	(85)	5 834	7 944	2 661	(181)	5 464
Economic assumption changes	5	485	509	(25)	1	(1 608)	(1 506)	(140)	38
Tax changes	6	422	679	(118)	(139)	7	5	1	1
Investment variances – value of in-force		(159)	(217)	3	55	(74)	(389)	78	237
Investment variances – investment return on adjusted net worth		(1 312)	–	–	(1 312)	443	–	–	443
Goodwill from business		(183)	(183)	–	–	(69)	(69)	–	–
Exchange rate movements		(626)	(713)	87	–	394	454	(60)	–
Embedded value earnings from covered business	7	7 473	3 172	(138)	4 439	7 037	1 156	(302)	6 183
Acquired value of in-force		1 247	655	(4)	596	124	51	2	71
Transfers from/(to) other Group operations		(13)	46	–	(59)	–	–	–	–
Transfers from covered business		(4 683)	–	–	(4 683)	(8 332)	–	–	(8 332)
Embedded value of covered business at the end of the year		51 246	39 379	(3 534)	15 401	47 222	35 506	(3 392)	15 108
Analysis of earnings from covered business									
Sanlam Personal Finance		7 402	3 638	(65)	3 829	4 363	267	(26)	4 122
Sanlam Emerging Markets		37	(281)	(20)	338	1 403	397	(79)	1 085
Sanlam UK		(403)	(238)	54	(219)	277	208	(155)	224
Sanlam Employee Benefits		437	53	(107)	491	994	284	(42)	752
Embedded value earnings from covered business		7 473	3 172	(138)	4 439	7 037	1 156	(302)	6 183

Value of new business

for the year ended 31 December 2016

R million	Note	2016	2015
Value of new business (at point of sale):			
Gross value of new business		**2 051**	1 729
Sanlam Personal Finance		**1 315**	1 065
Sanlam Emerging Markets		**589**	499
Sanlam UK		**13**	28
Sanlam Employee Benefits		**134**	137
Cost of capital		**(272)**	(215)
Sanlam Personal Finance		**(152)**	(110)
Sanlam Emerging Markets		**(56)**	(51)
Sanlam UK		**(6)**	(2)
Sanlam Employee Benefits		**(58)**	(52)
Value of new business		**1 779**	1 514
Sanlam Personal Finance		**1 163**	955
Sanlam Emerging Markets		**533**	448
Sanlam UK		**7**	26
Sanlam Employee Benefits		**76**	85
Value of new business attributable to:			
Shareholders' fund	2	**1 605**	1 360
Sanlam Personal Finance		**1 163**	955
Sanlam Emerging Markets		**359**	294
Sanlam UK		**7**	26
Sanlam Employee Benefits		**76**	85
Non-controlling interest		**174**	154
Sanlam Personal Finance		**–**	–
Sanlam Emerging Markets		**174**	154
Sanlam UK		**–**	–
Sanlam Employee Benefits		**–**	–
Value of new business		**1 779**	1 514
Geographical analysis:			
South Africa		**1 239**	1 040
Africa		**461**	400
Other international		**79**	74
Value of new business		**1 779**	1 514

Value of new business continued

for the year ended 31 December 2016

R million	Note	2016	2015[1]
Analysis of new business profitability:			
Before non-controlling interest:			
Present value of new business premiums		**62 383**	54 362
Sanlam Personal Finance		**41 507**	38 041
Sanlam Emerging Markets		**9 654**	8 041
Sanlam UK		**3 411**	3 947
Sanlam Employee Benefits		**7 811**	4 333
New business margin		**2,85%**	2,79%
Sanlam Personal Finance		**2,80%**	2,51%
Sanlam Emerging Markets		**5,52%**	5,57%
Sanlam UK		**0,21%**	0,66%
Sanlam Employee Benefits		**0,97%**	1,96%
After non-controlling interest:			
Present value of new business premiums		**59 556**	51 856
Sanlam Personal Finance		**41 507**	38 041
Sanlam Emerging Markets		**6 827**	5 535
Sanlam UK		**3 411**	3 947
Sanlam Employee Benefits		**7 811**	4 333
New business margin		**2,69%**	2,62%
Sanlam Personal Finance		**2,80%**	2,51%
Sanlam Emerging Markets		**5,26%**	5,31%
Sanlam UK		**0,21%**	0,66%
Sanlam Employee Benefits		**0,97%**	1,96%

[1] *Comparative information has been adjusted for the reallocation of Glacier Namibia from Sanlam Personal Finance to Sanlam Emerging Markets.*

Notes to the embedded value of covered business

for the year ended 31 December 2016

1. Value of in-force sensitivity analysis

	Gross value of in-force business R million	Cost of capital R million	Net value of in-force business R million	Change from base value %
Base value at 31 December 2016	**39 379**	**(3 534)**	**35 845**	
⊙ Risk discount rate increase by 1%	**37 204**	**(4 094)**	**33 110**	**(8)**
⊙ Investment return and inflation decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately	**40 394**	**(3 358)**	**37 036**	**3**
⊙ Equity and property values decrease by 10%, without a corresponding change in dividend and rental yields	**38 007**	**(3 455)**	**34 552**	**(4)**
⊙ Expected return on equity and property investments increase by 1%, without a corresponding change in discount rates	**39 949**	**(3 223)**	**36 726**	**2**
Expenses and persistency				
⊙ Non-commission maintenance expenses (excluding investment expenses) decrease by 10%	**40 777**	**(3 526)**	**37 251**	**4**
⊙ Discontinuance rates decrease by 10%	**40 540**	**(3 644)**	**36 896**	**3**
Insurance risk				
⊙ Mortality and morbidity decrease by 5% for life assurance business	**40 927**	**(3 516)**	**37 411**	**4**
⊙ Mortality and morbidity decrease by 5% for annuity business	**39 054**	**(3 530)**	**35 524**	**(1)**
Base value at 31 December 2015	35 506	(3 392)	32 114	
⊙ Risk discount rate increase by 1%	33 675	(4 025)	29 650	(8)
⊙ Investment return and inflation decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately	36 250	(3 206)	33 044	3
⊙ Equity and property values decrease by 10%, without a corresponding change in dividend and rental yields	34 166	(3 315)	30 851	(4)
⊙ Expected return on equity and property investments increase by 1%, without a corresponding change in discount rates	35 986	(3 083)	32 903	2
Expenses and persistency				
⊙ Non-commission maintenance expenses (excluding investment expenses) decrease by 10%	36 688	(3 392)	33 296	4
⊙ Discontinuance rates decrease by 10%	36 547	(3 492)	33 055	3
Insurance risk				
⊙ Mortality and morbidity decrease by 5% for life assurance business	36 927	(3 384)	33 543	4
⊙ Mortality and morbidity decrease by 5% for annuity business	35 248	(3 413)	31 835	(1)

