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FINANCIAL CALENDAR

Annual general meeting: 6 June 2007

Interim results: 6 September 2007

Trading update: 7 June 2007 and 6 December 2007

DIVIDENDS

Last date to trade for 2006 dividend: 19 April 2007

Shares will trade ex dividend from: 20 April 2007

Record date for 2006 dividend: 26 April 2007

Payment of dividend for 2006: 9 May 2007

For your convenience we include the Annual Report on a disc (in pdf format).

We have also included additional financial information on the Group's interim and annual financial results.

The full version of the Sustainability Report is available on our website, **www.sanlam.co.za**, under the link Sanlam Sustainability. All financial information can be viewed on our website under the Investor Relations link.

The 2006 financial year has been another outstanding year for the Group with a number of performance highlights. The success of the Group's strategy over the past three years is evident in the reported results over this period.

Highlights

Earnings

- Headline earnings per share up 33% to 304,9 cents per share
- Core earnings per share up 17% to 151,7 cents per share

Business volumes

- Total new business volumes up 30% to R80,6 billion
- New investment business up 34%
- Sanlam Investments assets under management increased by 24% to R406 billion

Embedded value

- Embedded value per share of 2 047 cents
- Return on embedded value per share of 31%
- Value of new life business up 49% to R434 million
- Life new business margin of 2,1%

Capital management

- 4,3% of issued shares bought back during 2006 for R1,6 billion
- Subordinated debt issue of R2 billion in August 2006
- Shareholders' fund interest in Santam increased to 54,7%

		2006	2005
New business volumes	R million	**80 648**	62 224
Net result from financial services	R million	**2 616**	2 300
Core earnings	cents per	**151,7**	129,7
Headline earnings	cents per	**304,9**	229,8
Dividend	cents per	**77**	65
Embedded value	cents per	**2 047**	1 615

Results at a Glance

+ 30%

New business volumes
R80,6 billion

+ 17%

Core earnings per share
151,7 cents

+ 14%

Net result from financial services
R2,6 billion

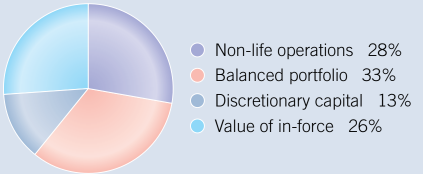
+ 18,5%

Dividend 77 cents per share

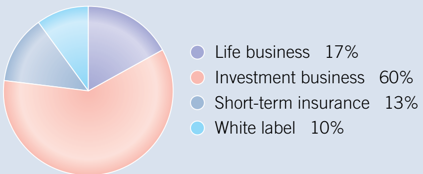
Sanlam
Thinking ahead

How we're doing

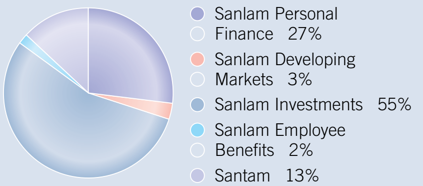
SANLAM GROUP EMBEDDED VALUE



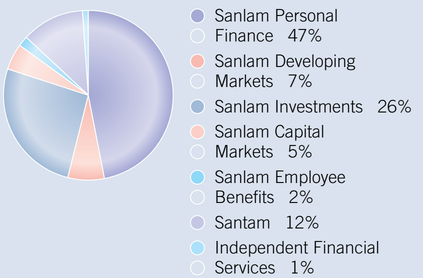
CONTRIBUTION TO NEW BUSINESS VOLUMES

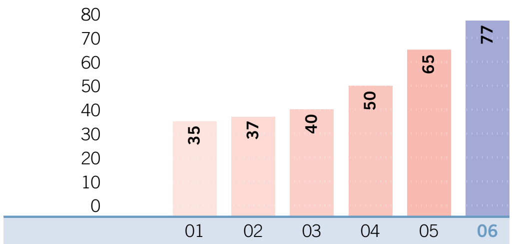


CONTRIBUTION TO NEW BUSINESS VOLUMES

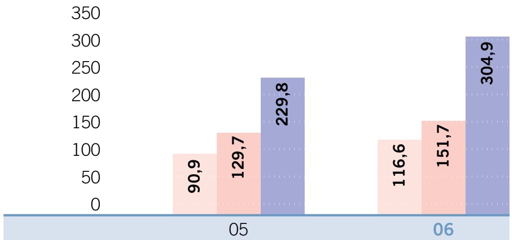


CONTRIBUTION TO NET RESULT FROM FINANCIAL SERVICES



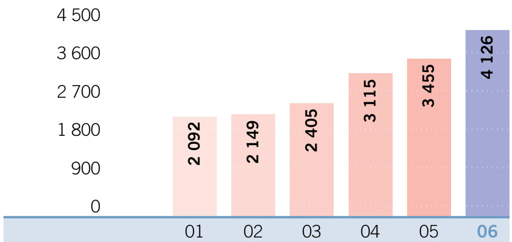


DIVIDEND PER SHARE (cents)

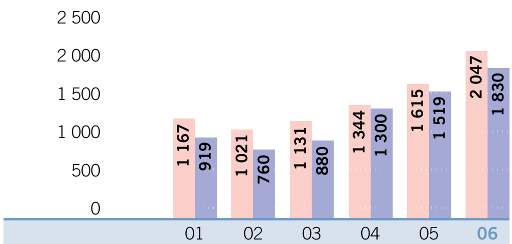


EARNINGS PER SHARE (cents)

Net results from financial services
Core earnings
Headline earnings



GROSS RESULT FROM FINANCIAL SERVICES (R million)



VALUE OF SANLAM SHARES (cents)

Embedded value
Closing share price

Salient Features for the year ended 31 December 2006

		2006	2005	%
Sanlam Limited Group				
Earnings:				
Net result from financial services	R million	**2 616**	2 300	14
Core earnings[1]	R million	**3 402**	3 280	4
Headline earnings[2]	R million	**6 838**	5 813	18
Net result from financial services per share	cents	**116,6**	90,9	28
Core earnings per share[1]	cents	**151,7**	129,7	17
Headline earnings per share[2]	cents	**304,9**	229,8	33
Group administration cost ratio[3]	%	**26,7**	29,1	
Group operating margin[4]	%	**20,7**	20,7	
Business volumes:				
New business volumes	R million	**80 648**	62 224	30
Net fund flows	R million	**(7 451)**	6 300	
Value of new life insurance business				
Value of new life insurance business	R million	**434**	291	49
Life insurance PVNBP[5]	R million	**20 308**	16 533	23
Life new business margin[6]	%	**2,1**	1,8	
Value of new non-life linked and loan business	R million	**64**	—	
Embedded value:				
Embedded value	R million	**46 811**	38 204	23
Embedded value per share	cents	**2 047**	1 615	27
Growth from life insurance business	%	**30,7**	22,3	
Return on embedded value per share[7]	%	**31,0**	24,4	
Sanlam Life Insurance Limited				
Shareholders' fund	R million	**34 197**	27 813	
Capital adequacy requirements (CAR)	R million	**5 800**	5 375	
CAR covered by prudential capital	times	**4,4**	4,0	

Notes

[1] *Core earnings = net result from financial services and net investment income (including dividends received from non-operating associates).*

[2] *Headline earnings = core earnings, net investment surpluses, secondary tax on companies and equity-accounted headline earnings less dividends received from non-operating associates.*

[3] *Administration costs as a percentage of financial services income earned by the shareholders' fund less sales remuneration.*

[4] *Result from financial services as a percentage of financial services income earned by the shareholders' fund less sales remuneration.*

[5] *PVNBP = present value of new business premiums and is equal to the present value of new recurring premiums plus single premiums.*

[6] *Life new business margin = value of new business as a percentage of life insurance PVNBP.*

[7] *Growth in embedded value per share (with dividends paid, capital movements and cost of treasury shares acquired reversed) as a percentage of embedded value per share at the beginning of the period.*

Group Ten-year Review

	2006 R million	2005 R million	2004[2] R million	2003 R million
Extracts from financial statements				
Result from financial services before tax	**4 126**	3 455	3 115	2 405
Core earnings	**3 402**	3 280	2 659	2 641
Headline earnings	**6 838**	5 813	2 963	2 351
Shareholders' funds	**29 121**	25 020	19 685	21 687
Policy liabilities	**237 863**	198 234	163 556	134 079
Total assets under management	**523 739**	425 591	346 958	279 237
Net asset value per share (cents)[4]	**1 640**	1 293	1 093	883
New business embedded value (after	**379**	291	321	232
Embedded value per share (cents)	**2 047**	1 615	1 344	1 131
Group administration cost ratio (%)[5]	**26,7**	29,1	31,4	33,6
Group operating margin (%)[5]	**20,7**	20,7	21,6	17,5
New business				
Long-term insurance business				
Individual insurance	**11 701**	8 391	8 088	6 923
• Recurring premiums	**1 983**	946	829	861
• Single premiums	**8 050**	5 803	5 700	4 506
• Continuations	**1 668**	1 642	1 559	1 556
Employee benefits	**2 605**	2 829	2 493	2 446
• Recurring premiums	**194**	199	140	127
• Single premiums – gross	**2 411**	2 630	2 429	2 384
– intergroup switches	**—**	—	(76)	(65)
Total long-term insurance business	**14 306**	11 220	10 581	9 369
Other business	**66 342**	51 004	42 702	27 274
• Linked products	**8 571**	7 340	6 068	5 103
• Segregated funds – Sanlam Investment Management	**15 706**	12 602	11 815	6 014
• Segregated funds – International	**4 170**	1 812	1 619	127
• SIM Multi Manager	**2 131**	3 094	3 226	1 032
• Collective investments: Retail	**15 260**	8 937	6 779	4 370
• Collective investments: Wholesale	**2 654**	2 510	2 145	1 363
• Collective investments: White Label	**7 647**	5 838	3 331	2 510
• Short-term insurance	**10 203**	8 871	7 719	6 755
Total new business	**80 648**	62 224	53 283	36 643
Recurring premiums				
Long-term insurance business				
Individual insurance	**10 858**	8 838	8 629	7 911
Employee benefits	**2 901**	2 977	2 869	2 829
Total recurring premiums	**13 759**	11 815	11 498	10 740
Staff				
Office staff (excluding marketing staff) (number of persons)	**9 037**	8 945	8 575	9 570

[1] *Comparative figures have been restated for the exclusion of indexed growth premiums and Punter Southall flows from new business flows.*

[2] *Restated for the adoption of IFRS in the 2005 financial year. Figures for years prior to 2004 have not been restated.*

[3] *Pro forma figures to reflect the demutualisation and restructuring of Sanlam in 1998.*

[4] *Shareholders' interest in subsidiaries adjusted from net asset value to fair value.*

[5] *Administration costs and result from financial services (excluding Sanlam Life restructuring cost) as a percentage of income earned by the shareholders' funds less sales remuneration.*

[6] *Figures not readily available as the definition of new business was only introduced in 1999.*

2002 R million	2001 R million	2000 R million	1999 R million	1998 R million	1997[3] R million	Average annual growth rate %
2 149	2 092	1 656	1 722	1 237	1 026	17
2 280	2 628	2 406	1 955	—	—	8
2 127	2 628	2 406	1 955	—	—	20
20 651	22 231	19 012	18 075	14 904	10 172	12
129 329	145 248	133 952	134 319	114 176	119 506	8
245 953	256 396	224 911	215 924	176 792	166 382	14
798	927	831	810	630	528	13
320	290	240	101	57	—	27
1 021	1 167	1 067	1 004	827	—	12
34,7	35,2	32,3	29,8	27,8	—	
16,9	18,4	16,5	17,9	12,9	—	
9 811	9 177	9 270	7 177	5 819	7 243	5
976	974	1 149	749	830	1 039	7
7 033	6 009	5 881	4 804	3 107	5 458	4
1 802	2 194	2 240	1 624	1 882	746	9
2 748	3 562	4 399	2 633	5 247	5 154	(7)
156	171	219	139	137	[6]	4
2 618	3 466	4 180	2 494	5 110	5 154	(8)
(26)	(75)	—	—	—	—	0
12 559	12 739	13 669	9 810	11 066	12 397	2
18 461	23 284	23 506	15 473	18 280	12 214	21
4 199	3 450	1 687	1 706	1 423	431	39
673	3 479	7 973	2 310	4 498	5 519	12
157	276	—	—	—	—	72
—	—	—	—	—	—	27
4 388	4 908	9 342	8 154	8 266	2 957	20
1 521	2 382	—	—	—	—	2
1 975	3 482	—	—	—	—	17
5 548	5 307	4 504	3 303	4 093	3 307	13
31 020	36 023	37 175	25 283	29 346	24 611	14
9 198	8 894	8 980	8 871	8 996	8 854	2
2 903	2 910	3 050	3 029	2 740	3 000	0
12 101	11 804	12 030	11 900	11 736	11 854	2
9 716	10 024	9 709	10 159	11 669	12 756	(4)

Group Structure

Sanlam Limited

	Retail cluster	Institutional cluster
Scope of business	The Retail cluster includes Sanlam Personal Finance and Sanlam Developing Markets. **Sanlam Personal Finance** is a major provider of a wide range of individual life insurance and personal financial services and solutions, including estate planning and trusts, home loans, personal loans, linked products, money transfer and financial services in South Africa, Namibia and the UK. **Sanlam Developing Markets** provides affordable financial services solutions primarily to the entry-level market in South Africa and to the wider financial services segments in other developing markets in which Sanlam operates (six other African countries as well as India).	The Institutional cluster includes Sanlam Investments, Sanlam Capital Markets and Sanlam Employee Benefits. **Sanlam Investments** incorporates Sanlam's investment-related businesses in South Africa, USA, Europe and Rest of Africa. Sanlam Investments' areas of service and solutions include traditional asset management, alternative investment solutions, property asset management, collective investments (unit trusts), private client investment management and stockbroking, multi-manager management and investment administration. **Sanlam Capital Markets** provides risk management, structured product solutions and associated capital market activities. **Sanlam Employee Benefits** provides life insurance, investment and annuity solutions for group schemes and retirement funds and fund administration for retirement and umbrella funds.
Contribution to net Group operating result (R million)	1 497	921
Number of employees	5 224	888

Sanlam is one of the largest financial services groups in South Africa. The Group has business interests elsewhere in Africa, Europe and India.

Short-term Insurance cluster	Corporate
The Short-term Insurance cluster is comprised of a 56,5% shareholding (54,7% in shareholders' fund) in **Santam**, the leading short-term insurer in South Africa. Santam focuses on the corporate, commercial and personal markets. It has a market share in excess of 20%, total assets of more than R16 billion and a countrywide infrastructure and broker network. Santam has related business interests in Africa and Europe.	The corporate head office is responsible for the Group's centralised functions, which include strategic direction, financial and risk management, group marketing and communications, group human resources and information technology, corporate social investment and general group services. **Sanlam Independent Financial Services** invests in independent customer-facing entities and intermediary businesses in the financial services industry that are generally not Sanlam branded.
342	(144)
2 758	166

2006 Chairman's Report

Roy Andersen, *Chairman*

THE SANLAM GROUP DELIVERED SOLID FINANCIAL RESULTS IN 2006, PROVIDING TESTIMONY TO THE SUCCESS OF OUR STRATEGY OF SOLUTION DIVERSIFICATION, ENHANCED DISTRIBUTION AND CAPITAL MANAGEMENT.

Leading growth

Three years after we began implementing our strategic plan to transform Sanlam into a world-class financial services group, we have seen our new businesses gaining traction in a growing market. By keeping increased return on embedded value (ROEV) as a central target of our strategy, we have built and continue to develop an operationally solid business positioned to deliver stakeholder value and sustainable growth.

The growth in our distributions to shareholders has been particularly pleasing over the last three years, with the dividend declared almost doubling since 2003 to 77 cents for 2006. Sanlam's share price provides a further indication of value placed on improved growth and performance as we deliver on our strategy, with the share price tracking up from 760 cents at the end of 2002 to 1 830 cents at the end of 2006.

Once again, Sanlam's ROEV per share for 2006 of 31% was more than double the Group's target rate for the year.

The playing field

Macro- and socio-economic issues

South Africa's macro-economic fundamentals are sound. Despite increasing interest rates, and contained inflationary pressures, we are still experiencing solid growth and the South African economy continued to flourish in 2006 with consumer spending and savings patterns little changed.

Our investment markets are booming, with the JSE All Share Index up 38% in the past financial year and more than doubling in the past three years, despite the market volatility in the first half of 2006. In addition, preparations for the 2010 Soccer World Cup are firmly under way and Government's commitment to investment in services and infrastructure will serve to boost South Africa's reputation as an investment destination and encourage higher employment rates.

The country's growth prospects over the next few years appear good, with demand for financial services likely to be further stimulated. We share the concerns of many South Africans about the socio-economic constraints that negatively influence the country's development potential. Our extensive Corporate Social Investment initiatives support programmes in the fields of education, entrepreneurship and social development, while our active participation in forums such as Business Against Crime aims to reduce the levels of criminal activity and build an environment conducive to growth.

We also remain concerned about the continuing high infection rates of Aids in the country and the broader socio-economic consequences of the disease. As a Group we are providing adequate reserves based on claims experienced and for projected future claims and we are, from Government to community level, involved with a number of initiatives aimed at combating the pandemic and reducing its effects.

Further afield, the emerging markets in which we operate experienced a slight shift in investor sentiment as US interest rates looked to increase and the expected further weakening of the US dollar did not materialise. However, the growth in these markets persists, providing expansion opportunities.

The industry and our clients

There was much-needed stabilisation in the regulatory environment during the past year, with the welcome finalisation of the Statement of Intent – an agreement between the life industry and the National Treasury in terms of which minimum values are to be paid on both retirement annuities and endowment policies if premium payments are stopped early for any reason. Implementation of the Statement of Intent has begun.

Sanlam supports the principles of further initiatives around new commission proposals, which are expected to be rolled out in the foreseeable future. These look to reduce the impact of upfront costs charged by insurers on early termination values by spreading the payment of costs over the life of a policy. We believe all stakeholders' interests are now aligned more appropriately and the benefits are likely to include a decrease in industry churn and an improvement in the overall quality of new business written.

Continued positive interaction with the Department of Trade and Industry bodes well for the industry and there is increased awareness of the value proposition of the life industry's role in improving the savings rate in South Africa. We believe the regulatory framework is appropriately constructed to promote an expansionary savings environment, thereby enhancing the long-term positioning and competitiveness of the life sector in the savings industry.

One of the major challenges facing South Africa is an underdeveloped savings culture. Our own expansion into the developing markets through the acquisition of African Life and Channel Life provides us with the opportunity to promote a more acceptable savings culture in the entry-level markets through consumer education and appropriate solutions.

As we understand that more transparent and flexible savings solutions are needed to meet a growing and diverse demand, we continue to focus on enhancing value for policyholders. Having made significant progress in building a diversified financial services Group, we have responded to these changes. Sanlam continues to develop and offer more flexible and wide-ranging solutions to a new generation of clients.

Other regulatory changes, in the form of the Financial Information Centre Act (FICA) and the Financial Advisory and Intermediary Services Act (FAIS) have also significantly increased administration and costs, underlining our continued strong focus on cost efficiencies. While life insurance remains an important part of our business, contributing 54% to our net operating profit, about 82% of our new business was from alternative financial services revenue streams.

Performance

Capital management

Capital efficiency continued to receive heightened attention as we drove increased ROEV. The first steps to extract value for Sanlam shareholders through transforming the Group's capital utilisation were taken when we chose to dispose of the shareholders' fund interest in Absa during 2005. This provided the opportunity to redeploy surplus capital identified within the Group. Since then we have successfully implemented our share buy-back programme – over the past year we have returned R1,6 billion to shareholders through share buy-backs – contributing to the effective management of Sanlam's capital base. The programme has resulted in a net reduction in issued share capital of 16,7%. Our purchase of African Life and Channel Life has been bedded down, positioning us to take advantage of opportunities in new markets.

We determined that, as at 31 December 2006, the Sanlam shareholders' fund held discretionary capital of some R6 billion, which is in excess of our immediate requirements. In line with our strategy, Sanlam will remain active in exploring additional growth opportunities through potential value-enhancing acquisitions. However, the Board still considers it an efficient application of the Group's excess capital to continue the buy-back of Sanlam shares. A formal buy-back arrangement was proposed on 8 March 2007 in terms of which shareholders will have an equal opportunity to tender their Sanlam shares on a voluntary basis for acceptance. Some R2,7 billion has been earmarked for this. Full details are provided in a circular to shareholders.

Strong results in a competitive market

The Sanlam group delivered solid financial results in 2006, providing testimony to the success of our strategy of solution diversification, enhanced distribution and capital management. Strong new business volumes drove substantial top-line growth across all businesses. However, focus is also being placed on control of costs to improve the value of business and margins.

Sanlam's aim to strengthen its distribution capability into the middle- and affluent-market segments was evident in the new business volumes from Sanlam Personal Finance, which increased by 22%, compared to the same period in 2005. This improvement in fund flows followed on the back of strengthened distribution resources and the establishment of a wider presence in Gauteng.

Our move into the entry-level market through the newly established Sanlam Developing Markets (SDM) business in the Retail cluster showed promising maiden results. This positions the Group for future growth into this potentially lucrative market. The business's expansion offshore into India provides a model for expansion into other selected markets.

