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Sound governance

Our attitude is one of proper dedication and our approach is methodical and thorough: we know there are no shortcuts that don't cut you short. That's why we do things properly, with a deep resolve and a roll-up-your sleeves readiness to add lasting value.

Why sound governance is important

The financial services sector enables economic growth, job creation, the building of vital infrastructure and sustainable development. Any lapse or failure in the governance of an important financial institution erodes public trust and confidence. This not only affects the reputation of the institution, but also impacts negatively on the economy.

Corporate governance ensures that the set of principles and obligations by which companies are managed and controlled are embedded in the culture and behaviour of its management and employees, and thereby results in sound operational practices.

Following the global financial crisis of 2008, various regulatory reforms have been implemented to strengthen board practices. The revised code of governance principles for South Africa (King III) broadened the scope of corporate governance with a focus on leadership, sustainability and corporate citizenship. The Financial Services Board (FSB) plays a supervisory role in controlling the activities of non-banking financial services, overseeing market conduct, market abuse, the safe custody of securities, driving the development of the TCF framework and principles and other regulatory issues related to the non-banking financial services industry.

The governance function is becoming more challenging as Sanlam's operations grow across jurisdictions and become ever more complex. This is further exacerbated by product and technological innovation, placing further pressure on risk management processes. Global and local regulatory reforms, including development relating to the Twin Peaks model of financial regulation, being split into prudential and market conduct, place a greater burden on compliance.

Therefore, our long-term performance and the economic well-being of the societies in which we operate, depend on us employing sound governance practices and systems.

Linkage to business strategy

<p>Earnings growth</p> 	<p>Managing risk, capitalising on opportunities and incentivising performance through appropriate executive remuneration, incentives and benefits guarantee long-term sustainable earnings growth.</p>
<p>Optimal capital usage</p> 	<p>Robust and efficient management structures, processes and policies, such as our enterprise risk management, actuarial research and active stakeholder engagement, enable us to make informed business decisions and deliver diversified and stable growth.</p>
<p>Operational efficiencies</p> 	<p>Robust and efficient management structures, processes and policies, such as our enterprise risk management, actuarial research and active stakeholder engagement, enable us to make informed business decisions and deliver diversified and stable growth.</p>
<p>Diversification</p> 	<p>Robust and efficient management structures, processes and policies, such as our enterprise risk management, actuarial research and active stakeholder engagement, enable us to make informed business decisions and deliver diversified and stable growth.</p>
<p>Transformation</p> 	<p>Sound governance, led by top leadership, ensures we transform in step with a constantly changing world.</p>

What we are doing to ensure sound governance

The Board of directors has adopted an integrated approach to managing the Group to ensure that the governance structure actively identifies, responds to and communicates those material issues that impact on our capacity to create value.

The Board further promotes and supports high standards of corporate governance and, in so doing, endorses the principles of the third report on corporate governance in South Africa (King III). Sanlam also complies with the requirements for good corporate governance stipulated in the JSE SRI Index.

Sanlam subscribes to a governance system whereby ethics and integrity set the standards for compliance. It constantly reviews and adapts its structures and processes to facilitate effective leadership, sustainable business practices and corporate citizenship in support of the Group strategy. Our system of governance reflects national and international corporate governance standards, developments and best practice.

The Board remains committed to the full implementation of King III throughout the Group, including the smaller operations as appropriate.

We work hard at delivering on our promises to all our stakeholders. This means embedding sound governance principles and practices into our corporate culture and business processes.

Similar to past reporting years, a comprehensive corporate governance report is available in our 2014 Annual Report. This report summarises the full governance report, expanding, where necessary, on the most material governance aspects identified in our Sustainability Management Framework.



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Key performance indicators

	2012	2013	2014
SABES Ethics Survey results: Effectiveness* (%)	na	76,03	na
Ranking for best management team**	1	1	1
Incidence of disciplinary action***	173	110	177
Number of calls to the ethics hotline****	190	227	254

* The South African Business Ethics Survey (SABES) is conducted bi-annually, with the first one in 2013.