2. Value of new business sensitivity analysis

	Gross value of new business R million	Cost of capital R million	Net value of new business R million	Change from base value %
Base value at 31 December 2016	**1 829**	**(224)**	**1 605**	
⊙ Risk discount rate increase by 1%	**1 598**	**(265)**	**1 333**	**(17)**
⊙ Investment return and inflation decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately	**1 900**	**(224)**	**1 676**	**4**
Expenses and persistency				
⊙ Non-commission maintenance expenses (excluding investment expenses) decrease by 10%	**1 990**	**(228)**	**1 762**	**10**
⊙ Acquisition expenses (excluding commission and commission related expenses) decrease by 10%	**1 991**	**(227)**	**1 764**	**10**
⊙ Discontinuance rates decrease by 10%	**2 065**	**(242)**	**1 823**	**14**
Insurance risk				
⊙ Mortality and morbidity decrease by 5% for life assurance business	**1 974**	**(226)**	**1 748**	**9**
⊙ Mortality and morbidity decrease by 5% for annuity business	**1 824**	**(227)**	**1 597**	**–**
Base value at 31 December 2015	1 560	(200)	1 360	
⊙ Risk discount rate increase by 1%	1 373	(242)	1 131	(17)
⊙ Investment return and inflation decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately	1 608	(197)	1 411	4
Expenses and persistency				
⊙ Non-commission maintenance expenses (excluding investment expenses) decrease by 10%	1 686	(200)	1 486	9
⊙ Acquisition expenses (excluding commission and commission related expenses) decrease by 10%	1 707	(200)	1 507	11
⊙ Discontinuance rates decrease by 10%	1 767	(210)	1 557	14
Insurance risk				
⊙ Mortality and morbidity decrease by 5% for life assurance business	1 720	(198)	1 522	12
⊙ Mortality and morbidity decrease by 5% for annuity business	1 552	(199)	1 353	(1)

3. Operating experience variances

R million	2016 Total	2016 Value of in-force	2016 Cost of capital	2016 Adjusted net worth
Risk experience	438	52	3	383
Persistency	(11)	66	10	(87)
Maintenance expenses	30	(3)	(4)	37
Working capital	354	5	–	349
Credit spread	89	–	–	89
Other	83	(153)	1	235
Total operating experience variances	**983**	**(33)**	**10**	**1 006**

R million	2015 Total	2015 Value of in-force	2015 Cost of capital	2015 Adjusted net worth
Risk experience	816	205	–	611
Persistency	174	168	(2)	8
Maintenance expenses	(16)	(12)	(1)	(3)
Working capital	288	1	–	287
Other	(181)	(81)	(2)	(98)
Total operating experience variances	1 081	281	(5)	805

4. Operating assumption changes

R million	2016 Total	2016 Value of in-force	2016 Cost of capital	2016 Adjusted net worth
Risk experience	122	54	(6)	74
Persistency	54	125	(35)	(36)
Maintenance expenses	99	50	1	48
Modelling improvements and other	150	338	3	(191)
Total operating assumption changes	**425**	**567**	**(37)**	**(105)**

R million	2015 Total	2015 Value of in-force	2015 Cost of capital	2015 Adjusted net worth
Risk experience	810	756	5	49
Persistency	(60)	13	(18)	(55)
Maintenance expenses	(3)	23	5	(31)
Modelling improvements and other	(259)	(193)	(133)	67
Total operating assumption changes	488	599	(141)	30

5. Economic assumption changes

R million	2016 Total	2016 Value of in-force	2016 Cost of capital	2016 Adjusted net worth
Investment yields	552	524	28	–
Long-term asset mix assumptions and other	(67)	(15)	(53)	1
Total economic assumption changes	485	509	(25)	1

R million	2015 Total	2015 Value of in-force	2015 Cost of capital	2015 Adjusted net worth
Investment yields	(1 603)	(1 501)	(140)	38
Long-term asset mix assumptions and other	(5)	(5)	–	–
Total economic assumption changes	(1 608)	(1 506)	(140)	38

6. Tax changes

R million	2016 Total	2016 Value of in-force	2016 Cost of capital	2016 Adjusted net worth
Risk Policy Fund (RPF)	674	674	–	–
Capital Gains Tax inclusion rate	(257)	1	(119)	(139)
Other	5	4	1	-
Total tax changes	422	679	(118)	(139)

R million	2015 Total	2015 Value of in-force	2015 Cost of capital	2015 Adjusted net worth
Other	7	5	1	1
Total tax changes	7	5	1	1

7. Reconciliation of growth from covered business

	2016	2015
The embedded value earnings from covered business reconciles as follows to the net result from financial services for the year:		
Net result from financial services of covered business per note 2 on page 186	**4 717**	4 484
Sanlam Personal Finance	**3 680**	3 446
Sanlam Emerging Markets	**599**	603
Sanlam UK	**11**	74
Sanlam Employee Benefits	**427**	361
Investment return on adjusted net worth	**(113)**	1 699
Effect of Capital Gains Tax inclusion rate increase on the deferred tax liability	**(165)**	–
Embedded value earnings from covered business: value of in-force	**3 034**	854
Embedded value earnings from covered business	**7 473**	7 037

8. Economic assumptions

Gross investment return, risk discount rate and inflation

	2016	2015
Sanlam Life		
Point used on the relevant yield curve	**9 year**	9 year
Fixed-interest securities	**9,2%**	10,1%
Equities and offshore investments	**12,7%**	13,6%
Hedged equities	**8,6%**	9,5%
Property	**10,2%**	11,1%
Cash	**8,2%**	9,1%
Inflation rate[(1)]	**7,2%**	8,1%
Risk discount rate	**11,7%**	12,6%

(1) *Expense inflation of 11,2% (2015: 10,1%) assumed for retail business administered on old platforms.*

	2016	2015
SDM Limited		
Point used on the relevant yield curve	**5 year**	5 year
Fixed-interest securities	**8,6%**	9,6%
Equities and offshore investments	**12,1%**	13,1%
Hedged equities	**7,6%**	n/a
Property	**9,6%**	10,6%
Cash	**7,6%**	8,6%
Inflation rate	**6,6%**	7,6%
Risk discount rate	**11,1%**	12,1%

8. Economic assumptions (continued)

Gross investment return, risk discount rate and inflation (continued)

	2016	2015
Sanlam Investments and Pensions		
Point used on the relevant yield curve	15 year	15 year
Fixed-interest securities	1,7%	2,4%
Equities and offshore investments	4,9%	5,6%
Hedged equities	n/a	n/a
Property	4,9%	5,6%
Cash	1,7%	2,4%
Inflation rate	3,4%	3,2%
Risk discount rate	5,4%	6,1%
Botswana Life Insurance		
Fixed-interest securities	7,0%	7,5%
Equities and offshore investments	10,5%	11,0%
Hedged equities	n/a	n/a
Property	8,0%	8,5%
Cash	6,0%	6,5%
Inflation rate	4,0%	4,5%
Risk discount rate	10,5%	11,0%

Illiquidity premiums

Investment returns on non-participating and inflation-linked annuities, as well as guarantee plans include assumed illiquidity premiums due to matching assets being held to maturity.

Assumed illiquidity premiums generally amount to between 25bps and 60bps (2015: 25bps and 60bps) for non-participating annuities, between 25bps and 75bps (2015: 25bps to 75bps) for inflation-linked annuities and capped at 120bps reflecting both illiquidity premiums and credit risk premiums (2015: 80bps for illiquidity premiums only) for guarantee plans.