An excellent performance by the Investment Management business, particularly on the retail side, reaffirms our strategy of developing an entrepreneurial culture and sector expertise. This was to some extent offset by the anticipated decline in the short-term insurance and group life underwriting margins. The repositioning of Sanlam Employee Benefits within the Institutional cluster should help the Group to extract synergies and address these issues.

A softening of the short-term insurance cycle hit the underwriting performance of Santam, but this was in line with expectations.

Transforming

Investing in human capital

The reality of operating in a competitive environment characterised by a scarcity of skills is that the strategic management of our human capital becomes critical in developing a sustainable competitive advantage. Sanlam's human resource management approach has evolved to reflect the changing nature of our business, with a focus on aligning our structures to our broader, more diversified service offering. Sanlam aims to be an employer of choice in the financial services industry.

We are making steady progress in pursuit of this through the development and transformation of our human capital and we will be accelerating our efforts to attract and retain top talent in our employment equity programme as a key business imperative for our Group's sustainability and future growth.

An active programme to build a diverse and business-relevant Group culture has had far-reaching benefits. By integrating diversity within our organisation from the bottom up through various transformation and employment equity programmes, we have managed to develop a more inclusive culture that embraces diversity in the workplace. Our latest research shows that this has had a positive impact on work productivity, on retention and on establishing a more entrepreneurial culture that is able to respond to market changes more rapidly. This has led to a renewed sense of pride in the organisation.

AN ACTIVE PROGRAMME TO BUILD A DIVERSE AND BUSINESS-RELEVANT GROUP CULTURE HAS HAD FAR-REACHING BENEFITS.

Black economic participation

As an increasingly diversified financial services group, Sanlam is well placed to play an important transformational role, both of a redistributive and developmental nature. In the first instance, we have facilitated the redistribution of significant capital to broad-based black economic empowerment groups through the Ubuntu-Botho transaction. This saw 8% of the Sanlam group being transferred to a black-owned consortium.

In addition, the Sanlam Broad-based Employee Share Plan was launched during 2006 as part of our investment in human capital. In terms of the Share Plan some 1,7 million Sanlam shares were transferred to more than 5 000 Group employees that do not participate in other share schemes, ensuring that previously disadvantaged employees share in the future growth of the Group.

Sanlam continues to measure its BEE status in line with the Financial Sector Charter. In particular, during the past year, we have also made significant headway in improving the number of historically disadvantaged people at board level and within middle management. Good progress has also been made towards meeting other Financial Sector Charter transformation targets, particularly in ownership. We continue our efforts to accelerate our progress in meeting our transformation targets and benchmarking our performance against the recently gazetted Broad-based Black Economic Empowerment Codes of Good Practice.

In terms of playing a developmental role, the acquisition of African Life, the country's leading provider of affordable financial security solutions to predominantly emerging black middle-class families, will provide a channel through which to improve the provision of financial services to the previously underserviced market. In the past year we have continued to focus on providing innovative and appropriate savings solutions to a broader part of the population through our Developing Markets business. Sanlam also continues to play a leading role both in the provision of capital for BEE transactions as well as in the provision of financing for critical infrastructural investment, helping to build a sustainable economy.

A more detailed report on our transformation initiatives can be found on page 58 of this Report.

Sustainability

We also recognise that Sanlam is part of a much broader socio-economic context, in which we have an important role to play. This year's detailed sustainability report will highlight our triple-bottom-line performance, measuring it not only in terms of the financial bottom line, but also on an economic, social and environmental impact basis.

Our inclusion in the JSE Social Responsibility Index for the third consecutive year is recognition of a concerted effort to implement sustainable reporting practices throughout the Group. The SRI serves as an accepted benchmark for corporate responsibility and we believe it will increasingly influence investment behaviour. For Sanlam, good corporate citizenship means good business as we seek to expand our markets and grow sustainably.

Governance

The Sanlam group remains committed to the highest standards of integrity and ethical conduct in dealing with all stakeholders. We recognise our responsibility to conduct our affairs with prudence and integrity, with transparency and accountability. At board and general management level this is confirmed by the endorsement of a code of ethics for the Group.

Acknowledging that corporate governance is an integral component of equity risk, we remain committed to the principles and codes of corporate practices and conduct outlined by the King II Report on Corporate Governance.

Board changes and appreciation

I would like to pay special tribute to outgoing financial director, Flip Rademeyer, who helped guide the Group through the complex process of demutualisation and played a vital role in steering Sanlam during the transition between CEOs in the Group. He has handed over to Kobus Möller, with whom we look forward to working in the coming years.

We also bid farewell to Boetie van Zyl who served as a director of Sanlam from 1995 and then, after the listing of Sanlam Limited, from 1998. Boetie has been chairman of the Human Resources committee, where his input in the strategic improvements in the management of our intellectual capital has been invaluable. He has chosen not to stand for re-election, having completed nine years as a director.

Dave Brink, who served as a director of Sanlam from 1994 to the listing of Sanlam Limited in 1998, retired as a director in June 2006, and was a member of the board's Human Resources, Nominations and Transformation committees, and provided valuable insight and advice during the fundamental transformation of Sanlam.

Independent director and member of the board's Audit and Risk committee, Eugene van As, has also indicated that he will not be available for re-election at the annual general meeting due to other business commitments.

During the period under review, Sanlam's board was strengthened by the addition of five new independent directors: Raisibe Morathi, Sipho Nkosi, Ian Plenderleith, Lazarus Zim and Anton Botha. The board also undertook a review of the Group's major corporate governance structures (including the structure and performance of the main and subsidiary boards and their committees), in order to streamline the decision-making processes and increase the efficiency of the Group at both board and operational levels, to promote corporate governance and comply with best practice. The restructured Sanlam board will comprise 18 directors, bringing a diversity of skills, experience and talent to the boardroom. A more detailed report on Corporate Governance and board responsibilities appears on page 30.

I would like to extend my appreciation to the board, Johan van Zyl, his management team, Sanlam staff and intermediaries for their commitment to driving our strategy and creating value for all our stakeholders. Our leadership and workforce in Sanlam certainly do us proud.

Dividend

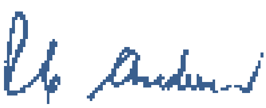
The board declared a dividend of 77 cents per share payable on 9 May 2007 to shareholders recorded in the register on 26 April 2007. The dividend represents an improvement of 18,5% over the 65 cents declared in 2005.

Looking ahead

The South African economy has experienced good positive growth, supported by significant increases in job creation over the past three years. We expect these trends to continue and accelerate, supported by robust growth in infrastructure investment by both the private and public sector. This in turn is expected to boost consumer markets. We, however, remain cognisant of the challenges facing our country, especially the need to address poverty, the HIV/Aids pandemic and the need to broaden our skills base. We believe that strong growth and job creation are critical to addressing these challenges. As a committed corporate citizen Sanlam will continue to play an important role in addressing these challenges and making a positive contribution to the growth of South Africa's economy.

Sanlam has developed a strong operational base from which to leverage growth in its markets and become the leader in wealth creation. We continue to strive for earnings growth and improved capital management as we drive increasing ROEV, while at the same time our focus on sustainability and responding to the industry and market dynamics allow us to continually reshape our earnings power. Sanlam has become a culturally diverse business with an entrepreneurial spirit positioning us for further growth over the longer term.

Market conditions, including investment and risk-underwriting conditions, will affect our ability to repeat our 2006 performance, but we continue to build on our achievements and focus on enhancing shareholder value.



Roy Andersen, *Chairman*

Sanlam Board of Directors and Committee Memberships (age as at 27/02/2007)

Independent non-executive directors

1.


2.


1.

Roy Andersen (58) (Chairman)

Appointed in 2004 – Independent director

Qualifications: CA (SA), CPA (Texas)

Major external positions, directorships or associations: Murray and Roberts, Virgin Active Group, United Kingdom, JHB Children's Home, The Hiltonian Society, Business Against Crime (SA), Chief of Defence Reserves, SA National Defence Force

Sanlam and Sanlam Life committee membership: Nominations (Chairman), Human Resources, Non-executive Directors (Chairman)

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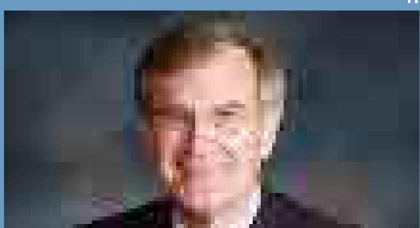

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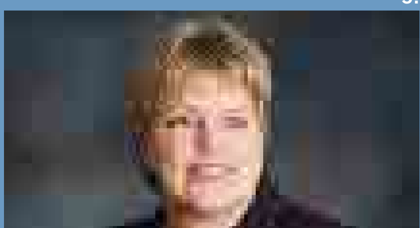

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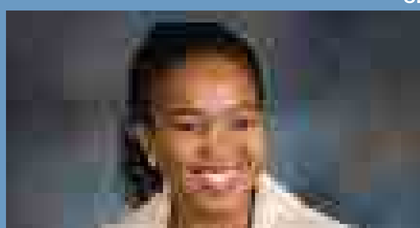


9.


10.


2.
Manana Bakane-Tuoane (58)

Director since 2004 – Independent director

Qualifications: PhD (Economics) (University of Saskatchewan, Canada)

Major external positions, directorships or associations: Director-General: Office of the Premier of the North West province, African Rainbow Minerals

Sanlam and Sanlam Life committee membership: Nominations, Non-executive Directors, Retail Cluster

3.
Anton Botha (53)

Director since 2006 – Independent director

Qualifications: BProc, BCom (Hons) Investment Management, Stanford Executive Program

Major external positions, directorships or associations: JSE Limited, University of Pretoria, Vukile Property Fund, Sanlam Capital Markets, Imalivest, Sanlam Investment Management

Sanlam and Sanlam Life committee membership: Human Resources (Chairman), Non-executive Directors, Institutional Cluster

4.
Attie du Plessis (62)

Director since 2001 – Independent director

Qualifications: BCom, CA (SA), AMP (Harvard), AEP (Unisa)

Major external positions, directorships or associations: Absa, KWV, Sanlam Investment Management

Sanlam and Sanlam Life committee membership: Audit and Risk, Non-executive Directors, Institutional Cluster

5.
Fran du Plessis (52)

Director since 2004 – Independent director

Qualifications: BCom (Hons) Taxation, BCom LLB, CA (SA)

Major external positions, directorships or associations: KWV, Naspers, Keeromstraat 30 Beleggings, Heemstede Beleggings, South African Airways, IDC, Findevco, LDP Incorporated

Sanlam and Sanlam Life committee membership: Policyholders' Interest (Chairperson), Non-executive Directors

6.
Wilmot James (53)

Director since 2004 – Independent director

Qualifications: PhD (Wisconsin)

Major external positions, directorships or associations: Media 24, Cape Philharmonic Orchestra, US-SA Centre for Leadership and Public Values, Ford Foundation of New York, African Genome Education Institute, Grape Company of Paarl

Sanlam and Sanlam Life committee membership: Policyholders' Interest, Sustainability, Non-executive Directors

7.
Valli Moosa (50)

Director since 2004 – Independent director

Qualifications: BSc (University of Durban-Westville)

Major external positions, directorships or associations: Lereko Investments, Eskom, Imperial, Sun International, Sterling Waterford Securities, ANC (National Executive Council), Auditor General Advisory Board, IUCN (World Conservation Union)

Sanlam and Sanlam Life committee membership: Sustainability (Chairman), Non-executive Directors, Institutional Cluster

8.
Raisibe Morathi (37)

Director since 2006 – Independent director

Qualifications: CA (SA)

Major external positions, directorships or associations: Foskor, Land and Agricultural Bank of SA, Economic Adviser to the Deputy President of SA, Santam Ltd, Pebble Bed Modular Reactor (Pty) Ltd

Sanlam and Sanlam Life committee membership: Non-executive Directors, Institutional Cluster

9.
Sipho Nkosi (52)

Director since 2006 – Independent director

Qualifications: BCom (Hons) Economics, MBA

Major external positions, directorships or associations: Eyesizwe, Exxaro, Anooraq Resources

Sanlam and Sanlam Life committee membership: Non-executive Directors, Retail Cluster

10.
Ian Plenderleith (63)

Director since 2006 – Independent director

Qualifications: MA (Oxon), MBA (Columbia), FCT, FSI, CBE

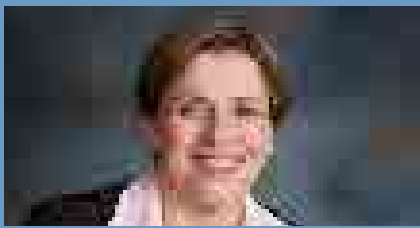
Major external positions, directorships or associations: Past Deputy Governor of the SA Reserve Bank, Past Executive Director of the Bank of England, BH Macro, MediCapital Bank, British Museum Friends Limited

Sanlam and Sanlam Life committee membership: Audit and Risk, Non-executive Directors, Institutional Cluster

Sanlam Board of Directors and Committee Memberships (age as at 27/02/2007) continued

Independent non-executive directors, continued

11.



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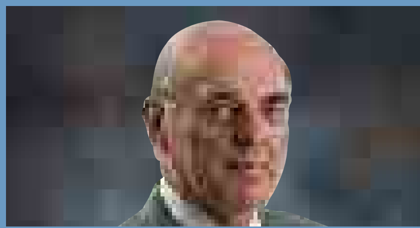

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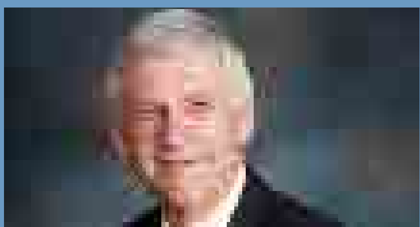

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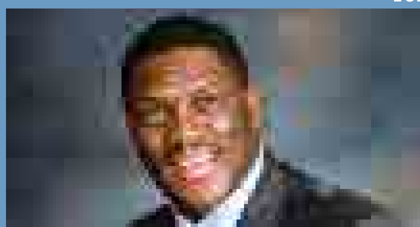

Non-executive directors

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Executive directors

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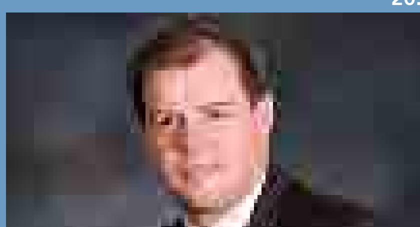

11.

Maria Ramos (48)

Director since 2004 – Independent director

Qualifications: BCom (Hons), MSc Economics (London)

Major external positions, directorships or associations: Transnet

Sanlam and Sanlam Life committee membership: Nominations, Human Resources, Non-executive Directors

12.

George Rudman (63)

Director since 2001 – Independent director

Qualifications: BSc, FFA, FASSA, ISMP (Harvard)

Major external positions, directorships or associations: Santam

Sanlam and Sanlam Life committee membership: Audit and Risk (Chairman), Non-executive Directors, Retail Cluster, Short-term Insurance Cluster

13.

Bernard Swanepoel (45)

Director since 2004 – Independent director

Qualifications: BCom (Hons), BSc (Mining Engineering)

Major external positions, directorships or associations: Harmony, African Rainbow Minerals

Sanlam and Sanlam Life committee membership: Sustainability, Non-executive Directors, Retail Cluster

14.

Eugene van As (68)

Director since 2003 – Independent director

Major external positions, directorships or associations: Sappi and Group subsidiaries, various private companies, trusts and education bodies

Sanlam and Sanlam Life committee membership: Audit and Risk, Non-executive Directors

15.

Boetie van Zyl (68)

Director since 1995 – Independent director

Qualifications: Pr Ing, BSc Mech Eng

Major external positions, directorships or associations: Murray & Roberts, Naspers, Media 24, MIH, Peace Parks Foundation, Atlas Properties

Sanlam and Sanlam Life committee membership: Human Resources, Policyholders' Interest, Non-executive Directors

16.

Lazarus Zim (46)

Director since 2006 – Independent director

Qualifications: BCom (Hons), MCom, DCom (HC)

Major external positions, directorships or associations: Anglo American SA, Mondi South Africa, Chamber of Mines of SA, Kumba, Telkom, Afripalm

Sanlam and Sanlam Life committee membership: Sustainability, Non-executive Directors

17.

Patrice Motsepe (45) (Deputy Chairman)

Director since 2004 – Non-executive director

Qualifications: BA (Legal), LLB

Major external positions, directorships or associations: African Rainbow Minerals, Harmony, Ubuntu-Botho Investments, Sizanani-Thusanang-Helpmekaar Investments, President of Business Unity South Africa (BUSA), President of the Chambers of Commerce and Industry South Africa (Chamsa), President of Mamelodi Sundowns Football Club

Sanlam and Sanlam Life committee membership: Nominations, Human Resources, Non-executive Directors

18.

Rejoice Simelane (54)

Director since 2004 – Non-executive director

Qualifications: PhD (Econ) (Connecticut)

Major external positions, directorships or associations: African Rainbow Minerals, Ubuntu-Botho Investments, Mamelodi Sundowns Football Club, Presidential Economic Advisory Panel

Sanlam and Sanlam Life committee membership: Sustainability, Non-executive Directors, Retail Cluster

19.

Johan van Zyl (50)

Director since 2001 – Group Chief Executive since 2003

Qualifications: PhD, DSc (Agric)

Major external positions, directorships or associations: Sanlam Investment Management, Sanlam Netherlands Holding, Santam, African Life Assurance Company, University of Pretoria

Sanlam and Sanlam Life committee membership: Short-term Insurance Cluster (Chairman), Retail Cluster (Chairman), Institutional Cluster (Chairman)

20.

Kobus Möller (47)

Financial Director since 2006

Qualifications: BCompt (Hons), CA (SA), AMP (Harvard)

Major external positions, directorships or associations: Sanlam Capital Markets, African Life Assurance Company, Sanlam Investment Management, Santam

Sanlam and Sanlam Life committee membership: Short-term Insurance Cluster, Retail Cluster, Institutional Cluster

2006 Report of the Group Chief Executive

Johan van Zyl, *Group Chief Executive*

Our 2006 report card

Sanlam's report card for the year to December 2006 reflects the consistent progress we have made on all the elements of the strategy we began implementing three years ago. The year has seen a widening of our client base into both the affluent and entry-level markets through solution diversification and strengthening of our sales force as we continue transforming Sanlam from a mutual insurer into a world-class financial services group.

In our previous annual report, I stated that our delivery in 2006 would be

OUR PROGRESS IN TRANSFORMING SANLAM FROM A LIFE INSURANCE BUSINESS INTO A DIVERSIFIED FINANCIAL SERVICES GROUP IS EVIDENT FROM THE R4,4 BILLION (37%) CONTRIBUTION OF NON-LIFE OPERATIONS TO EV EARNINGS IN 2006 COMPARED TO R2,3 BILLION (29%) IN 2004.

measured by growth in our traditional retail market, by success in our entry-level market business, by investment performances and flow of funds, as well as through the unlocking of synergies between Sanlam Investment Management, Sanlam Capital Markets and Sanlam Employee Benefits. I'm pleased to say that we've managed to tick the box on each of these objectives.

By leveraging the Group's existing and sizeable policyholder base, and by building on our strong relationships with clients, we have continued to drive efficiencies and to grow business volumes significantly across all business clusters – off substantially less capital. With our growth plan firmly on track, during the next year Sanlam will focus on the refinement of the existing strategy, with a relentless drive to increase return on embedded value (ROEV) through improved capital efficiency and earnings growth. We believe ROEV is a more relevant measure of value creation than focusing simply on margin growth, and a better basis from which to position the Group as a leader in wealth creation going forward.

Operating environment

The past financial year was characterised by increased consumerism and competition within the industry, which put pressure on pricing and margins across the board – reaffirming our commitment to keeping a tight grip on cost structures.

Our Chairman alluded to the ongoing shifts in the market as a result of increased industry regulation. We are pleased with the co-operative engagement between the life industry, through the Life Offices' Association (LOA), and the National Treasury, ensuring that a negotiated settlement was reached regarding the minimum values to be paid on retirement annuities and endowment policies in the case of early termination. We have started to implement the Statement of Intent.

We acknowledge and support the need for changes to the retirement funding industry in South Africa, including the need for the proposed mandatory national security system from 2010. We support and are working with the regulatory authorities in their efforts to create a transparent and cost-efficient savings environment in South Africa, and we are confident that we are well positioned to operate effectively within the new regulatory dispensation.

Outside of South Africa, certain emerging markets offer high growth opportunities that fit Sanlam's competitive advantage in high-volume, low-value retail financial services. Our strategy remains to partner with local and global players to help us execute any geographic expansion. The Group's acquisition of African Life, Channel Life and Safrican has enabled us to draw on our scale and existing experience to expand into Africa, while we have achieved earlier than expected growth in India. In developed markets, such as the UK, we continue to build our reputation as a niche player in financial services. Sanlam remains a truly South African financial services group, with a growing footprint in emerging and developed markets.

Achievements

Over the past year, we began making refinements to Sanlam's broader strategic plan to achieve domestic and international growth. We continue to improve the value proposition for clients, designing new solutions to meet their needs, while at the same time ensuring the enhancement of shareholder value.

Our current strategy continues to centre around the following five pillars with a strong focus on capital efficiency and earnings growth as we drive increased ROEV:

Capital efficiency

Effective management of Sanlam's capital base remains key. By making strategic investments, building a balanced portfolio and applying our capital in the most efficient manner, we have made significant gains in capital utilisation.