** Financial Analyst and Fund Managers annual survey results, conducted by Swiss investment bank – UBS. This includes depth of management.

*** South African businesses, office staff only.

**** Cumulative number of calls per year.

Note:

We are developing a pipeline analysis of ethical concerns raised internally in order to develop key performance indicators that meet the appropriate scope, boundary and significance.

> Group and cluster response

- ⊗ Provide oversight and strategic guidance to Sanlam through the following Board committees:
 - Audit, Actuarial and Finance
 - Risk and Compliance
 - Human Resources and Remuneration
 - Nominations
 - Non-executive directors
 - Customer Interest
 - Social, Ethics and Sustainability.
- ⊗ Approve cluster strategies and performance targets.
- ⊗ Establish 'tight' management principles for the entire Group.
- ⊗ Maintain, monitor and enforce compliance to Sanlam's Code of Ethical Conduct and its policy for combating financial crime.
- ⊗ Ensure adequate grievance and disciplinary procedures are in place.
- ⊗ Group Compliance, together with the compliance function of the business clusters and entities, manages, monitors, and provides assurance on the Group's compliance to applicable laws, industry regulations, codes and Sanlam's own ethical standards and internal processes.
- ⊗ Group Forensic Services unit, together with the forensic services departments of the business clusters, has implemented systems to prevent, detect and investigate incidences of financial crime and unlawful conduct.



Group level

- All:
- ⊗ A chief executive, supported by an executive committee and support functions that are appropriate to their particular operational needs, manages each business cluster.
 - ⊗ Cluster boards (not all are statutory) exist with their own Financial and Risk, Human Resources and Remuneration (HRRC) and other cluster-specific committees (or forums).
 - ⊗ Execute the Sanlam Board-approved strategy.
 - ⊗ Function within a set of Group-wide 'tight' management principles.
 - ⊗ Adhere to Sanlam's Code of Ethical Conduct.
 - ⊗ Quarterly report to the Group on ethics and compliance.

Cluster level



Business units have their own boards and executive committees that structure their activities within appropriately delegated authority levels.



SEM: We communicate our policies to partners in which we have non-controlling shares, and encourage them to comply with Sanlam's ethical standards. We do, however, factor in governance and ethical aspects into all due diligence evaluations prior to investing. We also continue to actively engage the leadership of all the businesses within our emerging market cluster to strengthen their governance systems, structures and practices.



What we are doing to ensure sound governance continued



Privacy protection project

The privacy protection project is aimed at ensuring Sanlam's compliance with data protection regulations and specifically the Protection of Personal Information Act (POPI) of 2013.