8. Economic assumptions (continued)

Asset mix for assets supporting required capital

%	R million	Fixed-interest securities	Equities	Offshore	Hedged equities	Property	Cash	Total
	2016							
Required capital								
South Africa	12 069	–	3	7	78	–	12	100
Namibia	490	6	36	–	–	–	58	100
Botswana	337	–	–	–	–	50	50	100
Ghana	47	35	40	–	–	20	5	100
Kenya	76	35	40	–	–	15	10	100
Other Africa	563	82	–	–	–	–	18	100
India	171	36	63	–	–	–	1	100
South-East Asia	188	76	17	–	–	–	7	100
United Kingdom	438	–	–	–	–	–	100	100
Total required capital	14 379							
Free surplus	1 022							
Adjusted net worth	15 401							

Assumed long-term expected return on required capital

	2016	2015
Sanlam Life		
Gross return on required capital	8,9%	9,8%
Net return on required capital	7,2%	8,1%
SDM Limited		
Gross return on required capital	8,5%	10,9%
Net return on required capital	7,1%	8,7%
Sanlam Investments and Pensions		
Gross return on required capital	1,7%	2,4%
Net return on required capital	1,4%	1,9%
Botswana Life Insurance		
Gross return on required capital	6,9%	8,8%
Net return on required capital	5,2%	6,6%
Sanlam Life Namibia Limited		
Gross return on required capital	10,1%	11,0%
Net return on required capital	8,9%	9,7%
Sanlam Namibia Limited		
Gross return on required capital	8,9%	9,9%
Net return on required capital	7,8%	8,6%

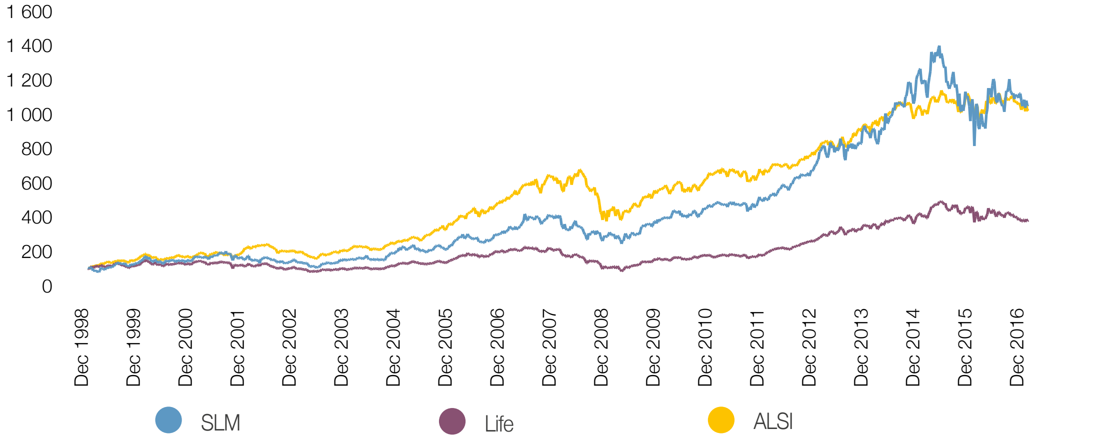
Stock exchange performance

Stock Exchange Performance Note

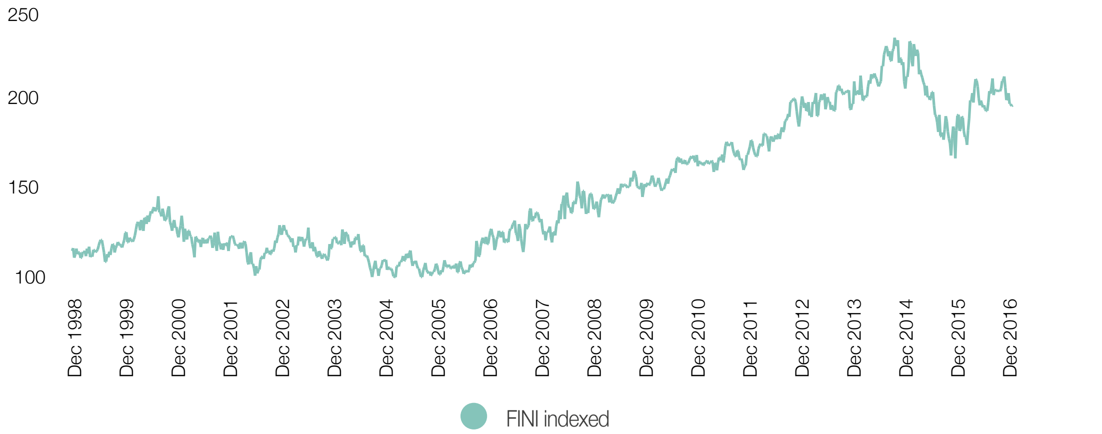
		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Number of shares traded	million	**1 437**	1 363	1 086	1 247	1 160	1 082	1 059	1 259	1 490	1 474
Value of shares traded	R million	**89 130**	90 444	65 974	58 841	41 074	29 578	25 986	23 714	27 175	32 300
Percentage of issued shares traded	%	**66**	63	50	59	55	52	50	58	66	64
Price/earnings ratio	times	**15,4**	14,0	17,2	13,5	15,3	11,6	11,1	10,4	12,9	10,3
Return on Sanlam share price since listing[(1)]	%	**18**	19	21	20	20	17	17	17	14	19
Market price	cps										
– Year-end closing price		**6 290**	6 054	7 000	5 324	4 477	2 885	2 792	2 275	1 700	2 275
– Highest closing price		**7 149**	8 217	7 344	5 518	4 550	3 016	2 829	2 305	2 330	2 412
– Lowest closing price		**5 116**	4 405	4 495	4 051	2 831	2 414	2 200	1 351	1 390	1 803
Market capitalisation at year-end	R million	**136 271**	131 158	151 653	111 804	94 017	60 585	58 632	49 140	37 232	52 407

[(1)] *Annualised growth in the Sanlam share price since listing plus dividends paid.*

Sanlam vs ALSI vs Life Assurance Index



Sanlam Share Price relative to FINI (indexed)



Analysis of shareholders on 31 December 2016

Distribution of shareholding	Total Shareholders Number	Total Shareholders %	Total Shares held Number	Total Shares held %
1 – 1 000	402 324	86,86	150 551 721	6,95
1 001 – 5 000	53 587	11,57	105 022 540	4,85
5 001 – 10 000	4 410	0,95	30 243 701	1,40
10 001 – 50 000	2 067	0,45	38 771 208	1,79
50 001 – 100 000	246	0,05	17 942 106	0,83
100 001 – 1 000 000	424	0,09	127 186 831	5,87
1 000 001 and over	150	0,03	1 696 753 699	78,31
Total	**463 208**	**100,00**	**2 166 471 806**	**100,00**

Public and non-public shareholders	% Shareholding
Public shareholders (438 164)	65,27
Non-public shareholders	
Directors' interest	0,29
Held by subsidiaries	7,62
Employee pension funds	0,05
Sanlam Limited Share Incentive Trust	1,03
Government Employees Pension Fund (PIC)	12,24
Ubuntu-Botho Investments (Pty) Ltd	13,50
Total	100,00
Beneficial shareholding of 5% or more:	
Government Employees Pension Fund (PIC)	12,24
Ubuntu-Botho Investments (Pty) Ltd	13,50

Shareholder structure	% Shareholding
Institutional and other shareholding	
Offshore	38,14
South Africa	49,27
Individuals	12,59
Total	100,00