By far the biggest redeployment of capital over the past two years has been through our share buy-back programme. We purchased 103,6 million shares at a total cost of R1,6 billion during 2006, in addition to the 359 million shares that we purchased at a total cost of R4,4 billion in 2005. Our net reduction in issued share capital following the initiation of our share buy-back programme is now 16,7%.

In addition, Sanlam Life's debt issue of R2 billion reduced the volatility in Sanlam Life's capital portfolio, as well as the Group's economic capital requirement. The share buy-back programme continues while Sanlam remains active in exploring additional growth opportunities through potential value-enhancing acquisitions. Furthermore, we remain focused on improving our capital structure, aiming for better asset utilisation.

As a further initiative to improve our capital efficiency and returns and to increase our stake in Santam to enhance diversification in our growing financial services group, we jointly announced with Santam on 27 February 2007 proposals whereby Santam intends to make a limited voluntary share buy-back offer for up to 10% of its issued shares. We announced a simultaneous offer to Santam shareholders to acquire shares offered in excess of the limited voluntary buy-back.

Earnings

Strong top-line growth was achieved by the Group, while robust investment returns and a reduction in cost ratios helped to boost our earnings growth. Diversification into new geographic areas, as well as the expansion of our solution offerings in the entry-level and affluent markets, have driven volume growth in our retail business. Selling additional solutions to our substantial existing client base is proving profitable – with low capital intensity required. Total new business volumes were up 30%, with growth in retail flows particularly strong. Sanlam Investments made a sterling contribution to earnings.

Our progress in transforming Sanlam from a life insurance business into a diversified financial services group is evident from the R4,4 billion (37%) contribution of non-life operations to EV earnings in 2006 compared to R2,3 billion (29%) in 2004. Growth from life insurance business contributed 28% of EV earnings for 2006 compared to 26% in 2004.

Core earnings per share were up 17%.

Our business strategies are aligned to achieve top-line growth through focused market initiatives, an expansion of our solutions offering, driving business synergies and achieving operational excellence. These strategies will position Sanlam on an accelerated path to provide a wide range of client-centric solutions.

Costs and efficiencies

While many of the benefits of rationalisation have been realised during the past year, we continue to focus on cost reduction in a highly competitive environment, particularly in newly acquired businesses. Our cost ratios decreased further in 2006, and our joint venture with Coris Capital promises to deliver further cost savings and operational benefits going forward. Improving cost efficiencies in distribution, as well as agency productivity and maximising cross-selling opportunities through broader distribution channels, should result in lower acquisition costs.

Transformation

The evolution of the Group into a leading financial services brand has necessitated a fresh approach to many new and complex challenges. Over the past three years we have implemented world-class techniques to better manage our human resources and intellectual capital, the bedrock for sustainable growth. We have also built appropriate structures that reflect our diversification and growth, and have focused on nurturing a culture that speaks to a new Sanlam. I am very positive about some of our achievements in this regard. The Chairman's Report provides further details of our transformation achievements and goals.

Diversification

Going forward, Sanlam will seek to offer a wider range of solutions, across a growing number of geographies. In order to achieve this, we have changed the way we work – creating independent, more flexible and smaller business units that are able to respond nimbly to the market.

Being Sanlam

The solid performance across all our businesses is a result of our strategic intent to drive earnings growth. A relentless focus on accuracy and service delivery underpins our daily function.

Retail cluster

Sanlam Personal Finance

Our individual life business through Sanlam Personal Finance showed profitable top-line growth, as it recaptured market share. Driven by an improved footprint and distribution efficiency, the business performed well as new RSA life insurance recurring premiums grew by 12% and single premiums by 14%.

Our presence in Gauteng is established and growing, with sales from this region comprising 32% of total RSA sales. The number of advisers increased from 1 788 to 1 933 and through a strengthened relationship with Absa we now attract 24% of Absa broker business placed with outside parties.

At the top end of the income spectrum, Innofin grew by 22%. In future, the newly launched Glacier brand will be Sanlam's channel to provide holistic solutions for the affluent market.

In the credit market, new mortgage and personal loans were up by 35% over the past year, while new solution sets offer increased alternate profit sources to our traditional life business. We continue to offer existing clients a comprehensive solution set and to selectively introduce new credit solutions around mispricing of risk situations.

Sanlam Personal Finance remains focused on wealth creation, offering a wide range of solutions, including offshore financial services.

Sanlam Developing Markets

We are pleased with the maiden contribution of the new Developing Markets businesses, which are well positioned for future growth. Our recent acquisitions of Channel Life and African Life (Aflife) have been bedded down, with new branding strategies endorsed and operations and systems being stabilised. Over the past year Sanlam Group Solutions (SGS) was integrated into Aflife SA. Efficient capital management has also enabled us to release more than R1 billion from Aflife. Sanlam Developing Markets' South African businesses delivered on target: Channel Life experienced strong growth and Aflife maintained business volumes. These businesses' target market in South Africa is the fastest-growing market in terms of absolute numbers. By expanding into underrepresented regions and offering a broader solution set, we aim to increase new business volumes significantly in the medium term.

Our businesses in Africa performed well.

Our operations in India forged ahead during the year, with new business volumes of R44 million. The partnership with Shriram Life Insurance, a local Indian company, in which Sanlam owns a 26% stake, offers a model for growth that could be further rolled out in other geographies, particularly in other potentially lucrative developing markets. We will continue to evaluate emerging-market opportunities and to expand selectively.

Institutional cluster

Sanlam Investments

Another year of solid performance from Sanlam Investments was achieved. Its operating profit increased by more than 50% for three consecutive years.

Robust equity market performance over the past year played a part in the top-line growth, but with more than R400 billion in assets under management and a number of top-performing retail and sector-specific funds, the benefits of our strategy of developing smaller specialised boutiques are clearly demonstrated. A specialist product development team was established and the cluster's comprehensive business offering was further expanded.

Sanlam Investments achieved excellent overall new business flows, thanks in particular to its retail investment businesses. Sanlam Private Investments (SPI) more than tripled its inflows to R10,3 billion, while Sanlam Collective Investments grew inflows by more than 40% to R21,7 billion. Continued growth in international business led to high performance fees and continued high inflows into the Sanlam Investments Global funds. Octane, our international hedge fund-of-funds manager, showed strong investment performance and attracted substantial net inflows resulting in another year of excellent results.

Sanlam Properties advanced its empowerment strategy with the formation of Khulela Properties as its primary black economic empowerment (BEE) property vehicle and empowerment partner. It has also assisted Vukile to become a leading BEE company in the listed property sector and launched the black-owned and controlled Vusani Property Investment Fund.

Sanlam Capital Markets

Incorporation of the Capital Markets business into the Investment cluster has enabled us to extract synergies. The centralised Group credit function was bedded down and we managed to successfully steer the business through market volatility.

The business is performing very well with an ROE in excess of 30%.

Sanlam Employee Benefits (SEB)

New business volumes in our Employee Benefits business were disappointing and margins remained under pressure in a highly competitive market. Our risk business remains a focus area as we think of new ways to attract business flows. Our joint venture with Coris positions the administration business for a turnaround in losses. SEB became part of the Institutional cluster on 1 January 2007.

Short-term Insurance cluster

Robust growth from Santam led the strong performance of the Short-term Insurance cluster. We continue to extract synergies from our majority stake and have implemented an active programme to bolster co-operation and integration opportunities, achieving further synergies. We also introduced a number of new distribution initiatives and continue to focus on fully integrating Santam into our business, while at the same time ensuring the enhancement of shareholder value.

Santam's gross written premium growth of 12% and an underwriting margin of 6,1% show a satisfactory performance given the softer underwriting cycle. A special dividend declared in March 2006 reduced solvency levels to 54%, positioning Santam to optimise its balance sheet. Optimisation of reinsurance continues, in line with management's focus on capital efficiencies. Santam is well positioned to take advantage of the growing lower entry-level market, with its newly launched Multi-home solution.

With our joint announcement on 27 February 2007 on the proposed limited voluntary share buy-back offer, Santam also announced a proposed scheme of arrangement whereby Santam will on a compulsory basis acquire 10% of their shares from each Santam shareholder at a discount to market. This proposed transaction is to facilitate the introduction of a BEE shareholding in Santam.

Independent financial services

During the past year we have focused on maximising our return on investment and enhancing business flows to all other clusters in the Group, both locally and internationally. In the United Kingdom we invested in Nucleus, providing further international diversification and growth, while our investment in Intrinsic delivered to growth expectations. Our shareholding in Punter Southall was reduced to 27% with increased return on investment.

Gensec Property Services (GPS) exceeded expectations, delivering 33% growth in earnings on the previous year, while Simeka, the actuarial and employee benefits consulting business, delivered to projected business flows.

Growing Sanlam

Prospects

With our strategic plan to diversify into a leading financial services solutions provider well on track, our major objective continues to be the enhancement of ROEV through capital efficiency and earnings growth. An important part of this is the improvement of our long-term investment performance and diversification into businesses that can deliver sustainable top-line growth.

Delivery in 2007 will be measured by growth in embedded value and ROEV. We expect to continue top-line growth, particularly in the non-life insurance businesses as we progress with transforming Sanlam from a life insurance business to a diversified financial services group, while further optimising capital used in the life insurance business.

OUR MAJOR OBJECTIVE CONTINUES TO BE THE ENHANCEMENT OF RETURN ON EMBEDDED VALUE THROUGH CAPITAL EFFICIENCY AND GROWTH.

In the year ahead, increased co-operation between business units will enable Sanlam to offer integrated solutions to clients, building on a comprehensive business offering and solution set. We remain committed to finding a quality and affordable health management solution as part of the Group's comprehensive solution offering.

Appreciation

As we tackle the challenge of building a strengthened and diversified Sanlam, I'd like to thank the board and management team for their continued support, as well as dedicated Sanlam staff and intermediaries who are integral to the sustainable growth of our business.

Johan van Zyl, *Group Chief Executive*

Executive Committee

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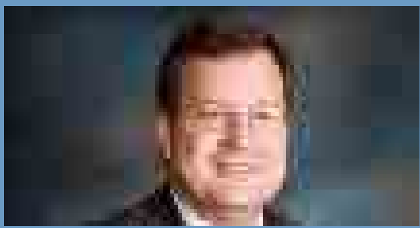

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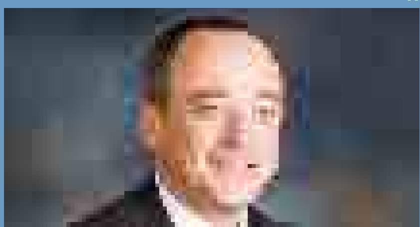

5.

6.

1.

Johan van Zyl (50) (Chairman)

Appointed: 2001

Group Chief Executive.

Qualifications: PhD, DSc (Agric)

Group Chief Executive of Sanlam since March 2003. Executive director of Sanlam Limited and Sanlam Life. Non-executive director of Santam, Sanlam Investment Management, Sanlam Netherlands Holding and African Life Assurance Company. Council member of the University of Pretoria.

Past Chief Executive of Santam. Former vice-chancellor and principal of the University of Pretoria.

2.
Kobus Möller (47)

Appointed: 2003

Financial Director.

Qualifications: BCompt (Hons), CA (SA), AMP (Harvard)

Appointed Financial Director in 2006. Executive director of Sanlam Limited and Sanlam Life, non-executive director of Santam, Sanlam Capital Markets, African Life Assurance Company and Sanlam Investment Management.

Former Chief Executive: Finance of Sanlam Limited, Executive director: Operations and Finance of Sanlam Life, Executive director: Finance of Impala Platinum Holdings.

3.
Themba Gamedze (48)

Appointed: 2004

Chief Executive: Independent Financial Services.

Qualifications: BA (Hons), MSc, FIA, FASSA

Chief Executive of Sanlam Employee Benefits from 2003 to 2006. Non-executive director of Santam, Coris Capital and Simeka Consultants and Actuaries, Council member of the Actuarial Society of South Africa and founding president of the Association of South African Black Actuarial Professionals.

Former empowerment executive at Liberty Life and associate director: Structured products at HSBC Securities.

4.
Steffen Gilbert (45)

Appointed: 2003

Chief Executive: Santam.

Qualifications: FIA, FASSA, ASA

Appointed Chief Executive of Santam in July 2003. Executive director of Santam, and director of Bluesure, Centriq Insurance Company, Centriq Insurance Holdings, Centriq Life Insurance Company, Nova Risk Partners, SAIA, Santam Europe, and chairman of Westminster Motor Insurance Association.

Former Chief Executive of Munich Reinsurance Company of Africa.

5.
Margaret Jenks (63)

Appointed: 2004

Chief Executive: Group Marketing and Communications.

Qualifications: BA (Hons), BSc (Hons), master's degree in Management (Wits)

Joined Sanlam in current position in May 2004. Non-executive director of African Life Assurance Company.

Former executive director in the BoE group and NBS-Boland Bank, vice-president of Gemini Consulting, global account manager of The Monitor Company, and executive coach of a number of senior executives in various South African industries.

6.
Ian Kirk (49)

Appointed: 2006

Chief Executive: Strategy and Special Projects.

Qualifications: FCA (Ireland), HDip BusData Processing, CA (SA)

Non-executive director of African Life Assurance Company, Chairman of The Standard General Insurance Company.

Former partner in PricewaterhouseCoopers, CEO of Capital Alliance Holdings, Deputy CEO of Liberty.

Executive Committee continued

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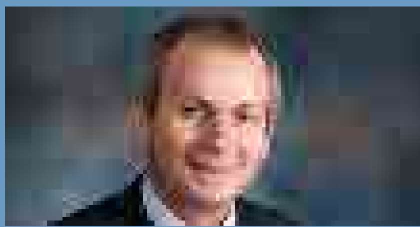

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7.
Lizé Lambrechts (43)

Appointed: 2002

Chief Executive: Sanlam Personal Finance.

Qualifications: BSc (Hons), FIA

Non-executive director of Sanlam Life Namibia, Consolidated Financial Services, African Life Assurance Company and Merchant Investors Assurance. Director of Innofin and Chairperson of the Life Offices' Association.

Started her career in actuarial training in Sanlam in 1985 and held various senior positions in the Group's individual life business.

8.
Temba Mvusi (51)

Appointed: 2004

Chief Executive: Market Development.

Qualifications: BA, ELP (Warton School of Business), MAP (Wits), PDP (UCT)

Appointed Chief Executive: Market Development in August 2005 after serving as Chief Executive: Group Services since January 2004. Non-executive director of Sanlam Private Investments, African Life Assurance Company, Sanlam Investment Management, Sanlam Employee Benefits and The National Business Initiative. Council member of the Walter Sisulu University and Bishops Cape Town.

Former head of external interface at Sanlam Investment Management, General Manager of Gensec Property Services and Marketing Manager of Franklin Asset Management.

9.
Johan van der Merwe (41)

Appointed: 2002

Chief Executive Officer: Sanlam Investments.

Qualifications: MCom, MPhil, CA (SA), AMP (Harvard)

Appointed Chief Executive Officer of Sanlam Investment Management in July 2002. Executive director of Sanlam Investment Management and director of all the companies in Sanlam Investments and Chairman of Sanlam Capital Markets, Sanlam Property Asset Management, Sanlam Multi-Managers International and Sanlam Asset Management (Ireland).

Former director of Investec Asset Management and head of corporate finance and tax at Billiton.

A director of the Investment Managers Association of SA.

10.
Heinie Werth (43)

Appointed: 2005

Chief Executive: Sanlam Developing Markets.

Qualifications: Hons B Accountancy, CA (SA), MBA (Stellenbosch), EDP (Manchester)

Appointed Chief Executive: Developing Markets in December 2005 after serving as Financial Director of Sanlam Life from April 2002. Chief Executive of African Life Assurance Company and a director of a number of African Life affiliate boards, non-executive director of Shriram Life Insurance (India) and Channel Life.

Former Senior General Manager (IT) of Sanlam Life, Financial Director of Sanlam Employee Benefits and Manager: Corporate Finance of Gencor and Financial Director of Kelgran Ltd.

11.
André Zeeman (46)

Appointed: 2005

Chief Actuary.

Qualifications: BCom, FIA, CFP, EDP (Manchester)

Appointed Chief Actuary of Sanlam Limited and Statutory Actuary of Sanlam Life in September 2005. Non-executive director of Consolidated Financial Services and Sanlam Life Namibia.

Former Chief Executive: Actuarial of Sanlam Life and held various managerial positions in the Actuarial department since appointment at Sanlam in 1982.

Corporate Governance Report

Johan Bester, *Company Secretary*

Statement of commitment

The Sanlam board of directors is committed to the principles of the Code of Corporate Practices and Conduct set out in the King Report on Corporate Governance (King II), and to the highest level of corporate governance and best practice. We see value in subscribing to a system whereby ethics, personal and corporate integrity and governance practices set the standards for compliance.

The directors of Sanlam are of the opinion that Sanlam complies with and has applied the requirements of King II in all material respects, with regard to the year under review.

THE BOARD RECOGNISES THE RESPONSIBILITY OF SANLAM TO CONDUCT ITS AFFAIRS WITH PRUDENCE AND INTEGRITY, TRANSPARENCY, ACCOUNTABILITY, FAIRNESS AND SOCIAL RESPONSIBILITY, AND TO ACCOUNT THEREFORE IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS, TO SAFEGUARD THE INTERESTS OF ALL ITS STAKEHOLDERS.

The board recognises the responsibility of Sanlam to conduct its affairs with prudence and integrity, transparency, accountability, fairness and social responsibility, and to account therefore in accordance with International Financial Reporting Standards, to safeguard the interests of all its stakeholders. The board also appreciates that corporate governance is a component of equity risk and acknowledges the relationship between governance and risk management practices, equity performance and corporate profitability.

Application of and approach to the Code

According to Sanlam's decentralised business approach, each of its business clusters operates in concert with its underlying business units. However, all entities within the Group are required to subscribe to the spirit and principles of the Code of Corporate Practices and Conduct. All the business and governance structures in the Group are supported by clear approval frameworks and agreed-upon business principles, ensuring a coherent and consistent governance approach throughout the Group.

Sustainability performance

Sanlam's overall philosophy, policy and governance on sustainability are set out in the Sustainability Report on page 58 of this annual report.

Governance developments within Sanlam

During the period under review, the Sanlam board approved a revised corporate governance structure for the Sanlam group (on 7 June 2006). At a Special Shareholders' Meeting of Sanlam Life Insurance Limited (Sanlam Life) held on 29 June 2006, the Sanlam Life board and committees were reconstituted to ensure consistency in composition with the board and relevant committees of Sanlam. A number of new committees were also constituted and the nominated directors appointed. Magda Lombard was appointed as Company Secretary of Sanlam Life and Johan Bester continued as Company Secretary of Sanlam Limited.

The following developments in the governance structures of the Sanlam group were implemented:

Board structures

The non-executive directors of Sanlam Limited (Sanlam) have been appointed in the same capacity to the board of Sanlam Life. The two boards now function as an integrated unit in practice as far as possible. Both boards have the same independent director as chairman as well as the same executive director as CEO.

Board responsibilities and functioning

The Sanlam and Sanlam Life board meetings have been combined, thereby removing one layer in the decision-making process in an attempt to prevent duplication of effort and to improve the flow of information, as well as to increase the efficiency of the two boards.

The agenda of the **Sanlam board** focuses more on Group strategy, capital management, accounting policies, financial results and dividend policy, human resource development, as well as corporate governance and JSE requirements. It is also responsible for the relationship with shareholders and other stakeholders in the Group. The Sanlam board has the following board committees:

- Audit and Risk
- Nominations
- Human Resources
- Sustainability
- Non-executive Directors
- Policyholders' Interest
- Executive

The previous Transformation and SHE committees have been combined into a new Sustainability committee and the Policyholders' Interest committee has been created.

The **Sanlam Life board** is responsible for statutory issues across all Sanlam businesses as well as monitoring operational efficiency and operational risk issues throughout the Group. The responsibility for managing all Sanlam's direct subsidiaries has been formally delegated to the Sanlam Life board.

The Sanlam Life board has the following board committees:

- Audit, Actuarial and Risk
- Human Resources
- Retail cluster
- Institutional cluster
- Short-Term Insurance cluster
- Policyholders' Interest

Business clusters

The Group's businesses and underlying business units have been restructured into two new macro business clusters, Retail and Institutional, to improve management and operational focus. Santam is seen as a third macro business cluster. The clusters are operationally autonomous with commercial, arm's-length relationships between them where appropriate.

Each of the business clusters reports to a cluster board committee. This is a board committee of the Sanlam Life board, appropriately authorised to direct and monitor all strategic and operational aspects of a particular business cluster. A majority of non-executive directors from the Sanlam Life board, the Group Chief Executive and Financial Director, as well as key cluster executives, are members of the cluster board committees. External experts/specialists have also been appointed to each committee in an advisory capacity. The Group Chief Executive acts as chairman of each of the cluster board committees, which meet at least once per quarter. The committees consider proposals and receive reports regarding strategy implementation, operational performance, finances and actuarial issues as far as these affect business operations, risks, governance and human resources.

The cluster board committees perform no statutory functions. They may escalate issues to the relevant Sanlam or Sanlam Life board committees when appropriate, and regularly provide summarised feedback on cluster activities to the Sanlam Life board. The cluster board committees function within the authority levels delegated to them by the Sanlam Life board.