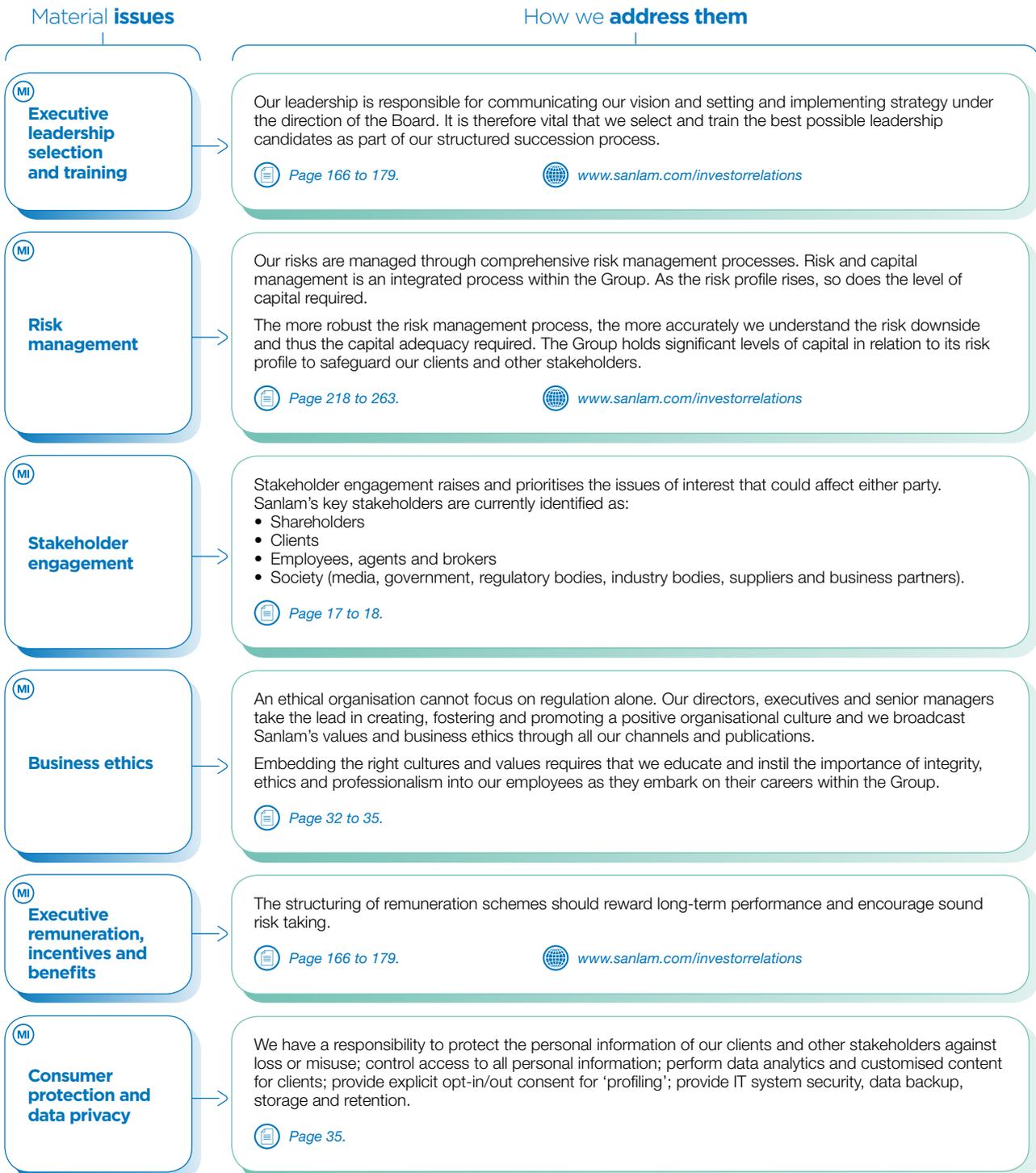
A final draft of the POPI Code of Conduct (the code) for the non-banking financial services sector was approved by the Regulatory Affairs Board Committee (RABC) of the Association for Savings and Investments of South Africa (ASISA) in November 2014. The next step will be to present this draft code to the regulatory authority (Information Regulator) to be established under the POPI Act for approval.

In the interim, Sanlam has prepared for implementation of the POPI Act while we wait for the promulgation of the effective date of the Act. Draft versions of relevant documentation were prepared to align with the POPI Act principles and the draft ASISA code. These documents include a Sanlam Group privacy policy, privacy statements for use by Sanlam, disclaimers for use in contracts and electronic communications, as well as consent statements to be used in respect of customers, employees and service providers. These have been prepared and discussed with all stakeholders in the Group. The Group Compliance Office has also assisted Sanlam's business clusters in their response to queries from external stakeholders regarding our approach to meeting the requirements of this legislation.

Once the detailed compliance requirements under the POPI Act are issued, these documents will be finalised and submitted for approval.