Sanlam Group Five-year review

		2016	2015	2014	2013	2012	Average annual growth rate %
Group Equity Value							
Group Equity Value	R million	**110 717**	103 506	95 936	84 409	75 352	10
Group Equity Value	cps	**5 407**	5 057	4 684	4 121	3 707	10[1]
Return on Group Equity Value per share	%	**11,8**	12,8	18,5	17,0	22,0	
Business volumes							
New business volumes	R million	**233 178**	210 842	182 297	154 976	123 072	17
Life insurance		**43 599**	39 976	42 290	31 687	25 436	14
Investment business		**165 740**	150 670	121 383	105 697	81 670	19
General insurance		**23 839**	20 196	18 624	17 592	15 966	11
Recurring premiums on existing business	R million	**29 239**	27 348	25 079	22 096	21 271	8
Total inflows	R million	**262 417**	238 190	207 376	177 072	144 343	
Net fund flows	R million	**40 921**	19 049	41 994	26 113	25 000	13
SIM funds under management	R billion	**792**	787	762	677	596	7
New covered business (gross)							
Value of new covered business	R million	**1 779**	1 514	1 743	1 450	1 278	9
Covered business PVNBP	R million	**62 383**	54 362	56 394	44 902	38 129	13
New covered business margin	%	**2,85**	2,79	3,09	3,23	3,35	
Earnings							
Gross result from financial services	R million	**12 678**	11 595	10 774	8 179	6 285	19
Net result from financial services	R million	**7 969**	7 269	6 879	5 429	4 030	19
Normalised headline earnings	R million	**8 360**	8 851	8 340	8 060	5 919	9
Headline earnings	R million	**9 860**	9 300	8 325	8 062	5 763	14
Net result from financial services	cps	**389,4**	355,2	336,2	266,0	198,9	18
Normalised headline earnings	cps	**408,5**	432,5	407,6	395,0	292,1	9
Diluted headline earnings	cps	**396,9**	437,0	427,3	398,4	286,8	8
Group operating margin	%	**26,6**	26,7	26,6	22,2	19,4	8
Other							
Sanlam share price	cps	**6 290**	6 054	7 000	5 324	4 477	9[1]
Dividend	cps	**268**	245	225	200	215	6
Normal dividend	cps	**268**	245	225	200	165	10
Special dividend	cps	**–**	–	–	–	50	
Sanlam Life Insurance Limited							
Shareholders' fund	R million	**83 866**	77 970	68 156	60 542	55 466	11
Capital adequacy requirements (CAR)	R million	**8 150**	8 250	8 325	7 550	7 125	
CAR covered by prudential capital	times	**5,8**	5,8	4,5	4,5	4,3	

		2016	2015	2014	2013	2012	Average annual growth rate %
Foreign exchange rates							
Closing rate							
Euro		**14,43**	16,83	14,01	14,51	11,18	7
British Pound		**16,92**	22,83	18,05	17,42	13,79	5
United States Dollar		**13,68**	15,48	11,57	10,53	8,48	13
Average rate							
Euro		**16,22**	14,08	14,38	12,78	10,53	11
British Pound		**19,69**	19,39	17,85	15,00	12,99	11
United States Dollar		**14,65**	12,69	10,84	9,61	8,20	16
Non-financial(2), (5)							
BEE credentials(3)	level	**2**	2	2	2	2	
Corporate Social Investment spend	R million	**68**	74	67	64	34	
Office staff turnover	%	**13,90**	12,38	11,68	10,93	11,60	
Carbon footprint	Tonnes CO_2/full time employee	**8,6**	9,5	9,7	9,8	10,6	

(1) *Excludes dividends paid.*

(2) *Comparative information presented with effect from year when measure was reported for the first time.*

(3) *Measured in terms of the Financial Sector Charter, apart from 2012 when the Department of Trade and Industry Charter applied to the financial services industry in South Africa.*

(4) *Cumulative decrease compared to 2010 base year.*

(5) *South Africa only.*

APPENDICES, GLOSSARY AND ADMIN

Appendix A: shareholder value drivers

Shareholder value drivers

- Improvement expected in 2017
- Stable trend expected during 2017
- Downward trend expected in 2017
- Positive performance compared to 2015
- Flat performance compared to 2015
- Lower/decreased performance compared to 2015

Life insurance

In-force earnings: Earnings from policies in force at the beginning of the financial year

- Margins priced into product premiums
- Fees charged on assets under management
- Investment return on capital

Value driver: Policyholder behaviour

Lapses, surrenders and withdrawals	Referred to as persistency of the in-force book – the higher the number of policies that lapse, surrender or withdraw, the weaker the persistency experience. The profitability of life insurance policies is directly linked to persistency – the longer that a policy remains in force, the more profitable it becomes. This is a function of the high upfront cost incurred in selling new policies, especially risk products.

Shareholder performance indicators affected

Net result from financial services:

- Persistency experience impacts the size of the policy base from which risk premiums and fee income is earned.

RoGEV:

- Persistency experience variances, which measure the difference between the actual value of policies that lapsed, surrendered or withdrew during a period and the expected value that was assumed in calculating the value of in-force covered business at the beginning of the period.
- If the experience variances are expected to persist, it might also require a persistency assumption change in valuing in-force covered business at the end of the reporting period.

Persistency experience variances and assumption changes contribute to RoGEV.

Strategic and management focus areas

- Client centricity – only selling business that a client needs at an appropriate price.
- Focus on quality of business written – affordability and other measures used as part of the sales process.
- Remuneration model of sales force allows for actual persistency experience in determining the level of commission paid.
- Managing value outcomes of products in line with client expectations.
- Product innovation, for example linkages to loyalty programmes and cash-back bonuses that reward clients for persistency.
- Continuous client engagement and satisfaction measurement[1].
- Limit potential earnings volatility through product diversification (policyholder behaviour varies per product type under similar conditions).

2016 outcomes/2017 trends expected

Net result from financial services:

- Persistency experience variances and assumption changes contributed -R123 million (2015: -R47 million) to net result from financial services

RoGEV:

- Persistency experience variances declined from R174 million in 2015 to -R11 million in 2016.
- Persistency assumption changes amounted to R54 million in 2016 compared to -R60 million in 2015.

(1) *Read more about client satisfaction survey results in the Chairman's letter of introduction on page 93 and in the supplementary online report on Responsible products and services.*

Value driver: Policyholder behaviour

Mortality, disability and morbidity experience	Referred to as life insurance claims experience. The pricing of risk products and the value of in-force covered business included in GEV are based on an expected level of mortality, disability and morbidity claims. The lower the level of actual claims relative to the pricing and GEV valuation basis, the more profitable the policies are.

Shareholder performance indicators affected

Net result from financial services:

- Claims incurred in respect of risk products is an expense for shareholders.

RoGEV:

- Risk claims experience variances, which measure the difference between the actual value of claims incurred during the year and the expected value of claims that was assumed in calculating the value of in-force covered business at the beginning of the period.
- If the experience variances are expected to persist, it might also require a claims assumption change in valuing in-force covered business at the end of the reporting period.
- Experience variances and assumption changes contribute to RoGEV.

Strategic and management focus areas

- Appropriate pricing of new business.
- Use of reinsurance to limit exposure and assist with new business pricing.
- Regular claims experience analyses to identify emerging trends.
- Risk management to prevent fraudulent claims.
- Limit potential earnings volatility through product diversification (claims experience varies per type of benefit under similar conditions).