Business divisions and divisional boards

Each of the business divisions fall within a cluster and include Sanlam Investments, Sanlam Capital Markets, Sanlam Personal Finance, Sanlam Employee Benefits and Sanlam Developing Markets. Each business division is managed by a chief executive, supported by Exco and support functions that are appropriate to their particular operational needs. The divisions function within the strategy approved by the relevant business cluster board committee and according to a set of management principles established by the Group Office for the Sanlam Group.

Divisional boards have been established for the five business divisions. Each of these boards have established committees (or forums) with specific responsibilities for the operation of that particular business division.

The divisional boards and committees mainly consist of executives as the majority of the operating business decisions are made by these boards and committees. These structures are also responsible for the generation of memoranda and issues for consideration by the Sanlam board and business cluster committees. Each of the divisional boards has its own Audit and Risk as well as Human Resources (HR) forum. The divisional boards and committees will be strengthened where appropriate by the appointment of "expert directors" or attendees who may be members of the Sanlam board or may be additional external appointments.

Business units and business boards

The business units include the underlying businesses within the business divisions such as Innofin, Sanlam Home Loans, Sanlam Trust and Merchant Investors. The business units and their boards with their executive committees structure their own activities within appropriate delegated authority levels. Where required, the various business unit boards will also act as the statutory boards of subsidiary and associated companies.

Group Office

The Group Chief Executive is supported by a Group Executive Committee as well as by a small centralised Group Office mainly performing the following functions: strategic directing (tight issues); co-ordinating (synergy seeking); performance monitoring and the allocation of capital.

The Sanlam board and board committees (as at 31 December 2006)

Board charter

In accordance with the principles of sound corporate governance, the Sanlam board charter – modelled on the charter principles recommended by King II – incorporates the

Magda Lombard, *Company Secretary***:**
Sanlam Life Insurance Limited

powers of the board, providing a clear division of responsibilities and accountability of the board members, collectively and individually, to ensure a balance of power and authority. The annual evaluation process to review the effectiveness of the board, its committees and individual directors has been entrenched. Copies of the board charter are available on request.

Committee charters

The board committee charters, which describe the terms of reference of the committees as delegated and approved by the board, are reviewed at least annually. Copies of the various committee charters are available on request.

Board composition

As at the 2006 financial year-end, the Sanlam board comprised 20 members, 16 of whom were independent, 2 non-executive, and 2 executive directors. Particulars of the Sanlam board members and their capacities, categorised as executive, non-executive and independent, are set out on page 35.

Two of the independent non-executive directors have indicated that they will not be available for re-election at the annual general meeting (AGM) in 2007 thus reducing the total number of directors to 18. The roles of Chairman and Group Chief Executive are separated, with Roy Andersen and Johan van Zyl holding these positions respectively. A number of senior members of management attend the board meetings while other senior managers are invited to attend and participate in certain board discussions. At least a third of all board members retire every year at Sanlam's AGM.

André Zeeman, *Chief Actuary*

IN HIS REPORTING, THE STATUTORY ACTUARY IS REQUIRED TO TAKE POLICYHOLDERS' REASONABLE EXPECTATIONS DULY INTO CONSIDERATION.

The Sanlam board of directors

Director	Executive (E) Non-executive (N) Independent (I)	Changes during 2006
RC Andersen (Chairman)	I	
MMM Bakane-Tuoane	I	
AD Botha	I	Appointed on 08/03/2006
DC Brink	I	Retired on 07/06/2006
AS du Plessis	I	
FA du Plessis	I	
WG James	I	
MV Moosa	I	
JP Möller	E	Appointed on 01/11/2006
PT Motsepe	N	
RK Morathi	I	Appointed on 08/03/2006
SA Nkosi	I	Appointed on 08/03/2006
I Plenderleith	I	Appointed on 07/06/2006
PdeV Rademeyer	E	Retired on 31/10/2006
M Ramos	I	
GE Rudman	I	
RV Simelane	N	
ZB Swanepoel	I	
E van As	I	Retiring on 06/06/2007
JJM van Zyl	I	Retiring on 06/06/2007
J van Zyl	E	
PL Zim	I	Appointed on 08/03/2006

Composition of the board as at 31 December 2006: *Black female 3, black male 5, white female 2, white male 10.*

Composition of the board after 6 June 2007: *Black female 3, black male 5, white female 2, white male 8.*

Independence of board members

Through its Nominations committee the board annually considers and reconfirms the categorising of independent directors with reference to the guidelines in King II. Their independence in character and judgement, and whether there are any relationships or circumstances which are likely to affect, or could appear to affect their judgement, are also taken into consideration. The independent and non-executive directors on the Sanlam and Sanlam Life boards are highly respected and experienced, having the required integrity, knowledge and skills to make sound judgements on various key issues relevant to the business of Sanlam, independent of management. These include the key issues of strategy, performance, human resources, transformation, diversity, employment equity and corporate governance.

The committee is of the view that all the Sanlam directors meet the criteria set for independence, except for PT Motsepe and RV Simelane due to their involvement in Ubuntu-Botho, as well as J van Zyl and JP Möller being executive directors.

Appointment and re-election of directors

The board charter contains a policy detailing the formal and transparent procedures for appointment to the board. While the Nominations committee ensures that the board's composition reflects demographic diversity, Sanlam's articles of association also empower the board to appoint a director until the next AGM if a casual vacancy arises. In terms of the articles, directors are subject to retirement by rotation every three years and, if available, are considered for re-appointment at the AGM. Shareholders may also nominate directors for election at the AGM, in accordance with formal, prescribed procedures. Abridged biographical details of the nominated directors accompany the notice of the AGM. All directors are consequently appointed at an AGM by a shareholders' resolution.

Board member orientation and training are conducted in accordance with an induction programme, designed to meet the individual needs and circumstances of each director, and approved by the board. The Company Secretary, in co-operation with the head of Group Human Resources, manages the induction programme.

Board performance assessment

The Nominations committee annually assesses the contribution of directors, using an individual director evaluation process that is conducted by the board Chairman and an external service provider. The board Chairman's own performance is appraised by the board under the direction of the Deputy Chairman.

The Sanlam board as a whole considers the outcomes of the evaluation processes. This culminates in a determination by the board as to whether the board will endorse a retiring director's re-election. Where a director's performance is not considered satisfactory, the board will not endorse the re-election.

The names of the directors standing for re-election at the AGM are contained in the explanatory notes to resolutions for the AGM (refer to page 304). None of the directors standing for re-election has a directors service contract.

Every year, a collective board-effectiveness evaluation is conducted. This assessment, which is done alternatively by an external service provider and by the Chairman, is aimed at determining how the board's effectiveness can be improved. The Nominations committee considers the outcomes of the evaluation and makes recommendations to the board where deemed appropriate. In the year under review, the overall results of the board-effectiveness review improved materially.

Independent assessment of Sanlam's corporate governance practices

In 2006, Deutsche Bank conducted a survey on corporate governance practices in South Africa, covering 50 JSE-listed companies. In this report dated 4 December 2006 Sanlam was given a positive governance assessment score of 79% against an international best practice set of criteria. Its governance momentum was indicated as stable and it was rated 4th amongst 12 financial institutions in South Africa.

Board meetings

The board meets at least five times a year to consider business philosophy and strategic issues, to set risk parameters, approve financial results and budgets, and monitor the implementation of delegated responsibilities. Feedback from its committees, as well as a number of key performance indicators, variance reports and industry trends, are considered.

Board committees

The board has established a number of permanent standing committees with specific responsibilities, defined in terms of their respective charters as approved by the board, to assist the board in discharging its duties and responsibilities. The ultimate responsibility resides in the board and, as such, it will not abdicate this responsibility to the committees.

BOARD MEMBER ORIENTATION AND TRAINING ARE CONDUCTED IN ACCORDANCE WITH AN INDUCTION PROGRAMME, DESIGNED TO MEET THE INDIVIDUAL NEEDS AND CIRCUMSTANCES OF EACH DIRECTOR, AND APPROVED BY THE BOARD.

There is full disclosure, transparency and reporting from these committees to the board at each board meeting, while the chairpersons of the committees attend the AGM and are available to respond to any shareholder queries.

The office of the Company Secretary provides secretarial services for each of the committees. External advice may be obtained when required at the cost of the company. For the period under review, all the committees are satisfied that they have fulfilled their responsibilities in terms of their respective charters.

– Audit and Risk committee

Members:

GE Rudman (Chairman), AS du Plessis, FA du Plessis (until 30/06/2006), E van As and I Plenderleith (from 07/06/2006).

Composition: *White male 4. All independent directors.*

Invitees:

RC Andersen (board Chairman), J van Zyl (Group Chief Executive), JP Möller (Financial Director), D Ladds, P de V Rademeyer (retired Financial Director), CG Swanepoel (retired Statutory Actuary), AP Zeeman (Statutory Actuary), JP Bester (Company Secretary), M Lombard (Committee Secretary).

The role of the Audit and Risk committee is to assist the board in fulfilling its responsibility with regard to financial matters and risk management activities.

The committee comprises four financially experienced members, all of whom are independent directors. In view of this committee's Group-wide relevance, members of senior management, the chief audit executive, chief risk officer and the external audit partners, as well as other assurance providers, also attend committee meetings. The committee meets four times per year.

This committee's charter is reviewed annually by the board to ensure that it is aligned with King II and international best practice. As part of the regular review of corporate governance practices, the interim report was reviewed by the external auditors for the first time during 2006.

– Human Resources committee

Members:

JJM van Zyl (Chairman until 07/06/2006 but still a committee member), AD Botha (Chairman from 07/06/2006), RC Andersen, DC Brink (until 07/06/2006), PT Motsepe and M Ramos (from 07/06/2006).

Composition: *Black male 1, white female 1, white male 3. All independent directors, except PT Motsepe (non-executive).*

Invitees:

J van Zyl (Group Chief Executive), E van der Straaten (Group HR Executive), JP Bester (Company Secretary).

This committee is responsible for monitoring and advising on the Group's human intellectual capital and transformation processes regarding employees. In particular, the committee approves executive appointments and reviews succession planning, including the position of the Group Chief Executive. The committee is also responsible for the remuneration strategy of the Group, the approval of guidelines for incentive schemes, and the annual determination of remuneration packages for members of the Sanlam group's Executive committee. The committee takes cognisance of local and international industry benchmarks, ensures that incentive schemes are aligned with good business practice and that excellent performance is rewarded. It also makes recommendations to the board regarding directors' remuneration (except for the HR committee). The committee meets four times a year.

– Nominations committee

Members:

RC Andersen (Chairman), DC Brink (until 07/06/2006), MMM Bakana-Tuoane, PT Motsepe (from 07/06/2006) and M Ramos.

Composition: *Black female 1, black male 1, white female 1, white male 1. All independent directors, except PT Motsepe (non-executive).*

Invitees:

JP Bester (Company Secretary).

The committee is responsible for making recommendations to the board on all new appointments to the board and its committees. A formal process of reviewing the balance and effectiveness of the board and its committees, identifying the skills needed and the individuals to provide such skills in a fair and efficient manner, is required of the committee to ensure the board and its committees remain effective and focused. This includes a regular review of the composition of the board committees. It also includes assisting the Chairman with the annual evaluation of board members' performance. It is responsible for identifying the appropriate board candidates and evaluating them against the specific disciplines and areas of expertise required. The board approves all interim appointments, with the final appointments being made by the shareholders at the AGM. The committee is chaired by the Chairman of the board and meets at least twice a year.

– Committee of non-executive directors

Members:

RC Andersen (Chairman), MMM Bakane-Tuoane, AD Botha (from 08/03/2006), DC Brink (until 07/06/2006), AS du Plessis, FA du Plessis, WG James, MV Moosa, PT Motsepe, RK Morathi (from 08/03/2006), SA Nkosi (from 08/03/2006), I Plenderleith (from 07/06/2006), M Ramos, GE Rudman, RV Simelane, ZB Swanepoel, E van As and PL Zim (from 08/03/2006).

Composition: *Black female 3, black male 5, white female 2, white male 7. All independent directors, except PT Motsepe and RV Simelane (both non-executive).*

Invitees:

JP Bester (Company Secretary).

This committee (formerly the committee of independent directors) is responsible for the independent governance and functioning of the board. The committee gives due regard to the general requirements of the JSE as well as the King Code, and ensures that there are appropriate and balanced corporate governance practices and processes in place within Sanlam. The committee objectively and independently oversees and gives due and careful consideration to the interests of Sanlam and all its stakeholder groups.

The committee comprises all the non-executive and independent directors. The committee meets subsequent to board meetings.

THE NOMINATIONS COMMITTEE ANNUALLY ASSESSES THE CONTRIBUTION OF DIRECTORS, USING AN INDIVIDUAL DIRECTOR EVALUATION PROCESS THAT IS CONDUCTED BY THE BOARD CHAIRMAN AND AN EXTERNAL SERVICE PROVIDER.

– Sustainability committee (with effect from 07/06/2006)

Members:

MV Moosa (Chairman), WG James, RV Simelane, ZB Swanepoel and PL Zim.

Composition: *Black female 1, black male 3, white male 1. All independent directors, except RV Simelane (non-executive).*

Invitees:

TI Mvusi (Chief Executive: Market Development), M Lombard (Meeting Secretary).

This is a newly constituted committee, having combined the functions of the previous Transformation committee and the Safety, Health and Environmental committee. In respect of transformational matters, the committee recommends for approval, monitors and advises on matters pertaining to transformation and black economic empowerment throughout the Group. With regard to safety, health and environmental matters, the committee's main responsibility is to recommend for approval, monitor and advise on matters pertaining to such matters throughout the Group. Suitably qualified persons are co-opted on to the committee when necessary to render specialist services. The committee meets four times per year.

– Policyholders' Interest committee (with effect from 07/06/2006)

Members:

FA du Plessis (Chairperson), WG James, JJM van Zyl, CG Swanepoel.

Composition: *Black male 1, white female 1, white male 2. All independent directors except CG Swanepoel (retired Statutory Actuary).*

Invitees:

AP Zeeman (Statutory Actuary), JP Bester (Company Secretary).

The main responsibility of the committee is to review and monitor all policyholder-related decisions and other related matters in the Sanlam group at a strategic level. Its main function is to act as an advisory body and to provide guidance to the board on strategic issues relating to policyholders. The committee meets four times per year.

– The Executive committee

Members:

J van Zyl (Group Chief Executive and Chairman), NT Christodoulou (until 31/12/2006), T Gamedze, SC Gilbert, M Jenks, I Kirk (from 01/06/2006), L Lambrechts, JP Möller, TI Mvusi, PdeV Rademeyer (until 31/10/2006), JHP van der Merwe, AP Zeeman and HC Werth.

Composition: *Black male 2, white female 2, white male 8.*

Invitees:

JP Bester (Company Secretary)

The Executive committee, which functions under the chairmanship of the Group Chief Executive, is responsible for assisting the Group Chief Executive in the operational management of Sanlam, subject to statutory and delegated limits of authority. Its main functions are strategic directing, co-ordination and monitoring performance. The committee comprises the Group Chief Executive, the Financial Director, heads of business divisions, the chief actuary and selected senior Group executives. The committee meets every fortnight.

– Ad hoc board committees

The board has the right to appoint and authorise special ad hoc board committees from time to time to perform specific tasks. The appropriate board members make up these committees.

Attendance of meetings

During the period under review the board and committee members' attendance was as follows:

Board and committee meetings 2006

Attendance of meetings	Board Scheduled	Board Special	Audit and Risk	HR	Nominations	Sustainability [f]	Policyholders' Interest [f]
Planned	**5**	**0**	**4**	**4**	**2**	**2**	**2**
Held	**5**	**2**	**5**	**5**	**4**	**2**	**3**
RC Andersen	5	2		5	4		
MMM Bakane-Tuoane	3	1			3		
AD Botha[a], [g]	4	1		2			
DC Brink[b]	1	0		1	1		
AS du Plessis	5	2	3				
FA du Plessis	5	2	4				3
WG James	4	1				2	3
MV Moosa	5	1				2	
JP Möller[c]	1	0					
PT Motsepe	3	1		5	2		
RK Morathi[a]	3	1					
SA Nkosi[a]	2	2					
I Plenderleith[e]	3	1	2				
PdeV Rademeyer[d]	4	2					
M Ramos[g]	4	0		0	2		
GE Rudman	5	2	5				
RV Simelane	5	2				2	
ZB Swanepoel	3	1				1	
E van As	2	2	3				
JJM van Zyl	5	2		5			3
J van Zyl	5	2					
PL Zim[a]	3	2				1	

[a] *Appointed 08/03/2006*

[b] *Retired 07/06/2006*

[c] *Appointed 01/11/2006*

[d] *Retired 31/10/2006*

[e] *Appointed 07/06/2006*

[f] *Established 07/06/2006*

[g] *Appointed to HR committee 07/06/2006*

Company secretary and professional advice

The board-appointed company secretary is JP Bester. He is also the Public Officer, Compliance Officer and the delegated Information Officer, and is responsible for the execution of all relevant and regulatory requirements applicable to those positions. Magda Lombard is the meeting secretary of the board.

All directors have unlimited access to the advice and services of the Company Secretary, who is accountable to the board for ensuring that procedures are complied with and that sound corporate governance and ethical principles are adhered to. If appropriate, individual directors are entitled to seek independent professional advice concerning the discharge of their responsibilities at Sanlam's expense. No director exercised this right during the course of the financial year.

Dealings in JSE securities

Sanlam complies with the JSE Limited (JSE) requirements in respect of the share dealings of its directors. In terms of Sanlam's closed-period policy, all directors and staff are precluded from dealing in Sanlam securities from 1 January and 1 July, until the release of the Group's final and interim results respectively. The same arrangements apply for closed periods during other price-sensitive transactions for directors, officers and participants in the share incentive scheme and staff who may have access to price-sensitive information. A pre-approval policy and process for all dealings in Sanlam securities by directors and selected key employees are strictly followed. Details of directors' and the Company Secretary's dealings in Sanlam securities are disclosed to the JSE through the Stock Exchange News Service (SENS). Even more stringent trading policies regarding personal transactions in all financial instruments are enforced at Sanlam's investment management companies.

Communication with stakeholders

The board appreciates the importance of dissemination of accurate information to all Sanlam stakeholders, and highly regards open and relevant dialogue with all parties with whom we do business. Reports and announcements to all audiences and meetings with investment analysts and journalists, as well as the Sanlam website, are useful conduits for information. Open lines of communication are maintained to ensure transparency and optimal disclosure, and stakeholders are encouraged to make their views known to the Group. All board members are expected to attend Sanlam's AGM, and shareholders are encouraged to attend the AGM and to use this opportunity to direct questions at a Sanlam spokesperson. A summary of the proceedings of all general meetings, and the outcome of voting on the items of business are posted on the website following the general meeting.

Communication with shareholders and the investment community is conducted by Sanlam's Investor Relations (IR) department, and a comprehensive IR programme is also in place to ensure appropriate communication channels are maintained with domestic and international institutional shareholders, fund and asset managers and investment analysts. An important component of this includes meetings and investor roadshows conducted by executive management.

Sanlam's remuneration philosophy

Responsibility for the remuneration strategy of the Group resides in the Human Resources committee of the board, which also approves mandates for incentive schemes within the Group and determines the remuneration of Executive committee members, relative to local and international industry benchmarks. It also makes recommendations to the board regarding the remuneration of Sanlam directors, other than Human Resources committee members.

The board is convinced that appropriate remuneration for executive directors is inextricably linked to the development and retention of top-level talent and intellectual capital within our Group.

Employee remuneration

The following principles are used to determine appropriate remuneration levels:

- All remuneration practices are structured to provide clear differentiation between individuals with regard to performance.
- A clear and meaningful distinction is made between high performers, average performers and underperformers, with remuneration reflecting these levels.
- Strong incentives are created for superior performance by individuals and teams.
- Long-term incentive programmes are also structured to act as retention mechanisms for key individuals.
- Top contributors are rewarded with significantly higher performance bonuses.
- Underperformers are not rewarded and active steps are taken to encourage the individual either to improve performance or to leave Sanlam, in line with accepted practices.

THE BOARD APPRECIATES THE IMPORTANCE OF DISSEMINATION OF ACCURATE INFORMATION TO ALL SANLAM STAKEHOLDERS, AND HIGHLY REGARDS OPEN AND RELEVANT DIALOGUE WITH ALL PARTIES WITH WHOM WE DO BUSINESS.

Executive directors

The packages for executive directors include a basic salary, a variable performance-linked short-term bonus and a variety of long-term incentive/retention programmes. All of these are established in terms of the remuneration principles outlined.

In line with the Group's remuneration philosophy, the remuneration of the executive directors, including that of the Group Chief Executive, is reviewed annually. The Human Resources committee reviews each executive director's performance and makes the necessary adjustments based on a number of market comparison surveys.

Short-term performance bonuses are calculated by the committee, based on predetermined performance targets in relation to the actual company performance for that period. Long-term incentives are managed in the same way but only for longer periods. None of the short- or long-term incentives vest, due to trigger events such as changes in control.

Executive directors are employed on a permanent basis and all Sanlam's human resources policies are applicable to their conditions of service. The board is responsible for the appointment of the Sanlam executive directors as well as managing the exit arrangements that may be formulated.