Sound governance material issues

We focus on the following material issues:



Sound governance material issues report

MI Business ethics

➤ Fostering a culture of compliance and ethical behaviour

The Sanlam Group regards high ethical standards as non-negotiable and the Group has a rich and proud history of professional and ethical behaviour, which we entrench throughout our organisation, our subsidiaries and associate companies via our core values and our Code of Ethical Conduct (the code).

Our core values are:

- Acting with integrity.
- Growing shareholders' values through innovation and superior performance.
- Leading with courage.
- Serving with pride.
- Caring because there is respect for one another.

The key ethical principles encapsulated in the code, include:

- Ensuring that our conduct shall at all times conform to Sanlam's values.
- Complying with all applicable legislation and regulations.
- Fostering and maintaining an equitable and sustainable employer-employee relationship, including the provision of a safe, healthy and productive working environment.
- Protecting and maintaining the property and information of Sanlam, its employees and its clients.
- Managing and mitigating all conflicts or perceived conflicts of interest.
- Protecting any person who reports violations of the code.

All employees are provided with a copy of the code at induction. It is also visibly displayed at key locations across our offices and biannually included in our Group-wide compliance training and sign-off process. In addition, the monthly *Inside Sanlam* magazine, the primary communication tool to keep employees informed, regularly publishes ethics-related content.

In addition, a Sanlam Group financial crime combating policy was adopted. This policy outlines Sanlam's zero-tolerance approach to unlawful conduct and describes specified offences that are subject to default, predefined sanctions.

Accountability structures

The Sanlam Limited Board has overall responsibility for ensuring good corporate governance, ethical business practices and adherence to all compliance requirements. The Board has formally acknowledged this responsibility in adopting the Group Compliance Charter and Policy.

The Sanlam Group Ethics committee is representative of all business groupings. It functions as a sub-committee of the Sanlam Group Executive committee. The Chief Risk Officer of Sanlam, a member of the Group Executive committee, chairs the Group Ethics committee.

Since 2009, Sanlam's Group Compliance Office (GCO) has facilitated and coordinated the work of the compliance functions across the Group.

Apart from these formal Group-wide structures, all levels of management and employees have a responsibility to ensure good corporate governance, ethical business practices and compliance with all mandated requirements.

Regulatory compliance is reported on in more detail in the 2014 Sanlam Annual Report.

Culture of compliance training

While individual business operations are responsible for ethics training, the GCO supports their endeavours in this regard. Mandatory monthly electronic ethics and compliance training programmes are run through our SAP HR system. The system is also an effective platform to keep employees abreast of the latest regulatory developments.

During 2014, 66% (2013: 62%) of all SPF employees took part in one or more of the following Culture of Compliance programmes: Treating Customers Fairly (TCF), Compliance policy, Conflict of Interest (COI), Operational Health and Safety (OHS), Code of Ethical Conduct (the code), Competitions Act, Complaints policy, Know your business exams and FICA among others.



Reporting ethical breaches

Anyone working for Sanlam, directly or indirectly, can report fraud and other ethical breaches. The channels set out in the table below are highlighted in our Code of Ethical Conduct and can be used to report instances of ethical breaches and financial crimes.

Reporting channel	Focus area
Business unit, HR departments and line management	Primarily handle employer-employee concerns. Management regularly reviews internal reports concerning ethical and fraud-related concerns.
Business unit and Group-level compliance and legal departments	Manage Sanlam's compliance-related matters and occasionally receive reports of potential breaches.
Sanlam's internal ombudsman and complaints departments	Deal with customers' service-related complaints and from time to time receive reports on potential ethical issues and allegations of fraud.
Forensic departments	Well positioned to receive reports on fraud-related matters linked to both clients and employees from both internal and external reporters.
Sanlam's Fraud and Ethics Hotline	Managed through KPMG's ethics line, the hotline allows individuals to anonymously report potential ethical breaches and fraud.

Over the past 10 years, we have had only 254 calls to the hotline out of a staff complement of over 10 000. Of these, less than 10% of all callers felt the need to subsequently remain anonymous. No confirmed material breaches of ethics with a potential impact on the Group were reported in 2014.