2016 outcomes/2017 trends expected

Net result from financial services:

- Risk claims experience variances and assumption changes contributed R457 million (2015: R660 million) to net result from financial services.

RoGEV:

- Positive risk claims experience variances declined from R816 million in 2015 to R438 million in 2016.
- Risk claims assumption changes amounted to R122 million in 2016 compared to R810 million in 2015.

Appendix A: shareholder value drivers continued

Life insurance

In-force earnings: Earnings from policies in force at the beginning of the financial year

- Margins priced into product premiums
- Fees charged on assets under management
- Investment return on capital

Value driver: Administration cost relating to policy maintenance

The human and intellectual capital required to manage life insurance operations are significant contributors to the administration cost base. Optimising operational systems and processes to reduce the cost base is therefore a key lever to drive enhanced profitability and RoGEV.

Shareholder performance indicators affected

Net result from financial services:

- Administration cost is an expense for shareholders.

RoGEV:

- Expense experience variances, which measure the difference between the actual maintenance cost per policy during a period and the expected cost that was assumed in calculating the value of in-force covered business at the beginning of the period.
- If the experience variances are expected to persist, it might also require an expense assumption change in valuing in-force covered business at the end of the reporting period.

Expense experience variances and assumption changes contribute to RoGEV.

Strategic and management focus areas

- Continuous focus on improving cost efficiencies.
- Product innovation: reducing the complexity of product features.

2016 outcomes/2017 trends expected

Net result from financial services:

- Expense experience variances and assumption changes contributed R85 million (2015: -R34 million) to net result from financial services.

RoGEV:

- Administration cost is well managed within the Group, with an overall expense variance of R30 million in 2016 compared to -R16 million in 2015.
- Expense assumption changes of R99 million in 2016 (2015:-R3 million) relates predominantly to increased allowance for regulatory and related projects.

Value driver: Investment return

Fees charged in respect of investment products are linked to the value of funds under management. Investment return earned on these funds therefore has a direct impact on the level of fee income and concomitantly profitability. Delivering competitive investment return to clients in line with their expectations is also a key driver of persistency and the level of renewals at maturity.

Investment return earned on investments held in respect of risk product policy liabilities forms part of the total product profitability.

Investment return earned on the capital supporting life insurance business contributes to overall shareholder earnings.

Shareholder performance indicators affected

Net result from financial services:

- Any out-or underperformance of return benchmarks contributes to a higher/lower base on which fee and other income is earned.

RoGEV:

- Any out- or underperformance of return benchmarks contributes to investment variances.
- Investment return earned on the capital supporting the life insurance operations is a significant contributor to RoGEV.

Strategic and management focus areas

- Superior investment performance is a key strategic focus area for Sanlam Investments.

2016 outcomes/2017 trends expected

- Slight decline in Sanlam Investments' three-year rolling outperformance against benchmarks.

Appendix A: shareholder value drivers continued

Life insurance

In-force earnings: Earnings from policies in force at the beginning of the financial year

- Margins priced into product premiums
- Fees charged on assets under management
- Investment return on capital

Value driver: Capital requirements

Sanlam holds a significant amount of capital in support of its life insurance operations, the return on which is not expected to meet Sanlam's hurdle rate. Capital requirements vary between different products based on the type of benefits offered to clients. Overall returns can be optimised by effective management of the level of capital required by product lines.

Shareholder performance indicators affected

RoGEV:

- Investment return earned on the capital supporting the life insurance operations is a significant contributor to RoGEV.

Strategic and management focus areas

- Appropriate mix of business to optimise overall capital requirements through diversification benefits.
- Appropriate product pricing to ensure hurdle rates are achieved on required capital.
- Product development and innovation to optimise capital efficiency of new business being added to the book.

2016 outcomes/2017 trends expected

- Adjusted RoGEV of 19,1% in 2016 outperformed the hurdle of 14,1% for the year.
- R182 million of additional discretionary capital released from the life insurance operations.

Value driver: Risk discount rate

The discount rate used to value in-force covered business for GEV purposes is based on prevailing risk-free interest rates at the end of the financial year. Being a present value calculation, any movements in interest rates during the year have an impact on GEV and hence RoGEV.

Shareholder performance indicators affected

RoGEV:

- The impact of changes in interest rates during the year is reflected in economic assumption changes.

Strategic and management focus areas

- Diversification across geographies and product lines to limit the impact of interest rate changes on the overall Group RoGEV.
- Active management of investment strategies for the capital portfolio and margins embedded in policyholder liabilities.

2016 outcomes/2017 trends expected

- Economic assumption changes of R485 million in 2016 compared to -R1,6 billion in 2015.

Life insurance

New business earnings: Earnings from new policies written during the year
- Margins priced into product premiums
- Fees charged on assets under management
- Investment return on capital

Value driver: New business volumes

- **Distribution footprint**
- **Product innovation**
- **Agent/broker productivity**
- **Renewal at maturity**

Adding new policies to the book of in-force business augments the base on which risk premiums and fee income is earned.

Shareholder performance indicators affected

New business volumes

Net result from financial services:
- New business added during a year contributes to overall operational earnings.

RoGEV:
- Value of new life insurance business written during the year contributes to RoGEV.

Strategic and management focus areas

- Expanding distribution footprint in all regions where the Group operates.
- Focus on client centricity to establish trust in the Group's brands.
- Product innovation to enhance competitiveness.
- Commission based remuneration models support sales volumes.
- Introduction of new distribution channels.
- Structural changes to enhance agility and responsiveness to changing client needs (for example at SPF).
- Expansion through acquisitions.

2016 outcomes/2017 trends expected

- 9% increase in new life business volumes.
- Product innovation supported growth of 20% in new recurring premium risk business in SPF's Individual Life segment
- 10% increase in net VNB on a consistent economic basis.
- R1,2 billion of discretionary capital invested in life insurance operations, contributing to the growth in new life business volumes.

Appendix A: shareholder value drivers continued

Life insurance

New business earnings: Earnings from new policies written during the year

- Margins priced into product premiums
- Fees charged on assets under management
- Investment return on capital

Value driver: Weighted average margin

- **Product mix**
- **Acquisition and maintenance costs**
- **Capital requirements**
- **Risk discount rate**

Profitability of new business written is directly linked to the margin achieved through optimising product pricing, cost efficiencies and capital requirements.

Shareholder performance indicators affected

Net result from financial services:

- The profitability of new business written has a direct impact on overall operational earnings.

RoGEV:

- Value of new life insurance business written during the year contributes to RoGEV.

Strategic and management focus areas

- Appropriate and competitive product pricing.
- Optimising capital requirements.
- Product innovation to reduce product complexity and maintenance cost.
- Introduction of more cost efficient new distribution channels.
- Optimising business mix.
- Expansion into under penetrated regions that offer higher margins.

2016 outcomes/2017 trends expected

- Margins on a per product basis maintained.
- Realignment of Sanlam Sky distribution channel to focus on appropriate business mix contributed to a significant improvement in VNB growth.
- R1,2 billion of discretionary capital invested in life insurance operations, contributing to the growth in VNB in 2016.

General insurance

- Margins priced into product premiums
- Investment return on capital

Value driver: Product mix

Higher underwriting margins can be earned from certain lines of business, for example niche and specialist classes, and from emerging markets outside of South Africa. Being able to write these lines of business competitively supports new business volumes and underwriting profit.