Non-executive directors

Fee structures are recommended to the board by the Group Human Resources committee (other than for services as a Human Resources committee member) and reviewed annually with the assistance of external service providers. The committee takes cognisance of market norms and practices, as well as the additional responsibilities placed on board members by new acts, regulations and corporate governance guidelines. The board recommends the fee structure for the next year to the company's shareholders at the AGM for approval.

Non-executive directors receive an annual fee for their input. In addition, a fee is paid for attending and contributing to board meetings. Sanlam pays for all travelling and accommodation expenses in respect of board meetings. The Chairman receives a fixed annual fee that is inclusive of all board and committee attendances as well as all other tasks performed on behalf of the Group.

Disclosure of individual directors' emoluments, as required in terms of the JSE Listings Requirements, is detailed below.

Directors' emoluments

Non-executive directors

Directors' emoluments for the year ended 31 December 2006 (R'000)

Name	Directors' fees	Attendance and committees	Allowance	Fees from Group	Total
RC Andersen (Chairman)	882	—	378	—	1 260
MMM Bakane-Tuoane	118	92	50	48	308
AD Botha (from March 2006)	99	128	42	210	479
DC Brink (until June 2006)	56	53	24	—	133
AS du Plessis	118	168	50	224	560
FA du Plessis	118	162	50	144	474
WG James	118	132	50	48	348
MV Moosa	118	160	50	—	328
PT Motsepe	176	110	76	—	362
RK Morathi (from March 2006)	99	72	42	—	213
SA Nkosi (from March 2006)	99	71	42	—	212
I Plenderleith (from June 2006)	71	112	30	—	213
M Ramos[a]	118	100	50	—	268
GE Rudman	118	227	50	334	729
RV Simelane	118	145	50	61	374
ZB Swanepoel	118	111	50	—	279
E van As	118	105	50	70	343
JJM van Zyl	118	173	50	46	387
PL Zim (from March 2006)	99	92	42	—	233
Travel and subsistence	—	362	—	—	362
Total non-executive directors	**2 879**	**2 575**	**1 226**	**1 185**	**7 865**

[a] *The directors' fees of M Ramos are paid directly to Transnet.*

Directors' emoluments for the year ended 31 December 2005 (R'000)

Name	Directors' fees	Attendance and committees	Allowance	Fees from Group	Total
RC Andersen (Chairman)	840	—	360	—	1 200
MMM Bakane-Tuoane	112	86	48	82	328
DC Brink	112	147	48	—	307
AS du Plessis	112	88	48	435	683
FA du Plessis	112	128	48	301	589
WG James	112	128	48	82	370
VP Khanyile (until November 2005)	103	82	44	51	280
CE Maynard (until December 2005)	112	144	48	336	640
MV Moosa	112	128	48	—	288
PT Motsepe	168	135	72	—	375
M Ramos	112	78	48	—	238
GE Rudman	112	184	48	426	770
RV Simelane	112	106	48	109	375
ZB Swanepoel	112	128	48	—	288
E van As	112	158	48	100	418
JJM van Zyl	112	160	48	134	454
Travel and subsistence	—	160	—	—	160
Total non-executive directors	**2 567**	**2 040**	**1 100**	**2 056**	**7 763**

Fees from Group companies for the year ended 31 December 2006 (R'000)

Name	Directors' fees	Attendance and committees	Total
MMM Bakane-Tuoane	20	28	48
AD Botha	96	114	210
AS du Plessis	65	159	224
FA du Plessis	53	91	144
WG James	20	28	48
GE Rudman	145	189	334
RV Simelane	33	28	61
E van As	42	28	70
JJM van Zyl	20	26	46
Total fees from Group companies	**494**	**691**	**1 185**

Fees from Group companies for the year ended 31 December 2005 (R'000)

Name	Directors' fees	Attendance and committees	Total
MMM Bakane-Tuoane	40	42	82
AS du Plessis	276	159	435
FA du Plessis	105	196	301
WG James	40	42	82
VP Khanyile	37	14	51
CE Maynard	105	231	336
GE Rudman	150	276	426
RV Simelane	65	44	109
E van As	70	30	100
JJM van Zyl	40	94	134
Total fees from Group companies	**928**	**1 128**	**2 056**

Executive directors

The remuneration of executive directors comprises basic salary, performance-linked short-term incentives as well as participation in long-term incentive and retention schemes.

The Human Resources committee believes that participation in a performance-linked short-term incentive scheme enhances the focus of the executive directors by providing a meaningful incentive to outperform. The form of the incentive is an annual bonus, which is granted only when certain predetermined criteria are met.

Directors' short-term emoluments for the year ended 31 December 2006 (R'000)

Name	Months in office	Salary/ fees	Bonus	Company contribu- tions	Other benefits	Total
PdeV Rademeyer (until October 2006)	10	1 880	—	251	1 000	3 131
JP Möller (from November 2006)	2	390	2 200[1]	77	—	2 667
J van Zyl	12	3 926	6 100	358	—	10 384
Total executive directors		**6 196**	**8 300**	**686**	**1 000**	**16 182**

[1] *Represents performance bonus for the full 2006 financial year.*

Bonuses reflected are payable in 2007, based on the 2006 results and the formula applicable to the individual and businesses' performance.

Directors' short-term emoluments for the year ended 31 December 2005 (R'000)

Name	Months in office	Salary/ fees	Bonus	Company contribu- tions	Other benefits	Total
PdeV Rademeyer	12	2 143	2 213	287	1 000	5 643
J van Zyl	12	3 654	5 500	358	—	9 512
Total executive directors		**5 797**	**7 713**	**645**	**1 000**	**15 155**

Directors' long-term emoluments for the year ended 31 December 2006

The extent of long-term incentives granted is limited to a multiple of executive directors' gross remuneration. The annual grant made depends on unvested amounts previously granted, the performance of the director, and the desire to retain the director in future.

Share option scheme

000s	Dec 2005	Purchase price	Delivered	Dec 2006	Unrestricted	Restricted	Becoming unrestricted in:			Expiry date
							2007	2008	2009	
JP Möller										
Granted 01/12/1999	27	R7,35	27	—	—	—	—	—	—	—
Granted 01/12/2000	77	R8,20	51	26	26	—	—	—	—	01/12/2007
Granted 01/03/2002	70	R8,26	42	28	—	28	14	14	—	01/03/2009
Granted 01/05/2003	224	R6,03	—	224	90	134	67	67	—	01/05/2011
Granted 01/05/2004	247	R9,80	—	247	—	247	99	74	74	01/05/2012
Granted 01/06/2004	308	R8,40	—	308	—	308	122	93	93	01/06/2012
Total	**953**		**120**	**833**	**116**	**717**	**302**	**248**	**167**	
PdeV Rademeyer										
Granted 01/12/1999	84	R7,35	84	—	—	—	—	—	—	—
Granted 01/12/2000	110	R8,20	73	37	37	—	—	—	—	01/12/2007
Granted 01/03/2002	310	R8,26	186	124	—	124	62	62	—	01/03/2009
Granted 01/05/2003	365	R6,03	—	365	147	218	109	109	—	31/10/2010
Granted 01/05/2004	393	R9,80	—	393	—	393	157	118	118	31/10/2010
Granted 01/06/2004	61	R8,40	—	61	—	61	25	18	18	31/10/2010
Total	**1 323**		**343**	**980**	**184**	**796**	**353**	**307**	**136**	

Share option scheme *(continued)*

000s	Dec 2005	Pur-chase price	De-livered	Dec 2006	Unre-stricted	Re-stricted	Becoming unrestricted in:			Expiry date
							2007	2008	2009	
J van Zyl										
Granted 01/04/2001	760	R6,03	760	—	—	—	—	—	—	—
Granted 01/02/2002	92	R6,03	65	27	—	27	27	—	—	01/02/2010
Granted 01/02/2003	195	R6,03	78	117	—	117	59	58	—	01/02/2011
Granted 01/05/2003	2 509	R6,03	1 004	1 505	—	1 505	753	752	—	01/05/2011
Granted 01/05/2004	312	R9,80	—	312	—	312	125	94	93	01/05/2012
Granted 01/06/2004	197	R8,40	—	197	—	197	79	59	59	01/06/2012
Total	**4 065**		**1 907**	**2 158**	**—**	**2 158**	**1 043**	**963**	**152**	
Total executive directors	**6 341**		**2 370**	**3 971**	**300**	**3 671**	**1 698**	**1 518**	**455**	

The following gains were made by the directors in aggregate on the delivery of shares under the share option scheme (scheme) during the year. The gain is calculated as the difference between the market value on the date of delivery and the purchase price. The date of delivery is the date that the director is entitled to dispose of them.

	2006	2005
Gains made under the scheme (R'000)	**23 820**	1 318
Weighted average purchase price	**R6,42**	R6,00
Weighted average market price	**R16,47**	R15,03

Share purchase plan

Loans were granted to directors for the purpose of acquiring Sanlam shares. The loans are secured, bear interest at the market rate, and will be repaid over four years. An annual retention bonus is granted to the directors based on the number of Sanlam shares held by the director over the preceeding 12 months. Details of the loans granted are as follows:

	Balance at 31 Dec 2005 (R'000)	No of shares purchased (000s)	Purchase price (Rand)	Total loan (R'000)	Interest accrued (R'000)	Repay-ments (R'000)	Balance at 31 Dec 2006 (R'000)
JP Möller							
Granted 08/06/2006	—	188	R14,21	2 677	131	—	2 808
J van Zyl							
Granted 14/06/2006	—	1 021	R14,31	14 615	715	—	15 330
Total	**—**	**1 209**		**17 292**	**846**	**—**	**18 138**

Other long-term retention schemes

In terms of the Group's other long-term retention schemes, 300 000 restricted Sanlam Limited shares were granted to J van Zyl in June 2006. The market value of the shares granted amounted to R4 305 000. The shares vest as follows, provided that he is in the employment of the Group on the date of vesting:

Date	No of shares
14/06/2008	120 000
14/06/2009	90 000
14/06/2010	90 000
	300 000

Interests of directors in share capital

Total interest of directors in share capital and share option scheme at the date of this report

	Beneficial	Non-beneficial	Share option scheme
Executive directors			
JP Möller	323 388	—	832 951
J van Zyl	—	1 321 325	2 158 447
Total executive directors	**323 388**	**1 321 325**	**2 991 398**
Non-executive directors			
RC Andersen	820	—	—
MMM Bakane-Tuoane	—	—	—
AD Botha	—	286 999	—
AS du Plessis	15 000	—	—
FA du Plessis	370	390	—
WG James	—	—	—
MV Moosa	—	—	—
PT Motsepe (refer below)	—	—	—
RK Morathi	300	550	—
SA Nkosi	—	—	—
I Plenderleith	—	—	—
M Ramos	—	—	—
GE Rudman	122 095	107 428	—
RV Simelane	—	—	—
ZB Swanepoel	—	—	—
E van As	814	900	—
JJM van Zyl	8 603	—	—
PL Zim	444	—	—
Total non-executive directors	**148 446**	**396 267**	**—**
Total	**471 834**	**1 717 592**	**2 991 398**

The majority shareholder of Ubuntu-Botho is Sizanani-Thusanang Helpmekaar Investments (Proprietary) Limited, which holds 55% of the ordinary share capital in Ubuntu-Botho, the majority shares of which are beneficially owned by a trust or other entity created for the benefit of PT Motsepe and that of his immediate family. A number of directors have a beneficial interest in the share capital of Ubuntu-Botho through its shareholding structure. Their effective holdings in the 10 000 000 Ubuntu-Botho shares in issue are: MMM Bakane-Tuoane, WG James, MV Moosa, M Ramos, RV Simelane, ZB Swanepoel – 7 142 shares each. During 2006, 7 142 Ubuntu-Botho shares were also allocated to each of the following new directors appointed to the Sanlam board: SA Nkosi, RK Morathi and PL Zim. As a result, they are the indirect beneficial shareholders of a part of the 226 000 000 Sanlam ordinary shares and a part of the 56 500 000 Sanlam 'A' deferred shares held by Ubuntu-Botho.

Interest of directors in share capital and options exercised at the date of the previous report

	Beneficial	Non-beneficial	Options exercised
Executives			
PdeV Rademeyer	84 335	278 887	1 323 161
J van Zyl	174 324	—	4 064 724
Total executives	**258 659**	**278 887**	**5 387 885**
Non-executives			
RC Andersen	820	—	—
MMM Bakane-Tuoane	—	—	—
DC Brink	35 009	—	—
AS du Plessis	—	—	—
FA du Plessis	370	390	—
WG James	—	—	—
MV Moosa	—	—	—
PT Motsepe (refer above)	—	—	—
M Ramos	—	—	—
GE Rudman	122 095	107 428	—
RV Simelane	—	—	—
ZB Swanepoel	—	—	—
E van As	814	900	—
JJM van Zyl	8 603	—	—
Total non-executives	**167 711**	**108 718**	**—**
Total	**426 370**	**387 605**	**5 387 885**

Corporate code of ethical conduct

Business ethics and organisational integrity

The Sanlam group remains committed to the highest standards of integrity and ethical conduct in dealing with all stakeholders. This commitment is confirmed at board and general management level by their endorsement of the code of ethics for the Group.

A Group Ethics committee functions under the chairmanship of the Chief Actuary and is representative of the business clusters. The Group's Ethics committee monitors compliance with the principles underlying the code of ethics and investigates all matters brought to its attention, if necessary. A facility for the reporting of unethical conduct, the Sanlam fraud and ethics hotline, is available to all staff members in the Group. This hotline allows staff members to make anonymous reports and guarantees the protection of their identity, in accordance with the provisions of the Protected Disclosures Act, 2000.

In terms of Sanlam's code of ethics, no director or employee within the Group may offer or receive any gift, favour or benefit that may be regarded as an attempt to exert influence in unduly favouring any party. Sanlam therefore has a formal Group gift/gratification policy to provide for the official declaration and recording of corporate gifts received or given.

The board is satisfied that adequate grievance and disciplinary procedures are in place to ensure enforcement of the code of ethics and to address any breaches of the code. The results of an ethical climate study conducted at the end of 2005 confirmed that there are no areas of major concern or major incidence of unethical conduct in the Group. The results of the study indicate a very strong belief in the commitment of the Group Chief Executive and the board of directors to the organisation's code of conduct. The results also indicate a widespread awareness and acceptance of the values of the organisation. The Group's Ethics committee is tasked with monitoring compliance, to the satisfaction of the board, in line with the recommendations of the King II Report on organisational integrity and ethical conduct.

Forensics

The Sanlam group recognises that financial crime and unlawful conduct are in conflict with the principles of ethical behaviour, as set out in the code of ethics, and undermines the organisational integrity of the Group.

The financial crime combating policy for the Sanlam group is designed to counter the threat of financial crime and unlawful conduct. A zero-tolerance approach is applied in combating financial crime and all offenders will be prosecuted.

A forensic services function at Group level oversees the prevention, detection and investigation of incidents of unlawful conduct that are of such a nature that they may have an impact on the Group or the executive of a business cluster. Group Forensic Services is also responsible for the formulation of Group standards in respect of the combating of unlawful conduct and the implementation of measures to monitor compliance with these standards.

The chief executive of each business cluster is responsible for the implementation of the policy in his or her respective business cluster and is accountable to the Group Chief Executive and the board of Sanlam Limited.

Quarterly reports are submitted by Group Forensic Services to the Sanlam Limited Audit and Risk 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.

Compliance

Sanlam considers compliance with applicable laws, industry regulations and codes an integral part of doing business. The Group compliance function, together with the compliance functions of the business divisions and units, facilitates the management of compliance through the analysing of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

Strategic risk management

The board is responsible for strategic risk management (SRM) within the Sanlam group and tasks the Audit and Risk committee to ensure effective SRM. A major focus of the committee is to analyse and report back to the board on the status of various risks, inclusive of the Group risk management process.

The primary objective of the Group SRM process as an integral part of the decision-making process in the Group, is to optimise the Group risk-adjusted return on capital and embedded value.

To ensure an optimal return, an acceptable level of risk, dependent on the Group's risk appetite, is assumed in the performance of Group operations. The level of risk is determined and managed by the board. The Group consists of a number of diverse businesses with different risk profiles and appetites. Each business is capitalised appropriately to these risk profiles and appetites with commensurate return requirements.

The role of risk management in the Group is not so much the avoidance or elimination of risks but rather ensuring that the overall risk profile remains acceptable. This may involve various risk responses such as acceptance, mitigation and/or avoidance of risk, or a combination of two or more of these responses. The processes provide reasonable, but not absolute assurance, that risks are being adequately managed, and have been in place throughout the period under review and cover all material activities of the Group.

The Group SRM policy sets out the minimum standard of risk management to be adopted and adhered to by the various businesses. The policy is reviewed regularly and updated where necessary, evaluating risk as a combination of impact and likelihood. Risk assessment in the Group is done on both a quantitative and qualitative basis. Quantitative techniques are appropriately modelled to the individual businesses and types of risk. Major risk categories (insurance, market and credit risks) are based on best-practice models and techniques. Amendments to the SRM policy require board approval. Risks characterised by a low likelihood of occurring but with a potentially catastrophic impact are regarded as unacceptable, and a point is made to avoid them.

The Group operates within a decentralised business model environment. The SRM policy for the Sanlam group has been adopted and implemented by the various businesses, each with its own governance structure that includes a board of directors and the appropriate board committees.

Adherence to the SRM policy is the responsibility of the Group risk management function, headed by the chief risk officer who has direct access to the Sanlam Audit and Risk committee, Sanlam Group Executive committee members, and the Executive committee members of the various businesses.

Formal quarterly review meetings pertaining to SRM are held between Group risk management and the business units. Risks are either reported in terms of the formal Group escalation policy and the criteria laid down by the Sanlam board, or as part of regular feedback by the various businesses to Group risk management. The escalation policy ensures that risks meeting criteria set by the Sanlam board receive the necessary attention. Risks are also evaluated at the various businesses and considered by the respective boards as well as the various audit and risk committees, and these outcomes are reported to the Sanlam Audit and Risk committee and board.

The Sanlam group governance structure supporting the Group risk function is generically illustrated below.

Sanlam Limited board

Sanlam Limited Audit and Risk committee

Sanlam Group Executive committee

Group Risk Management

Divisional Level Audit and Risk committee

Divisional Level Management committee

Divisional/Business Level Risk Management

Rigorous policies, procedures and methodologies are in place throughout the Group, enabling the effective identification and management of risks and/or a possible disaster, and ensuring business continuity. A disaster or business continuity event is defined as an event that has a significant impact on the Group's operating activities.

Important Sanlam group risk policies include:

- Strategic risk management
- Risk escalation
- Business continuity management
- Information and information technology risk management
- Credit risk

All policies, processes and procedures have been designed to provide reasonable assurance that the risks are being adequately managed.

Independent quality assurance reviews of the risk management processes and methodologies employed by the Sanlam group are regularly undertaken. These reviews have found the processes and methodologies to be effective.

Accounting, auditing and actuarial

Internal audit

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

External audit

The Group's external auditors are Ernst & Young Registered Auditors Inc. The previous dual external auditors, PricewaterhouseCoopers, are contracted as consultants for non-audit-related work. The report of the independent auditors for the year under review is contained on page 166 of this annual report.

The external auditors provide an independent assessment of certain systems of internal financial control and express an independent opinion on the annual financial statements.

Non-audit services rendered by the external auditors are strictly governed by a Group policy in this regard. A compulsory rotation of audit partners has also been implemented.

Going concern

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

Statutory actuary

The Chief Actuary of Sanlam Limited, who is the statutory actuary of Sanlam Life, is subject to the disciplines of professional conduct and guidance. He reports to the directors of Sanlam Life and to the regulatory authorities. He has full access to the board and must report completely and impartially to these bodies on the financial soundness of Sanlam Life, based on the actuarial valuations of its assets, liabilities and capital adequacy requirements.

Sanlam Life has an Audit, Actuarial and Risk committee, of which the responsibilities include to assist with and monitor all actuarial aspects within the Group.

In his reporting the statutory actuary is required to take policyholders' reasonable expectations duly into consideration.

Sanlam's smoothed-bonus governance

Governance structures

Sanlam has a sound governance structure to manage its smoothed-bonus business, which forms a substantial proportion of Sanlam Life's liabilities. A number of parties ensure the appropriate governance of smoothed-bonus business, including:

- The Asset-Liability committee (ALCO), chaired by the statutory actuary and comprising members of the executive committees of Sanlam Personal Finance Client Solutions, Sanlam Employee Benefits Client Solutions, Actuarial, Sanlam Investment Management and Sanlam Capital Markets;
- The Sanlam Personal Finance Investment committee;
- The statutory actuary;
- The Sanlam Life board and the board's Audit, Actuarial and Risk committee, Policyholders' Interest committee and committee of Non-executive Directors;
- The external auditors and their actuarial resources; and
- The Financial Services Board.

Governance practices

Governance practices can be classified under three main headings:

- Sound financial management of smoothed-bonus business.
- Balancing the interests of policyholders and shareholders.
- Managing policyholder expectations.

(i) Sound financial management

(a) Product design and pricing

The various elements of product design and pricing must fit together, in particular:

- The nature of bonuses declared – partially or fully vesting, declared annually with adjustable interim bonuses until the next annual declaration or monthly declarations;
- Early withdrawal benefits, where market value adjustments are used to preserve equity between withdrawing and remaining members; and
- Pricing and reserving for guarantees provided.