The GCO serves as the entry point for all reports received via the Sanlam Fraud and Ethics Hotline. Group HR monitors the number and type of disciplinary measures, hearings, dismissals and CCMA cases as a measure of our ability to instil a value-based culture that adheres to our ethical and operating standards. All cases are investigated and a process is in place to track, report and close out all reports received.

Disciplinary actions taken as a consequence of resulting investigations include termination of employment and cancellation of contracts in the case of suppliers and contractors.

Disciplinary actions taken

During 2014, we recorded 177 (2013: 110) incidents of disciplinary action. The majority of the cases were immaterial and considered to be low risk incidences.

Five (2013: 12) employees were dismissed for reasons ranging from poor performance to ethical breaches. Four cases proceeded to the Labour Court, and are currently being resolved.

The various disciplinary actions resulted in a total financial impact on the company of R350 446 (2013: R1 322 186).

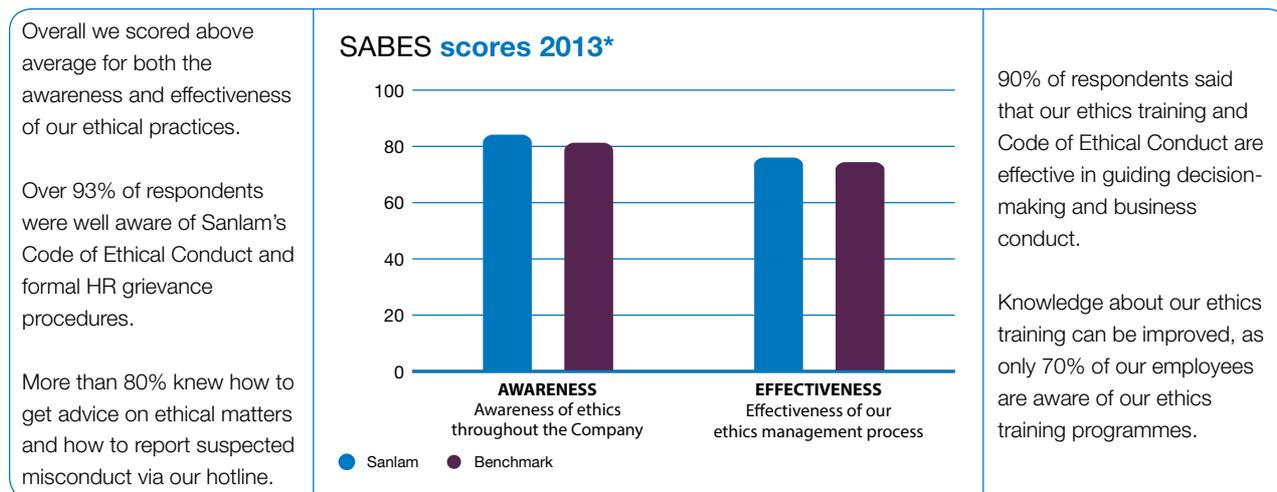
Note: These results are for office staff only, and excludes advisers.

Benchmarking our ethical performance

Since 2003, Sanlam has conducted ethical risk assessments once every two years. In 2013, we switched to the South African Business Ethics Survey (SABES) as our primary ethical benchmark study.

Sound governance material issues report continued

According to the results of SABES 2013, we returned the best results of the four financial services sector companies surveyed and second best across all sectors in participating South Africa. The key findings are shown below:



* Sanlam's score is based on the responses from 370 Sanlam employees from across the business. For the benchmarking study, SABES surveyed 4 099 respondents across 15 large enterprises in South Africa.

This result highlights our priority focus on preventing misconduct and shows that our ethical value-based approach resonates with our leadership and employees.

The next assessment will take place in 2015.