Shareholder performance indicators affected

New business volumes

Net result from financial services:

- Product mix impacts on underwriting margin achieved.

RoGEV:

- Valuation of general insurance businesses for GEV purposes based on expected profitability over the longer term, as reflected in expected underwriting margins.

Strategic and management focus areas

- Using scale in South Africa and partnerships to grow specialist and niche market share.
- Product innovation: introducing new products in SEM businesses through Santam cooperation.
- Expansion into under penetrated regions that offer higher margins.

2016 outcomes/2017 trends expected

- Net earned premiums from general insurance business increased by 7% (excluding new acquisitions).
- R3,8 billion of discretionary capital invested in general insurance businesses, contributing 11% growth in net earned premiums.
- Underwriting margin at Santam declined from 9,6% in 2015 to 6,4% in 2016.

Appendix A: shareholder value drivers continued

General insurance

- Margins priced into product premiums
- Investment return on capital

Value driver: Premium rates

Appropriate rates should be charged for risks assumed to ensure sustainable profitability.

Shareholder performance indicators affected

Net result from financial services:

- Premium rates impact on underwriting margin achieved.

RoGEV:

- Valuation of general insurance businesses for GEV purposes based on expected profitability over the longer term, as reflected in expected underwriting margins.

Strategic and management focus areas

- Using scale in South Africa and partnerships to price competitively.
- Focus on quality of new business written.
- Appropriate underwriting skills.

2016 outcomes/2017 trends expected

- All major business lines in Santam achieved positive underwriting margins in 2016.
- Profitability of SEM general insurance businesses improved through enhanced underwriting practices with assistance from Santam.

Value driver: Extent and frequency of loss

Claims incurred is the most significant expense for general insurance businesses. Effective risk and claims management has a major impact on profitability.

Shareholder performance indicators affected

Net result from financial services:

- Claims ratio impacts on underwriting margin achieved.

RoGEV:

- Valuation of general insurance businesses for GEV purposes based on expected profitability over the longer term, which includes expected claims ratios.

Strategic and management focus areas

- Appropriate underwriting skills.
- Effective claims management.
- Measures to prevent fraudulent claims.
- Preventative risk management, e.g. Santam initiatives with municipalities, climate change studies.

2016 outcomes/2017 trends expected

- Reinsurance limited impact of weak claims experience in 2016.
- Claims expense at Santam increased from 62,1% in 2015 to 65,1% in 2016.
- SEM general insurance net result from financial services increased by 51% (before acquisitions).

Appendix A: shareholder value drivers continued

General insurance

- Margins priced into product premiums
- Investment return on capital

Value driver: Administration and acquisition costs

The human and intellectual capital required to manage general insurance operations are significant contributors to the administration cost base. Optimising operational systems and processes to reduce the cost base is therefore a key lever to drive enhanced profitability and RoGEV. Acquisition costs is also a major expense line, but largely variable in line with growth in written premiums.

Shareholder performance indicators affected

Net result from financial services:

- Administration and acquisition cost ratios impact on underwriting margin achieved.

RoGEV:

- Valuation of general insurance businesses for GEV purposes based on expected profitability over the longer term, which includes expected cost ratios.

Strategic and management focus areas

- Continuous focus on improving cost efficiencies.
- Innovation in claims handling processes.
- Increase scale of SEM businesses through organic and structural growth.

2016 outcomes/2017 trends expected

- Administration cost ratio at Santam improved from 18,9% to 17,9% despite strong growth at MiWay.
- Acquisition cost ratio (before reinsurance profit sharing) at Santam maintained on similar level than 2015.
- Overall administration and acquisition cost ratios at SEM general insurance businesses not yet at optimal level due to small scale in some markets.

Value driver: Income from float

Interest earned on insurance reserves is a major contributor to general insurance earnings.

Shareholder performance indicators affected

Net result from financial services

RoGEV:

- Valuation of general insurance businesses for GEV purposes based on expected profitability over the longer term, which includes allowance for income from float.

Strategic and management focus areas

- Optimisation of float level.
- Appropriate investment strategy.

2016 outcomes/2017 trends expected

- Float income at Santam increased by 24% in 2016

Appendix A: shareholder value drivers continued

Investment management

- Fees charged on assets under management
- Performance fees

Value driver: Fee income

Assets under management	The majority of fee income earned by investment management businesses is based on a percentage of assets under management (recurring fee income). Growing the asset base through net investment business flows is a key driver of profitability, especially given the leverage effect emanating from a largely fixed cost base. Expansion into niche and underpenetrated segments and regions also enhances overall profitability.

Shareholder performance indicators affected

Net investment business flows

Net result from financial services

RoGEV:

- Valuation of investment management businesses for GEV purposes is based on expected profitability over the longer term, with growth in the size of assets under management the major value driver.

Strategic and management focus areas

- Focus on implemented solutions for retail and institutional clients.
- Enhance competitiveness in third-party market to grow net inflows.
- Continue focus on passive investment strategies.
- Grow Alternative Investments.
- Continued focus on transformation and people development.
- Investigate opportunities for growth through acquisitions.

2016 outcomes/2017 trends expected

- Net investment business flows increased from -R3,3 billion in 2015 to R5,5 billion in 2016.
- Assets under management at Sanlam Investments increased by 1%.
- Net result from financial services for investment management declined by 10% from R913 million in 2015 to R826 million in 2016.
- Positive impact on RoGEV from net investment business inflows.

Value driver: Investment performance

The level of investment performance relative to benchmarks has a twofold impact on profitability:

- It impacts on the level of assets under management and therefore recurring fee income.
- A number of mandates allow for performance fees in addition to the recurring fee income should actual investment performance exceed benchmarks.

Shareholder performance indicators affected

Net result from financial services

RoGEV:

- Valuation of investment management businesses for GEV purposes based on expected profitability over the longer term, which includes an expected level of performance fees.

Strategic and management focus areas

- Maintain consistent superior investment performance.
- Continuous focus on transformation and people development.

2016 outcomes/2017 trends expected

- Slight decline in Sanlam Investments' three-year rolling outperformance against benchmarks.
- Net performance fees at Sanlam Investments declined by 41%.
- RoGEV negatively impacted by reduced allowance for future performance fees in the valuation of Sanlam Investments' operations.

Appendix A: shareholder value drivers continued

Investment management

- Fees charged on assets under management
- Performance fees

Value driver: Expenses

Acquisition and administration costs comprise more than 50% of fee income for most investment management operations. The human and intellectual capital required to manage investment management operations are significant contributors to the administration cost base. Optimising operational systems and processes to reduce the cost base is therefore a key lever to drive enhanced profitability and RoGEV.

Shareholder performance indicators affected

Net result from financial services

RoGEV:

- Valuation of investment management businesses for GEV purposes is based on expected profitability over the longer term, which includes allowance for expected expense ratios.

Strategic and management focus areas

- Focus on operational efficiencies in low growth environments.

2016 outcomes/2017 trends expected

- Growth in administration costs at Sanlam Investments limited to 4,9% despite restructuring costs incurred in the UK.
- Focus on improving cost efficiencies in 2017 supported valuation of investment management businesses and RoGEV.

Credit and structuring

- Interest on outstanding loan balances
- Transaction fees and margins priced into structuring deals

Value driver: Net interest margin

Size of loan book	The net interest margin earned in credit businesses is directly linked to the size of the loan book.