(b) Separation of assets

It has been the practice for many years to establish separate investment portfolios for shareholders' funds and policyholders' funds, the latter being further subdivided for different investment products and countries as well as the tax status of policyholders to facilitate the implementation of the appropriate investment policies and equitable bonus declarations.

(c) Investment policy

ALCO oversees the investment policy for the various smoothed-bonus portfolios, while the Sanlam Personal Finance Investment committee also considers these portfolios as part of its overall brief. The aim is to find the optimum balance between high investment returns (to be able to declare competitive bonus rates) and stable investment returns given the need to meet guaranteed benefits and to support the granting of stable bonus rates.

The requirements for the investment management of each portfolio are set out in investment guidelines, which cover, inter alia, the following:

- Limitations on exposure to volatile assets.
- The benchmarks for the performance measurement of each asset class and limits on deviations from these benchmarks.
- Credit risk limits.
- Limits on asset concentration – with regard to strategic investments, the exposure of policyholders' portfolios to these investments is based on portfolio investment considerations and restricted with reference to a specific counter's weight in the benchmark portfolio.
- Limits on exposure to some particular types of assets, such as property and hedge funds.
- Regulatory constraints.
- Fund performance benchmarks against which the investment manager is measured.

Feedback on the investment policy and its implementation and the performance of the smoothed-bonus portfolios is provided quarterly to the Sanlam Life board.

(d) Bonus declarations

The approach to bonus declarations is set out in a bonus philosophy, as well as more specific bonus rules. Both the bonus philosophy and rules are approved by the Sanlam Life board. An ad hoc committee of the board approves the bonus rates that have been determined in accordance with the bonus philosophy and rules.

(e) Bonus philosophy

Sanlam Life's bonus philosophy is that the underlying assets for a particular group of smoothed-bonus policies must, over time, be used for the benefit of those policyholders subject to the shareholders' profit entitlement rules (refer to (ii)(a)). A reduction in bonus rates therefore does not result in an increased transfer of charges from the policyholders to shareholders.

(f) Bonus rules

The bonus rules give practical effect to the bonus philosophy and aim to provide a reasonable compromise between smoothing the volatility of investment returns and equity among different generations of policyholders.

The approach is to base bonus rates on:

- The expected long-term investment return, taking into account the asset composition of the particular portfolio, tax and expense charges, with
- An adjustment to eliminate surpluses or deficits in the portfolio, generally over three to four years.

(ii) Balancing the interests of policyholders and shareholders

(a) Profit entitlement rules

Shareholders must be compensated for the use of capital needed to conduct smoothed-bonus business. Charges (for expenses, the expected cost of guarantees and a profit margin) levied against a portfolio are based on profit entitlement rules that are approved by the statutory actuary and the Sanlam Life board. In the case of the pre-demutualisation policies, the statutory actuary has to certify that changes in charges are fair in relation to charges in the market and inform the Financial Services Board of such changes.

(b) Financial support for portfolios

It is a statutory requirement to provide financial support under certain circumstances to underfunded portfolios.

(iii) Managing policyholder expectations

Managing policyholder expectations is of particular importance for products where the insurer exercises discretion with regard to the size of benefit payments. Sanlam therefore pays particular attention to:

- Accuracy and ease of understanding of marketing material and policy contracts;
- Illustrating the effect on policy benefits of different scenarios in line with LOA requirements; and
- Disclosure of underfunded portfolios as required by professional guidance from the Actuarial Society of South Africa.

When smoothed-bonus portfolios are severely underfunded, new entrants at the time would get poor value for money. Under these circumstances Sanlam will consider whether the portfolio should be closed for new business and a new bonus series opened or if new entrants should be compensated in another way.

Sanlam's reinsurance policy

Sanlam makes use of reinsurance to:

- Access underwriting expertise;
- Access product opportunities;
- Enable it to underwrite risks greater than its own risk appetite; and
- Protect its mortality/risk book against catastrophes.

The counterparty risks of reinsurers are managed under the Group's credit risk framework.

Abridged Sustainability Report 2006

Temba Mvusi, *Chief Executive:* Market Development

Introduction

Sustainable development is an integral part of Sanlam's business strategy. For us, sustainability is about sound business practices, risk management, good governance, taking account of stakeholder needs and, importantly, implementing broad-based black economic empowerment (BBBEE) across the balanced scorecard. It is also an ongoing process of learning, providing a source of innovation and a foundation for exploring new business opportunities.

SANLAM IS FOCUSED ON THE CONSISTENT ACHIEVEMENT OF ITS BUSINESS GOALS OVER THE LONG-TERM AND THEREFORE RECOGNISES THE IMPORTANCE OF GOVERNING ALL ISSUES RELATING TO SUSTAINABILITY IN A RESPONSIBLE MANNER.

This abridged report is specifically for inclusion in our annual report to shareholders. A full and separately published report is available on the web **(www.sanlam.co.za)** and updated regularly for the benefit of all stakeholders who may have a more direct interest in specific aspects of our approach to sustainable business. This report aims to assure the investment community that Sanlam is pursuing a professional and progressive stance to sustainable business development. Through the adoption of appropriate sustainability practices, Sanlam will continue to represent a long-term, secure and profitable home for investment funds.

Sustainability for long-term profits

Achieving sustained profits over the long-term requires that Sanlam understands, engages with and manages sustainability issues that influence its operating environment.

Within this context, Sanlam's vision is to:

- Achieve sustainable, profitable growth through outstanding performance, measured not only by the financial bottomline, but also by the triple bottomline (economic, social and environmental impact); and
- Succeed as a truly South African company and be recognised as a leading corporate citizen driving the prosperity and progress of the country and, increasingly, in the rest of Africa.

Governance of sustainability

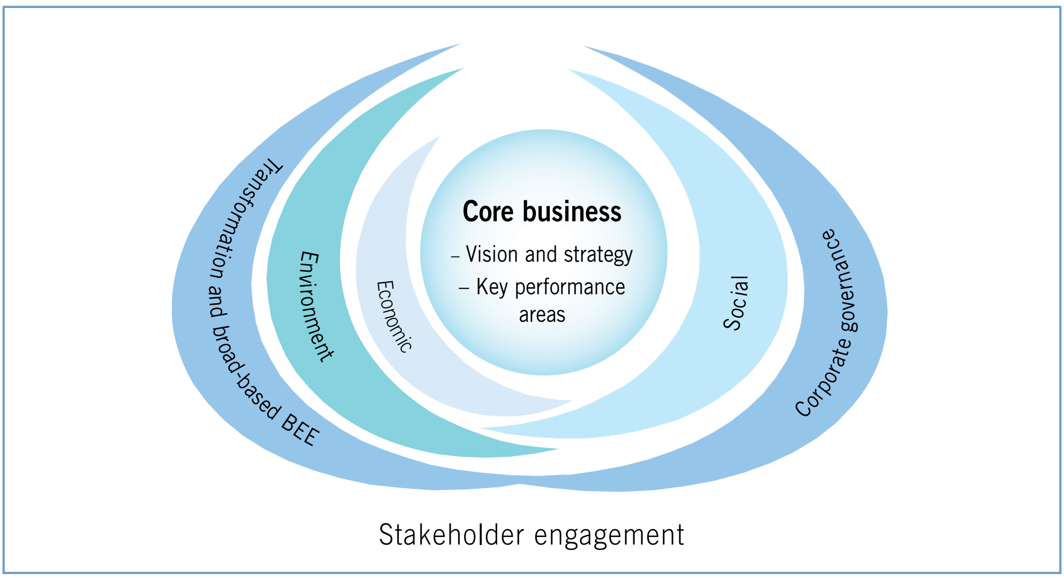
Integral to the business

Sanlam is focused on the consistent achievement of its business goals over the long-term and therefore recognises the importance of governing all issues relating to sustainability in a responsible manner. Considering this central importance, sustainability is not regarded as a stand-alone function but is governed with the full authority of the company's top leadership, and is driven at board level through subcommittees and executive management.

Systems and structures

Sanlam has put in place various structures and systems for governing sustainability and embedding sustainability practices within the organisation:

- ***Reporting*** – Sanlam produces sustainability reports in various formats each year. This version represents an abridged report for inclusion in the annual report.
- ***Central co-ordination*** – The management of strategy, policy, implementation and measurement is co-ordinated centrally by the Head: Group Sustainability Management, reporting to the Chief Executive: Market Development, and with direct access to the Group Chief Executive.



- ***Committees*** – There is a dedicated sustainability committee of the board that deals specifically with the topic of sustainability.

  In addition, there are a number of supportive subcommittees, i.e.:

  - Audit and Risk committee
  - Policyholders' Interest committee
  - Human Resources committee
  - Nominations committee
  - Committee of non-executive directors
  - Group Ethics committee
  - Ad hoc and subsidiary board committees
- ***Policy framework*** – Policies providing direction and operational guidance include those for BEE, ethical conduct and the environment, amongst others.

Standards and assurance

The content of this report is informed by the King II Report on Corporate Governance. Section 4 of the King II Report deals with integrated sustainability reporting, covering a number of important elements of sustainability.

Assessment by independent organisations of sustainability reporting in general is as yet not common practice in South Africa. While we engage with our stakeholders continually, Sanlam will make a more formal start in assuring its reporting in the year to come by approaching our stakeholders for confirmation that we are reporting fairly and transparently on the issues that are material and relevant to them. Statistical data in this report is in the process of being independently verified.

Key performance areas

Highlights for 2006

- Significant strides were made towards the transformation of Sanlam's business, as evident in Financial Sector Charter (FSC) progress.
- The past year has seen a notable change for the better in consumer sentiment towards the retail life industry, after the negative sentiment of previous years, particularly regarding the charge structures and client entitlements in respect of retirement annuity and other life investment and savings solutions. Sanlam is playing a leading role in consulting with all its stakeholders in finding a solution to these critical issues.
- Formal acceptance on the JSE SRI Index (for the 3rd consecutive year) allows Sanlam to benchmark itself against its peers and serves to foster commitment among competing companies to embrace economic transformation. Our separately listed subsidiary, Santam, was also selected for the index.
- Santam was ranked 8th out of 52 in the accountability rating survey performed by the Unisa Centre for Corporate Citizenship, and was the highest-ranked insurance company. Santam also won the Pioneer Award for the first and only short-term insurance company to launch a product specifically designed to meet Financial Sector Charter requirements.

Sanlam’s economic and social impact value-added statement

Sanlam’s impact on its major stakeholder groups is summarised as follows:

Sanlam Group Value-added Statement for the year ended 31 December 2006

R million	2006	2005	% change
Premium income	**38 702**	31 905	21
Other operating income	**1 904**	2 226	(14)
Investment return	**53 110**	45 029	18
Commission and other sales remuneration paid to agents and brokers	**(3 333)**	(2 677)	25
Wealth accumulated	**90 383**	76 483	18
Wealth distributed among stakeholders			
Policyholders			
Policyholder benefits, claims and increase in reserves	**73 493**	56 887	29
Employees and directors	**2 868**	2 831	1
Salaries and other staff costs	**2 844**	2 808	1
Directors’ fees	**24**	23	—
Communities			
CSI and cause-related investment	**49**	23	113
Suppliers			
Procurement of goods and services	**2 450**	2 061	19
Government	**3 293**	3 032	9
South African normal income tax	**1 511**	1 228	23
South African capital gains tax	**1 235**	1 293	(4)
Foreign tax	**214**	129	66
Tax on retirement funds	**110**	153	(28)
Indirect taxes and levies	**223**	229	(3)
Shareholders	**4 327**	3 569	21
Ordinary dividends paid to Sanlam Limited shareholders	**1 533**	1 363	12
Retained income distributed due to shares cancelled	**1 643**	1 042	
Income attributable to minority shareholders	**1 151**	1 164	(1)
Retained for future growth	**3 903**	8 080	(52)
Retained earnings	**3 768**	8 003	(53)
Depreciation and amortisation	**135**	77	75
Wealth distributed	**90 383**	76 483	18

Broad-based black economic empowerment (BBBEE)

The search for genuine empowerment

Sanlam is determined to both support the national imperative of transformation, as well as to succeed in its mission to create wealth for all its stakeholders through the economic empowerment of previously disadvantaged groups.

Sanlam is committed to the Financial Sector Charter. We publish our progress towards the Charter's targets in this report and undertake specific programmes with the intention of fulfilling our commitment to transformation in the financial sector.

Immediate impact and compliance with empowerment scores can be achieved through redistribution measures such as affirmative action and preferential procurement. However, long-term economic sustainability requires our business model to bring about sustainable broad-based economic empowerment at every level.

The financial services industry was the first to formally report on empowerment credentials to the FSC Council. We will again report on 31 March 2007. The scorecard below reflects a summary of our progress to date. Please note that this scorecard does not incorporate the achievements of Santam, which reports separately.

Financial Sector Charter Scorecard

Core component of BEE	Weighting	Achieved 2006	Achieved 2005
Human resources development	20	**5**	2,2
Procurement and enterprise development	15	**11**	9,4
Access to financial services	12 (2005 n/a)	**6**	n/a
*Empowerment financing	22	**12,5**	22
Ownership and control	20 (2005: 22)	**24**	22,4
Corporate social investment	3	**3**	3
	92 (2005: 82)	**61,5**	59
Rating		**A**	A

**Change of measurement basis in 2006.*

As can be seen from the above table, Sanlam has made significant progress in implementing broad-based black economic empowerment. Sanlam's rating based on the FSC is A. In order to maintain an A rating to the end of 2008, Sanlam will need to continue to maintain the current transformation momentum, as 75 points will then be required to obtain an A rating against the above scorecard.

The following paragraphs provide a more detailed breakdown of our performance highlighted above.

Human resource management

In support of its long-term business strategy, Sanlam views the development and transformation of its human capital as one of the key factors in the Group's sustainability and future growth.

The following areas have been identified as essential in the effective management of Sanlam's human intellectual capital:

Human capital management

Processes have been designed and implemented to ensure that the organisation has access to the skills and competencies necessary for the implementation of its strategy. This makes provision for processes to recruit, develop and retain the required leadership and technical skills, as well as succession planning processes to address the risk of the loss of critical skills.

Active steps are taken to develop Sanlam as the employer of choice and to develop a culture that values diversity and motivates its staff to continuously improve performance. During 2006 Sanlam was voted as one of the country's "Top 10 Companies to Work for in South Africa" by an independent national survey.

Strategies are in place to retain key talent through the implementation of both short- and long-term incentives. Regarding the long-term incentives, a number of mechanisms or different schemes are available depending on the particular requirements of a situation.

Transformation

Employment equity forms the first aspect of Sanlam's transformation strategy. During 2005/6 an independent Barrier Analysis was conducted. The findings and recommendations of this analysis were implemented including an audit of all human resource policies. A new Employment Equity Three-year Plan was formulated at both the Group and business unit level. These plans contain quantitive targets for the three years that are aligned to both employment equity and Financial Sector Charter requirements. To ensure success with the implementation, the achievement of targets has been linked to Sanlam's bonus process. The tables below reflect the steady progress that has been made in transforming the staff profile. The last two tables contain the staff composition of the Group as submitted to the Department of Labour in the Annual Employment Equity Report. The first table reflects our progress against the FSC, with the second detailing all staff and the third, persons with disabilities.

LONG-TERM ECONOMIC SUSTAINABILITY REQUIRES OUR BUSINESS MODEL TO BRING ABOUT SUSTAINABLE BROAD-BASED ECONOMIC EMPOWERMENT AT EVERY LEVEL.

Extract from the Financial Sector Charter scorecard

Core component of BEE	Indicators	Target 2008	Achieved 2006	Achieved 2005	Achieved 2004
1.1 Employment equity					
Senior management	Black people as a % of senior management	20% – 25%	**11%**	11%	9%
	Black women as a % of senior management	4%	**2%**	3%	2%
Middle management	Black people as a % of middle management	30%	**17%**	15%	17%
	Black women as a % of middle management	10%	**6%**	6%	4%
Junior management	Black people as a % of junior management	40 – 50%	**23%**	21%	21%
	Black women as a % of junior management	15%	**10%**	12%	10%

Employment equity scorecard – all staff

	Male			Female				White male	Foreign nationals		
Occupational levels	**A**	**C**	**I**	**A**	**C**	**I**	**W**	**W**	**Male**	**Fe-male**	**Total**
Top management	3	2	0	1	2	0	5	40	2	0	**55**
Senior management	31	22	17	7	6	5	75	359	5	0	**527**
Professionally qualified and experienced specialists and middle management	28	30	25	12	31	19	267	308	2	3	**725**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	401	223	126	191	212	108	1 319	1 356	1	4	**3 941**
Semi-skilled and discretionary decision-making	508	257	11	700	659	63	916	83	3	0	**3 200**
Unskilled and defined decision-making	30	53	3	59	92	4	27	3	0	0	**271**
Total permanent	1 001	587	182	970	1 002	199	2 609	2 149	13	7	**8 719**
Non-permanent employees	3	1	0	14	5	0	5	4	0	0	**32**
Grand total	1 004	588	182	984	1 007	199	2 614	2 153	13	7	**8 751**

A – African C – Coloured I – Indian

Employment equity scorecard – employees with disabilities

Occupational levels	Male				Female				Foreign nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	0	0	0	0	0	0	0	0	0	0	**0**
Senior management	0	0	0	2	0	0	0	0	0	0	**2**
Professionally qualified and experienced specialists and middle management	0	0	0	0	0	0	0	0	0	0	**0**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	2	1	0	3	0	0	0	3	0	0	**9**
Semi-skilled and discretionary decision-making	0	2	0	2	0	1	0	4	0	0	**9**
Unskilled and defined decision-making	0	0	0	0	0	0	0	0	0	0	**0**
Total permanent	2	3	0	7	0	1	0	7	0	0	**20**
Non-permanent employees	0	0	0	0	0	0	0	0	0	0	**0**
Grand total	2	3	0	7	0	1	0	7	0	0	**20**

Skills development

Skills development forms a second component of the transformation process, with Sanlam spending in the region of R83 million on the training and development of its staff annually.

In line with the Financial Sector Charter requirement, Sanlam has implemented learnerships for unemployed black matriculants. During 2006 the second group of learners completed their programme. Sixty-five learners completed their learnerships, with 45 of these learners being offered employment in the Group. The table below reflects our progress thus far against the FSC.

Extract from the Financial Sector Charter scorecard

Core component of BEE	Indicators	Target 2008	Achieved 2006	Achieved 2005	Achieved 2004
Skills development					
Skills spend	% of payroll spent pa on skills development of black employees	1,50%	**2,6%**	1,78%	1,74%
Learnership programme	Learnerships as % of total staff	4,50%	**1,39%**	0,5%	0,5%

Procurement and enterprise development

Targeted procurement

In 2005, Sanlam developed a targeted procurement policy to ensure that transformation of its supply chain is achieved without compromising profitability, productivity and service levels to internal and external customers. This policy has constantly been rolled out and systems have been put in place to support our suppliers in managing their own credentials.

Margaret Jenks, *Chief Executive:* Group Marketing and Communications

OUR BRAND HAS BEEN A SIGNIFICANT PART OF THE TAPESTRY OF THE SOUTH AFRICAN FINANCIAL AND ECONOMIC LANDSCAPE SINCE 1918 AND IT HAS EVOLVED OVER TIME AS THE ENVIRONMENT IN WHICH WE OPERATE HAS CHANGED.

Sanlam recently hosted supplier workshops in Cape Town and Johannesburg with the aim of engaging our suppliers on BEE, and other aspects relevant to corporate citizenship, such as ethical conduct and occupational health and safety.

Enterprise development

Sanlam has a comprehensive entrepreneur development initiative in place encompassing education, finance and mentorship for young entrepreneurs between the ages of 18 and 35. This project has been launched in the Western Cape and Gauteng and will be developed in five other provinces during 2007.

In addition, Santam has concentrated its efforts on the empowerment of distribution organisations via three avenues: investment, the pursuit of common business opportunities and capacity development. Examples are:

Lion of Africa – The BEE consortium, Brimstone, holds 65% of Lion of Africa, making it the only black-controlled insurance company in the country. While the company has benefited from Santam's expertise, infrastructure and systems, it has now reached a level of maturity that has enabled it to become a fully fledged competitor in the market-place.

In 2005, Santam facilitated the funding of the Pamodzi Group's investment in the delisted Alacrity Financial Services (including Prestasi Brokers), in the process taking a 43% interest in Pamodzi. Specialising in personal lines of insurance, this company is black controlled and owned at company as well as at broker level. During 2006, Pamodzi and Thebe merged to form *Indwe,* now the largest black-controlled short-term broker in South Africa. While Santam effectively holds a 43% interest in the merged entity, the company is controlled by the Pamodzi and Thebe groups. This entity is very well positioned as a national broker because of its national footprint and critical mass.

Extract from the Financial Sector Charter scorecard

Core component of BEE	Indicators	Target 2008	Achieved 2006	Achieved 2005	Achieved 2004
Procurement and enterprise development	Aggregate procurement/ enterprise development from empowered companies as per FSC formula	50%	**40%**	39%	39%

Provision of access to financial services

Through its entry-level businesses, such as African Life and Channel Life, Sanlam has consistently been active in what is now termed the LSM 1-5 market. Our focus on ensuring that our solutions are understandable, accessible and affordable has enabled us to reach this market in a manner consistent with the objectives and provisions of the FSC. Through solutions and by using innovative distribution and servicing, Sanlam is in the process of converting a number of its product ranges to comply with the CAT standards. These are industry-agreed standards to enable us to meet the above objectives.