Financial crime and forensics

Sanlam's Group Forensic Services unit oversees the prevention, detection and investigation of incidents of financial crime and unlawful conduct in accordance with the Sanlam Group financial crime combating policy.

Quarterly reports are submitted by Group Forensic Services to the Sanlam Risk and Compliance committee on the incidence of financial crime and unlawful conduct in the Group and on measures taken to prevent, detect, investigate and deal with such conduct.

Emerging markets ethics and compliance

Sanlam Emerging Markets (SEM) drives the development of our business in emerging markets. Our strategy is to gain access to markets through a trusted implementation partner, using their distribution footprint and locally identifiable brand. Sound ethics and compliance with local regulations are at the forefront of our concerns. In countries where we do not have a controlling stake, we are in a position to influence behaviour, but not dictate procedures. Our response is to conduct extensive due diligence on each of our partners and ensure that our core values and goals are aligned before we enter into long-term agreements with them.

Our SEM governance framework policy, which we apply in our emerging markets, was developed and adopted by the Sanlam Board in 2014 and has four main elements:

- ④ Internal audit and compliance
- ④ Reporting
- ④ Risk and capital management
- ④ Information technology



SEM aims to ensure regulatory compliance in emerging market businesses in line with the rest of the Group, which operates under the guidance and authority of King III and South Africa's Companies Act. These world-class standards for ethics and corporate governance are the benchmark we aim to achieve for all our operations. The level of influence in ethics programmes and training varies depending on the strength and maturity of the target investments in the different emerging markets. The objective is to implement the required level of ethics training as well as create an appropriate channel to raise any concerns relating to ethics and compliance.

The extent to which we monitor compliance, and require businesses to adopt Sanlam's frameworks and policies, differs per business, and depends largely on the current structures they already have in place. We assess the quality of those structures against our standards and principles and assist with the development of relevant material, such as due diligence ethics and compliance questionnaires, in order to develop relevant governance frameworks applicable to each entity.

We expect subsidiary boards to adopt the Sanlam Group Code of Ethical Conduct (the code) and establish appropriate channels to raise concerns and to report incidents, which we respond to. As at the end of November 2014 most of our emerging market entities had successfully localised, customised and adopted the code. This refers to those entities based in Botswana, Kenya, Malaysia, Namibia, Tanzania and Zambia. Our Uganda-based entity will adopt the code at its first board meeting of 2015. Our associates in Ghana and Malawi have also adapted the code to meet their business requirements.

In addition to adopting the code, the CEOs or Chairmen are expected to undergo ethics training focused on creating appropriate channels for reporting instances of non-compliance. SEM Risk and Compliance Management will be facilitating in-house ethics training workshops during 2015 for these entities and associates.

For more information, please refer to the 2014 Sanlam Annual Report.

Consumer protection and data privacy

Party due diligence

The PDD project is aimed at improving Sanlam's ability to combat money laundering, the financing of terrorism, corruption and bribery, and tax evasion.

Our main obstacle to finalising the PDD project remains the uncertainty around local regulatory reforms. The National Treasury (NT) and the Financial Intelligence Centre (FIC) are preparing draft legislation to cabinet for approval, which is intended to align South African anti-money laundering (AML) regulations with international standards. This draft legislation will be published for public comment after cabinet approval is obtained.

Implementation of the Foreign Account Tax Compliance Act (FATCA) remains a challenge due to difficulties in interpreting the terms of FATCA and varying dispensations applicable to the multiple jurisdictions in which Sanlam does business. These difficulties are compounded by a parallel initiative by international tax authorities to implement a global system of sharing tax information based on FATCA. System and process changes made to implement FATCA will at best be transitional arrangements as the global exchange of information model will have substantially different requirements.

In October 2014, 51 countries signed an agreement at the Organisation for Economic Development and Co-operation (OECD) to share tax information on a global scale by 2017. The agreement reached at the OECD will have far-reaching compliance and reporting implications for financial institutions.

For an update on the privacy protection project, please refer to the  case study on  page 30.