Shareholder performance indicators affected

Net result from financial services

RoGEV:

- Valuation of credit businesses for GEV purposes is based on expected profitability over the longer term, with growth in the size of the loan book being the major value driver.

Strategic and management focus areas

- Focus on managed growth in loan books, taking cognisance of economic conditions.
- Introduction of Central Credit Manager function within Sanlam Capital Markets to increase exposure to credit.

2016 outcomes/2017 trends expected

- Growth in Shriram Capital loan books in constant currency:
  - Shriram Transport Finance Company: 19%
  - Shriram City Union Finance: 18%
- Letshego loan book growth slower than expectations in 2016.
- Sanlam Capital Markets credit book growing through implementation of Central Credit Manager.
- 5% growth to R4,4 billion in Sanlam Personal Loans unsecured loan book.

Appendix A: shareholder value drivers continued

Credit and structuring

- Interest on outstanding loan balances
- Transaction fees and margins priced into structuring deals

Value driver: Net interest margin

Interest rates	Credit businesses utilise third-party funding to fund the majority of the client loan books. Funding rates payable to third-party funders are not directly linked to the interest earned from the client books, with relative movement in these rates impacting on the net interest margin earned.

Shareholder performance indicators affected

Net result from financial services

RoGEV:

- Valuation of credit businesses for GEV purposes is based on expected profitability over the longer term, with the net interest rate earned the second largest value driver.

Strategic and management focus areas

- Appropriate pricing of client funding.
- Active management of third-party funding rates.

2016 outcomes/2017 trends expected

- Net interest margins remained largely in line with 2015.

Value driver: Loan impairments

Loan impairments is a potentially significant expense for any credit business, especially where unsecured loans are granted.

Shareholder performance indicators affected

Net result from financial services

RoGEV:

- Valuation of credit businesses for GEV purposes is based on expected profitability over the longer term, which allows for an expected level of loan impairments

Strategic and management focus areas

- Appropriate credit risk standards and management.
- Active management of arrears.
- Obtain security where appropriate.

2016 outcomes/2017 trends expected

- Significant reduction in bad debt provisioning in Shriram Transport Finance Company.
- No significant change in bad debt provisioning in other credit businesses.

Value driver: Structuring deal flow

Fees and margins earned from structuring are largely driven by the number of deals implemented.

Shareholder performance indicators affected

Net result from financial services

RoGEV:

- Valuation of credit businesses for GEV purposes based on expected profitability over the longer term.

Strategic and management focus areas

- Investigate potential opportunities for growth through implementation of Central Credit Manager function in Sanlam Capital Markets.

2016 outcomes/2017 trends expected

- Economic and investment market conditions limited deal flow in 2016.

Appendix A: shareholder value drivers continued

Credit and structuring

- Interest on outstanding loan balances
- Transaction fees and margins priced into structuring deals

Value driver: Expenses

Administration costs comprise more than 50% of income for most credit operations. The human and intellectual capital required to manage investment management operations are significant contributors to the administration cost base. Optimising operational systems and processes to reduce the cost base is therefore a key lever to drive enhanced profitability and RoGEV.

Shareholder performance indicators affected

Net result from financial services

RoGEV:

- Valuation of credit businesses for GEV purposes is based on expected profitability over the longer term.

Strategic and management focus areas

- Focus on operational efficiencies in low growth environment in South Africa.

2016 outcomes/2017 trends expected

- Stringent cost management maintained during 2016.

Administration, health and other

- Fees charged on assets under administration and for advice and other services

Value driver: Funds/members under administration

Financial services income for these businesses is largely based on a fee per member basis. With a largely fixed cost base, economies of scale has a significant impact on operational leverage.

Shareholder performance indicators affected

Net result from financial services

RoGEV:

- Valuation of administration, health and other businesses for GEV purposes based on expected profitability over the longer term.

Strategic and management focus areas

- Extract synergies from Afrocentric investment
- Aggressively grow umbrella fund solution in SEB

2016 outcomes/2017 trends expected

- 11% growth to 426 649 in retirement fund members under administration at SEB.
- 8% growth to 176 329 in umbrella fund membership at SEB.
- Good progress in extracting synergies from relationship with Afrocentric.

Value driver: Expenses

Administration costs comprise more than 50% of income for most administration, health and other operations. Expense management is therefore a key driver of profitability.

Shareholder performance indicators affected

Net result from financial services

RoGEV:

- Valuation of administration, health and other businesses for GEV purposes is based on expected profitability over the longer term.

Strategic and management focus areas

- Focus on operational efficiencies in low growth environment in South Africa.

2016 outcomes/2017 trends expected

- SEB administration business getting close to breakeven position.
- Stringent cost management maintained during 2016.

Read more about the outlook for 2017 in the Strategic Review from page 98.

Appendix B: glossary of terms, definitions and major businesses

Technical terms and definitions	
“adjusted return on Group Equity Value” or “adjusted RoGEV”	the return on Group Equity Value, excluding the impact of investment market volatility. Adjusted RoGEV is based on the actuarial investment return assumptions at the beginning of the reporting period;
“capital adequacy”	capital adequacy implies the existence of a buffer against experience worse than that assumed under the FSB’s Statutory Valuation Method. The sufficiency of the buffer is measured by comparing excess of assets over liabilities for statutory reporting purposes with the statutory capital adequacy requirement. The main element in the calculation of the capital adequacy requirement is the determination of the effect of an assumed fall in asset values on the excess of assets over liabilities;
“capital portfolio” or “balanced portfolio”	the consolidated capital of the Group, excluding working capital held by Group businesses. The capital portfolio includes the required capital of covered business as well as discretionary and other capital;
“cost of capital”	cost of capital is calculated as the required capital at the valuation date less the discounted value, using a risk-adjusted discount rate, of the expected annual release of the capital over the life of the in-force business, allowing for the after-tax investment return on the expected level of capital held in each year;
“covered business”	long-term insurance business written by Sanlam Personal Finance,Sanlam Emerging Markets, Sanlam UK and Sanlam Employee Benefits;
“embedded value of covered business ” or “EV”	embedded value of covered business is an actuarially determined estimate of the value of covered business, excluding any value attributable to future new business. Embedded value of covered business consists of the required capital supporting the covered business, or adjusted net worth, plus the value of the in-force covered business less the cost of capital;
“FSB”	the Financial Services Board, the regulator of insurance companies in South Africa;
“life business”	the aggregate of life insurance business and life licence business;
“life insurance business”	products provided by the Group’s long-term insurance businesses interms of insurance and investment contracts included in the Group financial statements, but excluding life licence business;
“life licence business”	investment products provided by Sanlam Personal Finance, Sanlam Investments, Sanlam Employee Benefits and Sanlam Emerging Markets by means of a life insurance policy where there is very little or no insurance risk;
“linked policy”	a non-participating policy which is allotted units in an investment portfolio. The value of the policy at any stage is equal to the number of units multiplied by the unit price at that stage less the value of unrecouped expenses;
“market-related policy” or “contract with discretionary participating feature”	a participating policy which participates in non-vesting investment growth. This growth reflects the volatility of the market value of the underlying assets of the policy;
“new business margin”	VNB as a percentage of PVNBP;
“non-life business”	financial services and products provided by the Group, excluding life insurance business;
“non-life linked business”	non-life linked business comprises investment products provided by Sanlam Personal Finance’s Glacier business, which is not written under a life licence;
“non-participating annuity”	a non-participating annuity is a policy which provides, in consideration for a single premium, a series of guaranteed regular benefit payments for a defined period;
“non-participating policy”	a policy which provides benefits that are fixed contractually, either in monetary terms or by linking them to the return of a particular investment portfolio, e.g. a linked or fixed-benefit policy;