Solutions

Sanlam is currently converting a number of insurance solutions to a CAT-compliant basis; notably, one of our largest schemes, the ZCC scheme, is already compliant. The scheme was launched in 1991 and currently has a national footprint with almost 1 100 congregations served. The scheme provides member-only or family funeral cover at affordable rates, with one-hour claim payment. Profits are shared with the ZCC thereby further benefiting its membership. Membership is approaching 400 000 in South Africa, with sister schemes in Botswana, Namibia, Lesotho, Zimbabwe and Malawi. The scheme is governed by a board of trustees representing all parties involved. All new solutions will be suitable for compliance and clients will be encouraged to take up “Zimele” versions. (The Zimele brand is a life industry brand with objectives similar to those of the Mzansi brands launched by the banking sector last year.)

The following Consumer Education programmes targeted specifically at LSM 1-5 clients were undertaken by our entry-level market business during 2006 and are being rolled out further in 2007.

Specially developed Consumer Education brochures were developed by Channel Life in line with Charter requirements. These brochures were also translated into Zulu and Sotho. The first Consumer Education brochure is available at Ubuntu Points and Channel Life service offices free of charge.

Channel4Life provides consumer education on the importance of having life insurance, as well as “how to build an own business”. This is being done by means of local community “roadshows”, using presenters that gives physical presentations at venues within the communities, and involving the use of video material to simplify and further explain the concept.

Ubuntu Point container servicing branches serve as the launch platform for servicing local communities, supporting the community and also targeting the rollout of Consumer Education initiatives. Ubuntu Points are launched with community involvement and have been welcomed by the communities and local chiefs in traditional celebration.

The launch of the Boikarabelo Community Project was held at the end of 2006, coupled with CSI initiative to local Magaliesburg community. A leaflet entitled “How to plan your budget” was handed out and agreement was reached on the programme forming part of the schooling system. Boikarabelo manages a rural community of approximately 1 000, which includes a school for the local children.

Through the above measures we are confident that we can achieve and, where possible, exceed the access provisions of the FSC.

Santam

The short-term insurance industry has never adequately served the majority of home-owners – those at the poorest end of the socio-economic spectrum. Following the Financial Sector Charter's intent and the opportunity created by the banking sector's entry-level Mzansi products, Santam has become the first insurer to offer household policies to home-owners in Soweto.

Santam has backed up its promise to be the leading innovator in the short-term insurance industry, with the first product to be launched in the low-income range. In the first quarter of 2006, the company launched its home and household insurance, targeting a growing client base in South Africa's premier entry-level community, Soweto. This initiative was rolled out to the bigger Gauteng towards the end of 2006 and will be made available nationwide in 2007.

The product is targeted at South Africans in LSM 3-5, with premiums as low as R15 per month. Many of these South Africans are largely uninformed about short-term insurance or have been unable to obtain conventional cover in the past. Preliminary research into this lower-income market found that the primary reasons for not having insurance were affordability and lack of awareness. The product covers homes and their contents comprehensively and includes cover for all natural disasters, fire and theft. It also covers damage caused during riots and strikes.

Premiums range from R15 to R240 per month, depending on the value of the home-owner's property and possessions. Personal liability cover up to R100 000 is included free of charge with all policies.

Consumer Education

Most of Santam's advertising effort goes to the education of first-time clients, e.g.:

- Poster campaigns and moving billboards;
- Radio advertisements and interviews;
- Informative advertisements in community newspapers;
- Brand activation managers whose role is to be visible, on-the-spot company representatives;
- Industrial theatre shows, where actors illustrate the principles of insurance through story simulations; and
- Community gatherings, where key community leaders invite guests for interactive presentations, open forum discussions, and Q&A sessions.

Extract from the Financial Sector Charter scorecard

Core component of BEE	Weighting	Achieved 2006	Achieved 2005	Achieved 2004
Life insurance products and savings	12	**6**	n/a	n/a

Empowerment funding and leveraging of investment capital

Sanlam is a leader in the field of providing funding for BEE transactions, as well as targeted investment as envisaged by the FSC. We also manage specific socially responsible investment mandates. We are acutely aware of the unique role that we have as a financial institution to act as a catalyst in transforming the South African economy in general. Four of our businesses managed as part of Sanlam Investments (Sanlam Investment Management, Sanlam Private Equity, Sanlam Properties and Sanlam Capital Markets) are actively implementing an extensive mandate to acquire FSC-compliant assets, based on sound investment principles.

Sanlam Private Equity has a solid track record in BEE financing and developmental investment.

Accomplishments include:

- Pioneering black empowerment financing in South Africa with the formation of the R2 billion Sanlam Development Fund created in 1996; and
- First private equity fund-of-funds in South Africa, facilitating the establishment of black private equity fund managers: the R1 billion Sanlam Development Fund-of-Funds created in 2002, consisting of the New Africa Mining Fund (a junior mining fund of R564 million), the Shanduka Fund (a generalist private equity fund of R303 million) and the SA Intellectual Property Fund (a R120 million fund commercialising intellectual property).

Sanlam Private Equity is in the process of launching four new specialist private equity funds in partnership with leading private equity fund managers with significant black shareholding and management participation. All these funds will focus on investments that will not only provide investors with superior returns, but will also satisfy their Financial Sector Charter requirements. Sanlam Life Insurance Limited will be the anchor investor in all these funds, to the extent of 25% of total capital commitments. There will be a fund in each of the following categories of the Financial Sector Charter:

- Infrastructure (targeted fund size of R1 billion)
- Agriculture (targeted fund size of R300 million)
- Black SMEs (targeted fund size of R300 million)
- BEE financing (targeted fund size of R1 billion)

Extract from the Financial Sector Charter scorecard

Core component of BEE	Target 2008	Achieved 2006	Achieved 2006	Achieved 2005
Targeted investments Transformational infrastructure	4 017	**2 410**	1 056*	2004
BEE transaction financing	3 163	**1 898**	1 944*	1 378

**Reflects revised measurement basis.*

Ownership and control

Ubuntu-Botho

Ubuntu-Botho Investments (Pty) Limited, our BEE partner at Sanlam Group level, was born out of our strategy to reapply the principles of mutual co-operation – the original principles upon which Sanlam was founded 90 years ago and has grown so successfully. In Africa, mutual co-operation is embodied in the terms “ubuntu” and “botho” (Nguni and Sotho, respectively), meaning “I am because you are”. Behind these words lie humanity, respect, good values and the understanding that each one of us is inextricably a part of the community around us.

Three shareholder groupings make up Ubuntu-Botho: Sizanani-Thusanang Helpmekaar (55%), The Sanlam Ubuntu-Botho Community Development Trust (20%), and broad-based BEE groups (25%). Each of the members of the broad-based grouping has been selected for his or her standing in his or her community or business environment. In this way, the power of ubuntu can be harnessed, together with Sanlam’s solutions and services, to grow wealth for shareholders and clients alike.

Our relationship with Ubuntu-Botho continues to assist Sanlam to become a truly South African enterprise representative of the people of South Africa, while also allowing the company to:

- Remain competitive and retain its leadership position in the financial services sector;
- Attract and retain high-calibre employees; and
- Form value-enhancing alliances based on sound business principles with established entrepreneurs and the broader community.

Sanlam Properties

Sanlam Properties established Khulela Properties (Pty) Limited (Khulela) in 2006 as its primary black economic empowerment (BEE) property vehicle and empowerment partner. Khulela was set up to provide specific property asset management services not only to Sanlam Properties, but also to the broader property market. Khulela was formed for the express purpose of allowing black people and black entities to become participants in the property industry in partnership with one of South Africa’s largest property institutions. Khulela has access to skilled, qualified and experienced property professionals and identifies, advises on, structures and implements property transactions in terms of its mandated obligations to Sanlam Properties. Khulela aims to leverage its unique position in order to play a full role in the promotion of BEE by bringing our property experience and skills to bear at both an operational and strategic level.

In 2006, Sanlam Properties also facilitated the introduction of a 25% BEE shareholder, Vukile BEEShareCo (BEEShareCo) into Vukile Property Fund Limited (Vukile). The R439 million investment by BEEShareCo, a black-owned and -controlled entity, is an industry first for a property fund of this size as the transaction resulted in Vukile immediately achieving its five-year BEE equity target.

The introduction of a significant BEE equity shareholder into Vukile again emphasises Sanlam's firm commitment to meaningful transformation and broad-based empowerment within the property sector. Sanlam will continue to hold a substantial stake in Vukile, allowing us to fully participate in the changing financial services landscape and to benefit from Vukile's empowered credentials.

Through the various BEE initiatives implemented above, as well as the Vusani transaction (R460 million) concluded by Sanlam Properties previously, it is clear that Sanlam recognises the importance of BEE and the benefits of a sustainable empowerment strategy that goes beyond ownership deals at Group level.

Extract from the Financial Sector Charter scorecard

Core component of BEE	Indicators	Target 2008	Achieved 2006	Achieved 2005	Achieved 2004
Ownership		25%			
Direct ownership	Standard valuation as % of market capitalisation	10%	**34,7%**	15,4%	11%
*Direct or indirect ownership in excess of 10%	Standard valuation as % of market capitalisation	15%	***n/a**	15,9%	16%
Control board and executive					
Black board members	Black people as a % of board of directors	33%	**40%**	31,25%	33%
Black women board members	Black women as a % of board of directors	11%	**15%**	12,55%	11%
Black executive management	Black people as a % of executive management	Min 25%	**28,2%**	27%	18%
Black women executive management	Black women as a % of executive management	Min 4%	**5,1%**	4%	0%

2006 direct ownership reflects revised measurements basis where individual ownership is excluded from the numerator and denominator of the calculation.

**Owing to uncertainties regarding the measurement of this aspect, Sanlam has commissioned independent research to determine the demographic composition of our indirect shareholders. Previous years based on internal estimate.*

Corporate Social Investment (CSI)

Wealth at the bottom of the pyramid

CSI is an important platform for Sanlam's overall transformation strategy. We continue to assist marginalised communities, investing in the development of markets from the bottom up. In this way, we can look to a sustainable future accommodating the goals of both Sanlam and the recipients of our funding.

Sanlam's strategic CSI goals

- To move beyond pure philanthropic donations to partner with Government and civil society, but to pursue investments which will have a positive impact on the most pressing social issues in South Africa;
- To create and unlock sustainable value in the lower third of the income pyramid; and
- To encourage and support Sanlam employees to volunteer their time and resources in less privileged areas to foster cross-cultural relationships and provide a holistic work experience.

Focus areas

- ***Education*** – Build the capacity of more young people to advance their careers in the formal sector.
- ***HIV/Aids and health*** – Improve the health of all South African citizens.
- ***Entrepreneurship and job creation*** – Create sustainable businesses and jobs that will drive economic growth and long-term wealth creation.
- ***Social development*** – Reach into disadvantaged communities through employee involvement and other specific programmes.

Social Dialogue Circles

Sanlam has realised that to remain relevant at all operational levels the company needs to engage in meaningful dialogue with all its stakeholders. To this end, the company has convened Social Dialogue Circles throughout the country to include relevant Government representatives, non-Government organisations and community-based organisations.

Major projects

Takalani Sesame

Takalani Sesame is a series of children's TV programmes that teach literacy and numeracy as well as life skills and nation building, while trying to address the racial inequalities left by generations of *apartheid*. As not all households have access to television sets, funding was provided to pioneer the first educational radio initiative. To institutionalise the model, the SABC became a critical media partner and delivery vehicle for both radio and TV. Sanlam's contribution ensured the delivery of the project elements. Posters, booklets and other printed educational outreach materials reach an estimated 300 000 end-users. The series has been aired daily on SABC TV and radio for the past seven years, reaching millions of children across South Africa. A new contract for another five-year Sanlam sponsorship was signed at the end of 2006. This effectively means that by 2011, an entire generation of South African school children will have been exposed to Takalani Sesame.

UCT Extended Curriculum Programme (ECP)

This programme has been established to support students from previously disadvantaged backgrounds to complete the BBus Dc degree. Sanlam has invested substantially in the setting up of the programme infrastructure and the staffing (co-ordinator, lecturers, tutors and administrative assistant) of the ECP and its supporting mechanisms. This programme has been enormously successful and every student from the first group of graduates is now successfully employed at leading South African multi-national companies, including Sanlam.

Department of Education HIV Schools' Curriculum

This is a unique partnership with the Department of Education to infuse the content of HIV education programmes into the school curriculum across the various learning areas, incorporating school and community activities. The focus is on wellness and holistic development of the youth.

University of Fort Hare (Africa's Biggest Classroom)

Sanlam helped build a student community centre at the University of Fort Hare.

Nelson Mandela Metropolitan University

Sanlam played a pioneering role in the development of a BCom degree in Financial Planning, assisting in the development of skills among black people entering the programme.

Centre for Science and Technology (COSAT)

Other than supporting COSAT's computer centre, Sanlam's assistance has been extended to include 20 bursary-holders, computer maintenance and a transport allowance for bursary-holders. Sanlam also contributes to the Fun'ulwazi Saturday School initiative, designed to extend COSAT's teachings in mathematics, science and biology to learners from surrounding schools.

Other projects include contributions to the following:

- The University of the Western Cape's Chair of Investments;
- The Steve Biko Foundation's Economic Justice Programme; and
- The Eskia Institute.

Environmental impact

Sanlam can make a difference

As a major player in the South African economy, we recognise that Sanlam can have a significant impact on the environment through the way we invest the capital entrusted to us, whether through property or investment portfolio management. We are also in the process of measuring our direct environmental footprint, the results of which will be published in the detailed Sustainability Report on our website during 2007.

Policy drives our actions

Sanlam has adopted an environmental policy by which it will commit to integrating environmental considerations throughout its operations. We have also undertaken to regularly measure, review and report on our environmental footprint.

Furthermore, we are committed to:

- Best-practice environmental management;
- Complying with environmental regulations;
- Minimising our environmental footprint;
- Establishing targets and measuring our progress;
- Encouraging awareness among our stakeholders; and
- Regularly reviewing our performance and publishing the results.

Sanlam WWF Marine programme

One of Sanlam's key initiatives is its powerful partnership with WWF South Africa, the conservation organisation. The partnership is aimed at helping secure the long-term diversity and productivity of South Africa's marine resources. The partnership is an excellent example of Sanlam's commitment to South Africa's long-term social and environmental well-being, and of the company's acknowledgement that its own future well-being is inextricably linked to growth and development in local communities. Sanlam contributed its second of five annual tranches of R1 million in 2006.

HIV/Aids

Management process

The board of Sanlam is fully aware of both the risks that the Aids pandemic poses to our business, as well as the broader socio-economic consequences of the disease. Sanlam has a formal process in place to ensure that it not only understands the impact of the pandemic from a mortality perspective, but also responds to the socio-economic impact of the disease in a manner consistent with that of a good corporate citizen.

Mortality risk

Data provided by the actuarial society and the HSRC indicates that Aids infection rates in South Africa remain high, but growth in infections is slowing. Sanlam has an Aids reserve of R2,9 billion in place, which, based on claims experience, is considered adequate.

Providing for people with Aids

A positive conclusion that can be drawn from recent research into the consequences of the pandemic is that, on the whole, the outlook for people living with the disease is improving. Sanlam is determined to play its role in this regard and already has a number of solutions that are available to people who are infected. Furthermore, we will continue investigating the feasibility of more affordable solutions targeted at those infected.

Operational risks and relevant mitigation

Sanlam has a comprehensive process in place to both manage the operational risks that Aids poses from a staffing perspective, and to ensure that it is a socially responsible employer. The Sanlam board ratified the policy as well as the company's HIV/Aids strategy in the first quarter of 2005. This policy and strategy are available to all staff members on the intranet.

Sanlam views the education of staff members on HIV/Aids as a high priority. Aids education is available to both individuals and groups within the company and is provided on request as the original drive to educate all staff has been completed. All new staff receive HIV/Aids training as part of the orientation programme. The Sanlam HIV/Aids resource centre has been upgraded and contains literature, brochures and videos on the disease. In addition to this, a separate e-mail address has been set up to enable employees to ask questions and request information. Other ad hoc educational initiatives are undertaken throughout the year. Various forms of support are available to staff members, ranging from information on the disease to testing, and include the provision of medication and the management of the disease. Sanlam's current medical aid providers, through links with Aid for Aids for Topmed and Careworks for Resolution Health, provide counselling and testing as well as treatment and monitoring of the disease.

We also have an Employee Assistance Programme (EAP) that is made available to all staff members. As part of its service offering it provides HIV/Aids counselling upon request.

Under the guidance of the Aids Task Team, an HIV/Aids support group was started in 2005 to assist both infected and affected staff members. This self-regulating support group is run by volunteers who are HIV positive.

A group-wide VCT (voluntary counselling and testing) initiative was implemented in November 2006 with the aim of making it easy and convenient for staff to determine their status. Testing was available at 56 sites throughout the country. Roughly 27% of staff took part in the voluntary campaign. During post-counselling, employees are also informed about the EAP, Disease Management Programme and other support structures.

Ethics and organisational integrity

Sanlam regards high ethical standards as priceless assets, and operates by a code of ethics that guides the company's dealings and relationships with all its stakeholders. In order to monitor its performance against these principles of conduct, the company undertakes occasional assessments by outside agencies. An ethical climate study was conducted within the Sanlam group, including Santam, by means of the KPMG Integrity Thermometer during the last two months of 2005 and the first two months of 2006. The strongest dimensions of the ethical climate in the Group relate to the positive role modelling and support attributed to the board, the Group Chief Executive and all levels of management.

Some of the aspects of the report highlighted were:

- A total of 80% of respondents were generally familiar (47%) or very familiar (33%) with the standard of Sanlam's ethical business conduct.
- 93% of all respondents strongly agreed (60%) or agreed (33%) that the Group Chief Executive was fully committed to upholding the standards of conduct of Sanlam.

Furthermore, an internal self-assessment revealed that the Sanlam group is materially compliant with the recommendations of the King II Report in respect of organisational integrity and ethical practices.

Client satisfaction

Sanlam measures and responds to client satisfaction at every touch-point in the business: through intermediaries, call centres, branch offices and electronic media. Assessments of client satisfaction through each of these channels are made regularly, both by internal systems as well as by external assessment. The Client Contact Centre Survey is performed every six months, with the results for 2006 showing an increase in client satisfaction compared to 2005.

Another external assessment, surveyed in 2005/6 but reported on in 2006, is the brand and tracking survey undertaken by Market Research and Information. This survey compares Sanlam with the major industry players and shows information trends since 2001. The results indicate that although client satisfaction has decreased over time for most insurance companies, a few companies, including Sanlam, showed some recovery in satisfaction in 2006.

Progress on the Financial Sector Charter (FSC)

The FSC process represents a consultation process between Government, organised business, organised labour, black investment professionals and community organisations.

From the outset of the FSC process, Sanlam has played a strong leadership role. Sanlam continues to contribute to and often lead industry processes, both through industry associations such as the LOA and active support of the FSC council, as well as broader industry associations such as Business Unity South Africa (BUSA).

Sustainability goals for 2007

- Continue with the significant successes achieved thus far with the demographic transformation of our business.
- The Sanlam group aims to achieve inclusion in the Dow Jones Sustainability Index in 2007, emphasising the Group as a first-world business operating in an emerging market, and well positioned to attract the broader investment community.
- A significant drive to further entrench sustainability in the business will be implemented in 2007. As part of this process, focus will be placed on measurement, with a particular emphasis on relevant environmental measures, and greater focus on our operations outside of South Africa from a sustainability perspective.

Economic Review

Though 2006 was a volatile year for financial markets, particularly in emerging-market countries, it nevertheless ended satisfactorily, providing a solid underpin to future prospects.

The year started on a positive note, with the exuberant tone that had characterised the end of 2005 extending into 2006. Global economic conditions remained favourable to emerging markets, with economic growth forging ahead and commodity prices reaching new highs.

Jac Laubscher, *Group Economist*

EVIDENCE IS BUILDING THAT THE SOUTH AFRICAN ECONOMY HAS BEEN BOOSTED ON TO A HIGHER GROWTH TRAJECTORY.

The result was a renewed surge in portfolio capital flows to emerging-market countries in which South Africa shared generously, overshadowing the rising deficit on the current account of the balance of payments. Equity prices as well as bond prices reached new highs, and the rand was remarkably stable.

Although prices in the residential property market started to level out, they remained at a relatively high level. The financial position of households was strengthened further by generous tax relief, which supported already high levels of consumption expenditure.

However, the mood in global financial markets changed abruptly in the second week of May, triggered by the realisation that interest rates in the USA were heading higher than previously expected. An element of doubt regarding the outlook for the global economy crept into market assessments, causing investors to reconsider the prospects for emerging markets. The result was a sudden and sharp reduction in capital flows to emerging countries, with those running current account deficits (including South Africa) bearing the brunt of investors' greater risk awareness.