Technical terms and definitions

"normalised headline earnings"	normalised headline earnings measure the Group's earnings, exclusiveof earnings of a capital nature and fund transfers relating to the policyholders' fund's investment in Sanlam shares and Group subsidiaries. For the Sanlam Group, the only differences between normalised attributable earnings and normalised headline earnings are: • Profits and losses on the disposal of subsidiaries, associated companies and joint ventures; • Impairment of investments, value of business acquired and goodwill; and • The Group's share of associates' and joint ventures' non-headline earnings. Normalised headline earnings exclude the above items that are of a capital nature. Given that the Group's operations are of a financial nature, normalised headline earnings include investment surpluses earned on the investments held by the shareholders' fund, resulting in volatility in normalised headline earnings;
"participating annuity"	a participating annuity is a policy which provides, in consideration for a single premium, a series of regular benefit payments for a defined period, the benefits of which are increased annually with bonuses declared;
"participating policy"	a policy which provides guaranteed benefits as well as discretionary bonuses. The declaration of such bonuses will take into account the return of a particular investment portfolio. Reversionary bonus, stable bonus, market-related and participating annuity policies are participating policies;
"policy"	unless the context indicates otherwise, a reference to a policy in this report means a long-term insurance or investment contract issued by the Group's life insurance subsidiaries in accordance with the applicable legislation;
"PVNBP"	present value of new business premiums from covered business;
"required capital"	the required level of capital supporting the covered business, based on the minimum regulatory capital requirements, plus an internal assessment of adjustments required for market, operational and insurance risk, as well as economic and growth considerations;
"result from financial services"	profit earned by the Group from operating activities and excludes investment return earned on the capital portfolio;
"return on Group Equity Value" or "RoGEV"	change in Group Equity Value, excluding dividends and changes in issued share capital, as a percentage of Group Equity Value at the beginning of the period;
"reversionary bonus policy"	a conventional participating policy which participates in reversionary bonuses, i.e. bonuses of which the face amounts are only payable at maturity or on earlier death or disability. The present value of such bonuses is less than their face amounts;
"SCR"	The solvency capital requirement under SAM is a risk-based measure of capital required to maintain solvency subject to a confidence level of 99,5% over a one-year period (which is equivalent to a 1-in-200 year event);
"stable bonus policy"	a participating policy under which bonuses tend to stabilise short-term volatility in investment performance;
"Statutory Valuation Method" or "SVM"	valuation requirements as laid out in a Board Notice issued by the FSB, entitled "Prescribed requirements for the calculation of the value of the assets, liabilities and Capital Adequacy Requirement of long-term insurers" or the equivalent valuation requirements of the regulators of the Group's insurance subsidiaries outside of South Africa;
"surrender value"	the surrender value of a policy is the cash value, if any, which is payable in respect of that policy upon cancellation by the policyholder;

Appendix B: glossary of terms, definitions and major businesses continued

Technical terms and definitions

"value of in-force covered business" or "VIF"	the value of in-force covered business is calculated as the discounted value, using a risk-adjusted discount rate, of the projected stream of future after-tax profits expected to be earned over the life of the in-force book;
"value of new business" or "VNB"	the value of new business is calculated as the discounted value, at point of sale, using a risk-adjusted discount rate, of the projected stream of after-tax profits for new covered business issued, net of the cost of capital over the life of this business;

Major businesses and regions of the Group

"Anglophone"	Countries belonging to an English-speaking population especially in a country where two or more languages are spoken, e.g. Kenya and Zimbabwe;
"Channel Life"	Channel Life Limited, a subsidiary of Sanlam Life conducting mainly life insurance business in South Africa;
"Francophone"	a population using French as its first or sometimes second language;
"Lusophone"	Countries where Portuguese is the common language: Angola, Brazil, Cape Verde, Guinea-Bisseau, Mozambique, Portugal, Sao-Tome Principe;
"Saham Finances"	Saham Finances (the insurance arm of the Saham Group) refers to the Group's 30% interest held by SAN JV, a wholly-owned subsidiary of the Group (75% held by SEM and 25% held by Santam). Saham Finances operates predominantly across Africa with a presence in the Middle East;
"Sanlam Investments and Pensions"	Sanlam Life and Pensions Limited, a wholly owned subsidiary of Sanlam UK Limited conducting mainly life insurance business in the United Kingdom;
"Sanlam Life"	Sanlam Life Insurance Limited, a wholly owned subsidiary of Sanlam Limited conducting mainly life insurance business;
"Sanlam Limited"	the holding company listed on the JSE Limited and the Namibian Stock Exchange;
"Sanlam", "Sanlam Group" or "the Group"	Sanlam Limited and its subsidiaries, associated companies and joint ventures;
"Sanlam Namibia"	Sanlam Life Namibia, a wholly owned subsidiary of Sanlam Life conducting mainly life insurance business in Namibia.
"SDM Limited"	Sanlam Developing Markets Limited, a wholly owned subsidiary of Sanlam Life conducting mainly life insurance business in South Africa and through its subsidiaries in Africa;
"SEM (Pty) Limited"	Sanlam Emerging Markets Proprietary Limited, a wholly owned subsidiary of Sanlam Life conducting mainly insurance and credit business through its subsidiaries and associated companies in Africa, India and South-East Asia.
"Shriram Capital"	Shriram Capital refers to the Group's 36,85% holding in Shriram Financial Ventures (Chennai) Pvt Limited an Indian based company that holds 70,56% of Shriram Capital Limited, resulting in a 26% effective holding by Sanlam. It also includes the Group's direct holding in Shriram Transport Finance Company, a listed business within the Shriram Capital group.

Shareholders' diary
and administration

Shareholders' diary

Financial year-end	31 December 2016
Annual general meeting	07 June 2017

Reports

Interim report for 30 June 2017	September 2017
Announcement of the results for the year ended 31 December 2017	March 2018
Annual report for the year ended 31 December 2017	March 2018

Dividends

Dividend for 2016 declared	09 March 2017
Last date to trade for 2016 dividend	04 April 2017
Shares will trade ex-dividend from	05 April 2017
Record date for 2016 dividend	07 April 2017
Payment of dividend for 2016	10 April 2017
Declaration of dividend for 2017	March 2018
Payment of dividend for 2017	April 2018

To allow for the dividend calculation, Sanlam's share register (including Sanlam's two nominee companies, namely Sanlam Share Account Nominee (Pty) Limited and Sanlam Fundshares Nominee (Pty) Limited), will be closed for all transfers, off-market transactions and dematerialisations or rematerialisations between Wednesday 05 April 2017 and Friday 07 April 2017, both dates included.

Transactions on the JSE via Strate are not affected by this arrangement.

Administration

Registered name
Sanlam Limited

(Registration number: 1959/001562/06)
(Tax reference number: 9536/346/84/5)
JSE share code (primary listing): SLM
NSX share code: SLA

ISIN: ZAE000070660

Incorporated in South Africa

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