The result was a fall of 17% in the All Share Index of the JSE from peak to trough, a sharp increase in bond yields, and a marked weakening in the currency. The negative sentiment in financial markets gained further momentum from an announcement in June stating that South Africa's current account deficit had exceeded 6% of GDP in the first quarter of 2006. The South African Reserve Bank (SARB) responded to these and other developments, such as rising international oil prices, by embarking on a policy-tightening cycle which has seen the SARB raising its policy rate by 200 basis points to date.

During the second half of 2006, stability gradually returned to global financial markets, with lower international oil prices supporting the view that the global economy was headed for a soft landing. Portfolio flows to emerging countries resumed, contributing to the JSE repeatedly reaching new all-time highs.

Locally, a number of positive developments in the fourth quarter supported the nascent recovery in financial markets. The first was the downward revision to the fiscal deficit and Government's borrowing requirement contained in the Medium-term Budget Policy Statement, including a budgeted surplus for the 2007/8 fiscal year. The second item of positive news was the upward revision to the gross domestic product statistics, which has since been confirmed by the announcement that South Africa achieved an economic growth rate of 5% in 2006.

The third positive impetus came from the December Monetary Policy Statement, which listed a number of positive developments on the inflation front, raising the possibility that South African interest rates were at or close to their peak. The most important of these developments was the decline in the deficit on the current account to 5,2% of GDP in the third quarter. The rand duly appreciated to below R7 to the US dollar, helped along by an inherently weaker US currency.

The volatility experienced by financial markets and the higher interest-rate environment naturally resulted in more difficult business conditions for the financial services sector. This was, however, largely offset by strong underlying real conditions. Business and consumer confidence remained high, with the latter in particular being supported by the acceleration in growth in real disposable income of households from 6,3% in 2005 to 7,2% in 2006.

Evidence is building that the South African economy has been boosted on to a higher growth trajectory, although capacity constraints in Government and a few key industries are unfortunately capping the economy's potential in the short-term. The acceleration in capital spending since 2003, which is set to receive a further boost from Government's planned infrastructure development programme, indicates urgency in addressing the physical constraints on growth. However, South Africa's main challenge for many years to come will remain that of human development.

The core outlook for the South African economy is therefore sound, although the country remains dependent on an ongoing inflow of international capital to finance the persistent current account deficit.

The proposed changes to the retirement funding landscape, including the introduction of a mandatory national social security system from 2010, will have a profound influence on the business environment for contractual savings product providers. Although many details remain to be thrashed out, it is nevertheless certain that the private sector will continue to play a vital role in this regard.

Jac Laubscher, *Group Economist*

Financial Review

Kobus Möller, *Financial Director*

Overview

The Sanlam Group recorded a strong financial performance in 2006:

- Headline earnings per share increased by 33% to 304,9 cents per share;
- Core earnings per share improved by 17% to 151,7 cents per share;
- Dividend per share increased by 18,5% to 77 cents per share;
- Total new business flows of R80,6 billion are up 30% compared to 2005;

SANLAM'S STRATEGY TO CREATE VALUE FOR SHAREHOLDERS THROUGH MAXIMISING RETURN ON CAPITAL IS PAYING OFF.

- Value of new life business improved by 49% to R434 million;
- Sanlam Investments assets under management increased by 24% to R406 billion;
- Return on embedded value per share of 31%.

Sanlam has made major progress over the past few years in its transformation from a mutual insurer into a well-diversified financial services group. Its focus on building a balanced, robust and diversified financial services group has contributed largely to the overall sound results. These results were achieved in a favourable operating environment caused by the strong performance of investment markets and the South African economy during 2006.

Sanlam's strategy to create value for shareholders through maximising return on capital is paying off. Sanlam shareholders were handsomely rewarded during 2006 with a total return of 24,8% on their investment, the combined effect of a 311 cents per share increase in the Sanlam share price to 31 December 2006 and a dividend of 65 cents per share paid during the year.

Embedded value

Sanlam's primary performance target is to maximise the return on its capital base or embedded value (EV). This should create sustained value for shareholders through a consequential and appropriate market rating of the Sanlam shares. The success of this strategy to date is evident in yet another year of excellent returns, with a return on EV of 31% per share achieved in 2006 compared to 24,4% in 2005. This growth is well in excess of Sanlam's target to outperform the 10-year bond yield by between 3% and 4%.

Group embedded value

The Sanlam group embedded value amounted to R46,8 billion or 2 047 cents per share at 31 December 2006 compared to R38,2 billion and 1 615 cents respectively at 31 December 2005, increasing by 27% from the previous year. The Sanlam share price closed at R18,30 on 31 December 2006, representing a 10,6% discount to the EV per share. The table below sets out the three components of the Group EV:

- The fair value of the Group's non-life operating subsidiaries. Listed subsidiaries are valued at quoted market prices and unlisted subsidiaries at internal valuations based on applicable valuation methodologies, taking into account appropriate market-related ratios, multiples and risk discount rates;
- The fair value of the balanced portfolio supporting the Group's long-term insurance operations. This portfolio also includes any capital held in excess of this requirement; and
- The net value of the long-term insurance operations' books of in-force business.

Embedded value

	2006		2005		2004	
	R million	**%**	**R million**	**%**	**R million**	**%**
Non-life operations	**13 210**	**28,2**	9 702	25,4	7 743	21,1
Sanlam Personal Finance	**1 058**	**2,3**	668	1,7	496	1,4
Santam	**5 628**	**12,0**	4 749	12,4	4 028	11,0
Sanlam Investments	**5 358**	**11,4**	3 228	8,4	2 384	6,5
Sanlam Capital Markets	**541**	**1,2**	552	1,4	441	1,2
Independent Financial Services	**625**	**1,3**	505	1,3	394	1,1
Balanced portfolio	**22 856**	**48,8**	19 562	51,2	21 683	59,2
Shareholders' fund adjustments	**(1 518)**	**(3,2)**	(1 634)	(4,3)	(1 644)	(4,5)
Shareholders' adjusted net assets	**34 548**	**73,8**	27 630	72,3	27 782	75,8
Net value of life in-force business	**12 263**	**26,2**	10 574	27,7	8 851	24,2
Value of in-force	**14 746**	**31,5**	12 542	32,8	10 285	28,1
Cost of capital	**(2 115)**	**(4,5)**	(1 707)	(4,5)	(1 400)	(3,8)
Minority shareholders' interest	**(368)**	**(0,8)**	(261)	(0,7)	(34)	(0,1)
Embedded value	**46 811**	**100,0**	38 204	100,0	36 633	100,0
Embedded value per share	**2 047**		1 615		1 344	
Share price (31 December)	**1 830**		1 519		1 300	
Discount to embedded value (%)	**11%**		6%		3%	

The progress made in transforming Sanlam from a life insurance business to a diversified financial services group is evident in the composition of the EV, as the value of non-life insurance operations comprises an increasing component of the overall Group value. The capital management activities of the past two financial years, following the disposal of the investment in Absa during 2005, substantially contributed to this trend, while the Group has also been well positioned to take advantage of the recent shift from insurance policy-based investments to linked and collective investments.

Non-life operations comprised 28% of Sanlam's capital at the end of 2006, with the Group's investments in Santam and Sanlam Investments contributing the bulk of that value. The improved performance of Sanlam Investments has increased the fair value of that business significantly over the past two years and now constitutes some 11% of the Group EV.

The value of the long-term insurance operations' **in-force book (VIF)** amounted to R12,3 billion at the end of December 2006, an increase of 16% compared to 2005. VIF now comprises 26% of the Group EV compared to 28% and 24% at the end of 2005 and 2004 respectively.

The proportion of capital invested in the **balanced portfolio** decreased from 59% at the end of 2004 to 49% at 31 December 2006. The disposal of the investment in Absa during 2005 and the subsequent utilisation of the proceeds for the share buy-back programme and to acquire African Life, Channel Life and other smaller businesses, substantially reduced the value of the portfolio. The portfolio benefited considerably from the recent strong equity markets.

An important and ongoing strategic focus is to optimise the level of capital held in support of the Life businesses. At the end of December 2006 this capital requirement amounted to R16,9 billion. The remainder of the balanced portfolio, net of certain corporate adjustments and provisions, comprises the Group's **discretionary capital** and amounted to R6,2 billion at 31 December 2006. These funds are earmarked to fund strategic growth initiatives in the Group with the potential to yield returns in excess of the Group's risk-adjusted return hurdle. Should such opportunities not be found within a reasonable timeframe, the capital will be returned to shareholders. In line with this strategy, some R6 billion has been spent in the past 18 months to repurchase Sanlam shares. At the end of December 2006 the net discretionary capital comprised 13% of the total Group EV.

Return on embedded value (ROEV)

Maximising ROEV is the key driver of Sanlam's strategic direction. In pursuit of this, a target has been set to grow the EV by more than Sanlam's cost of capital on a sustainable basis, where Sanlam's cost of capital is regarded to be equal to the 10-year bond yield plus 3% to 4%. This target is broken down to an individual Group business level taking into account an appropriate risk adjustment. The performance of each of these businesses is assessed against their individual return targets. All potential corporate and operational actions are also measured and evaluated against their estimated impact on the overall EV.

The aggregate ROEV for 2006 amounted to 30,7% and is calculated as the R11,7 billion increase in embedded value during the year from operating and investment activities, plus the dividend paid in respect of 2005, expressed as a percentage of embedded value at the beginning of the year. On a per share basis the Group EV increased by 31%. The relatively higher return reflects the value added by the recent share buy-back programme. For the second consecutive year, all major Group businesses exceeded their return targets. Since December 1998, the year of Sanlam's demutualisation, the Group's actual cumulative ROEV has equalled the 10-year bond yield plus 4%.

The table below provides an analysis of ROEV generated by the three main embedded value components, i.e.:

- Growth in the fair value of non-life operating subsidiaries;
- Growth in the value of the long-term insurance subsidiaries' book of in-force business; and
- Investment return earned on discretionary capital and the capital supporting the long-term insurance operations.

Return on embedded value

	2006 EV earnings R million	2006 ROEV %	2005 EV earnings R million	2005 ROEV %
Non-life operations	**4 359**	**44,9**	2 610	33,7
Sanlam Personal Finance	**303**	**45,4**	190	38,3
Santam	**1 043**	**22,0**	1 198	29,7
Sanlam Investments	**2 711**	**84,0**	1 011	42,4
Sanlam Capital Markets	**141**	**35,3**	152	34,5
Independent Financial Services	**161**	**31,9**	59	15,0
Balanced portfolio	**3 986**	**20,4**	2 937	13,5
Change in shareholders' fund adjustments	**116**		10	
Shareholders' adjusted net assets	**8 461**	**30,6**	5 557	20,0
Growth from life insurance business	**3 251**	**30,7**	1 976	22,3
Value of new life business	**434**	**4,1**	291	3,3
Existing life business	**1 717**	**16,2**	1 351	15,3
Expected return	**1 256**	**11,9**	1 193	13,5
Operating experience variations	**277**	**2,6**	138	1,6
Operating assumption changes	**184**	**1,7**	20	0,2
Adjustments	**1 176**	**11,1**	354	3,9
Investment variances and exchange rate movements	**1 134**	**10,7**	849	9,5
Economic assumption changes	**(5)**	**—**	(316)	(3,6)
Tax changes	**47**	**0,4**	(179)	(2,0)
Minority interest in value of in-force	**(76)**	**(0,7)**	(20)	(0,2)
Return on embedded value	**11 712**	**30,7**	7 533	20,6
Return on embedded value per share		**31,0**		24,4

The **non-life operations'** return of 44,9% in 2006 (33,7% in 2005) represented a significant contribution to the exceptional growth achieved in 2006. The return on our investment in Santam is the combined effect of an 8,6% increase in the Santam share price during the year and total dividends of 995 cents per share received during the year, including a special dividend of 650 cents per share. The 84% return on Sanlam Investment Management is particularly satisfactory and reflects the improved performance of this business, supported by a 24% increase in assets under management.

Growth in the value of the long-term insurance subsidiaries' **in-force book** amounted to R3,3 billion (30,7%) in 2006 compared to 22,3% in 2005. A particularly positive trend for 2006 was the 49% growth in the net value of new life business (VNB) from R291 million in 2005 to R434 million in 2006. VNB's contribution to ROEV increased from 3,3% in 2005 to 4,1% in 2006. Refer to page 296 for additional information on the Group's VNB performance for the year. The R277 million in positive operating experience variations comprise mainly of favourable risk underwriting experience, while cost benefits to be derived from the retirement fund administration outsourcing arrangement with Coris contributed to a R184 million positive operating assumption change. The strong equity market performance for the year is reflected in a R1,1 billion positive investment variance. The reduction in the rate of Tax on Retirement Funds contributed to R47 million positive tax changes.

The **balanced portfolio's** return of 20,4% in 2006 (13,5% in 2005), albeit relatively modest compared to the return generated by the non-life businesses, still represents a strong performance given the portfolio's relatively conservative asset mix. The equity component of the portfolio contributed most of the return, supported by the strong equity markets during the year.

Earnings

The income statement presented in this section follows a different presentation format than the International Financial Reporting Standards (IFRS) income statement presented on page 191. The IFRS income statement includes the combined results of both shareholders' fund activities and certain policyholders' fund activities that are not attributable to shareholders. The income statement below reflects only the earnings attributable to the shareholders' fund.

Shareholders' fund summarised income statement for the year ended 31 December

R million	2006	2005	%∆
Net result from financial services	**2 616**	2 300	14
Gross result from financial services	**4 126**	3 455	19
Taxation	**(996)**	(752)	(32)
Minority shareholders' interest	**(514)**	(403)	(28)
Net investment income	**786**	980	(20)
Core earnings	**3 402**	3 280	4
Equity-accounted earnings	**164**	478	(66)
Secondary tax on companies	**(84)**	(88)	5
Amortisation of VOBA	**(45)**	—	
Broad-based employee share plan	**(19)**	—	
Financial claims	**—**	(590)	
Net investment surpluses	**3 215**	2 003	61
Fund transfers	**205**	730	(72)
Headline earnings	**6 838**	5 813	18
Disposal of subsidiaries and associates	**132**	5 125	
Impairments	**(30)**	(3)	
Other non-headline earnings	**5**	(8)	
Attributable earnings	**6 945**	10 927	(36)
Core earnings (cents per share)	**151,7**	129,7	17
Headline earnings (cents per share)	**304,9**	229,8	33
Group administration cost ratio	**26,7%**	29,1%	
Group operating margin	**20,7%**	20,7%	

Headline earnings for the year increased by 18%. Total earnings attributable to shareholders however decreased by 36% during 2006, due to the once-off profit of R5 billion realised on the disposal of the shareholders' fund interest in Absa during 2005. The growth in core and headline earnings per share of 17% and 33% respectively is particularly satisfactory and is in part due to an 11% reduction in Sanlam's weighted average number of issued shares following the share buy-backs during 2005 and 2006. The sections that follow provide more information on the main income statement items.

Core earnings

Sanlam presents a core earnings figure to provide an indication of 'normalised' earnings. Core earnings comprise the net result from financial services and net investment income earned on the shareholders' fund, but exclude abnormal and non-recurring items as well as investment surpluses. Net investment income consists of dividends, interest and rental income earned on the shareholders' fund discretionary investment portfolio as well as the margin earned on the Group's hybrid debt and preference share portfolios, and also includes dividends received from non-operating associated companies and joint ventures. It however excludes the equity-accounted retained earnings of these operations.

Core earnings for the year of R3 402 million are 4% up on 2005, reflecting a 14% increase in the net result from financial services being offset by a 20% reduction in net investment income over the same period. Core earnings per share increased by 17% compared to 2005. The higher per share increase is the result of an 11,3% decrease in the weighted average number of shares in issue following the recent share buy-back programme (refer 'Capital management' section below).

Result from financial services

The table below provides an analysis of the results achieved by the Group from its operating activities during 2006:

Result from financial services

R million	2006	2005	%
Financial services income	**22 913**	18 947	21
Sales remuneration	**(2 945)**	(2 217)	(33)
Income after sales remuneration	**19 968**	16 730	19
Underwriting policy benefits	**(10 504)**	(8 410)	(25)
Administration costs	**(5 338)**	(4 865)	(10)
Gross result from financial services	**4 126**	3 455	19
Taxation	**(996)**	(752)	(32)
Minority shareholders' interest	**(514)**	(403)	(28)
Net result from financial services	**2 616**	2 300	14

Financial services income includes:

- Fees earned by the Group from its long-term insurance, investment management and capital market activities;
- Short-term insurance premiums received, net of reinsurance premiums paid; and
- Interest earned on working capital.

Financial services income increased by 21% compared to 2005. This growth includes the first-time contribution of the newly acquired businesses in Sanlam Developing Markets (SDM). Excluding SDM, financial services income increased by some 10%. Sanlam Investments and Santam were the main contributors to this growth. Santam increased its net short-term underwriting premiums by 15% during 2006, a satisfactory result in the current competitive short-term insurance market.

The turnaround of Sanlam Investments (SI) over the past number of years is reflected in its 2006 performance. SI had an exceptional year and recorded growth in fee income of 40%. Performance fees earned by both the South African and international operations now represent a meaningful source of revenue and contributed significantly to this excellent result. This is a reflection of the solid improvement in SI's investment performance.

Sales remuneration increased by 33% in line with the strong growth in new business volumes (refer page 272). Net underwriting benefits paid by Santam and the long-term insurance businesses increased by 25% compared to 2005, the combined result of the first-time inclusion of the SDM businesses and a 21,5% increase in Santam's net claims for the year. The favourable short-term insurance underwriting experience over the past number of years was not sustainable and some deterioration in Santam's claims experience in 2006 was therefore not unexpected.

The Group's continuing strategic focus on cost efficiency resulted in a 2% reduction in administration costs in 2006 excluding Sanlam Developing Markets (increase of 10% including Sanlam Developing Markets), enabling an improvement in the administration cost ratio from 29,1% in 2005 to 26,7% in 2006.

After tax and minority shareholders' interest, the net result from financial services increased by 14%. This result benefited substantially from an excellent performance by Sanlam Investments and a maiden contribution from the new acquisitions in Sanlam Developing Markets, partially offset by a disappointing result by Sanlam Employee Benefits.

THE GROUP'S CONTINUING STRATEGIC FOCUS ON COST EFFICIENCY RESULTED IN A 2% REDUCTION IN THE COMPARABLE ADMINISTRATION COSTS IN 2006.

Net result from financial services

R million	2006	2005	%Δ
Sanlam Personal Finance	**1 290**	1 285	0
Sanlam Developing Markets	**207**	(31)	
Sanlam Employee Benefits	**50**	159	(69)
Sanlam Investments	**730**	528	38
Sanlam Capital Markets	**141**	126	12
Santam	**342**	349	(2)
Independent Financial Services	**16**	22	(27)
Corporate and other	**(160)**	(138)	(16)
Net result from financial services	**2 616**	2 300	14

Sanlam Personal Finance (SPF) recorded stable and satisfactory results for the year as the earnings in both its insurance and investment businesses benefited from increased business flows and the positive impact of the strong equity markets on fund values and associated fees earned. SPF achieved a gross result from financial services of R1 697 million, a 10% increase on 2005. Non-life business earnings increased from R109 million in 2005 to R176 million in 2006 and are increasingly making an important contribution to the SPF earnings growth. After tax and minority interest, the net result from financial services of R1 290 million is only marginally up on 2005. This can essentially be ascribed to a higher effective tax rate in 2006 as the benefit of available tax losses was exhausted during 2005.

The **Sanlam Developing Markets** (SDM) businesses (African Life and Channel Life) performed in line with expectations despite the unavoidable management attention required during the integration process. Gross operating profit for the year amounted to R421 million. Net of taxation and the minority shareholders' interest in Channel Life and African Life's Africa operations, earnings attributable to Sanlam shareholders amounted to R207 million for the period. The results for the second half were almost double those reported for the first half of 2006. The first-half performance was, however, affected by a degree of prudent reporting due to operational and system problems in African Life SA, with some compensating upside in the second half.

Prior to its acquisition becoming unconditional and Sanlam taking control of the business, African Life implemented a change in its main South African policy administration system. Inefficiencies in this process resulted in a number of administration and operational problems and control weaknesses during the reporting period. This had a negative effect on the recognition of earnings in its operating results, which impacted on the first-half results in particular and necessitated a negative adjustment of some R40 million to the take-on balance sheet of African Life.

The systems and operational environment have since been substantially stabilised and African Life, assisted by a healthy contribution from its Africa operations, recorded satisfactory results for the year. Channel Life continued on its strong new business growth path, while Shriram Life in India reported promising maiden new business results, albeit still on a relatively low level. Overall, the SDM businesses are well established within the Group and geared for future growth.

The sharp fall in the contribution from **Sanlam Employee Benefits** is disappointing. Both gross earnings of R70 million and earnings net of tax and minorities of R50 million are some 70% lower than the results in 2005.

Disappointing new business flows, coupled with a sustained level of outflows, are eroding the fee base. At the same time, competitive pricing and the expected normalisation of claims experience, have resulted in reduced margins and a sharp drop in reported risk profits. A further major contributor to the negative performance is an increase in administration losses. In preparation for the transfer of the administration business to Coris, additional costs were incurred and certain provisions created to cover potential claims emanating from administration-related disputes.

A major focus will be on a turnaround of the SEB performance in 2007. The level of administration losses is not expected to recur, while the negative fund flows and uncompetitive risk business will receive due priority following SEB's incorporation into the Institutional Cluster.

The majority of **Sanlam Investments'** businesses benefited from the strong equity markets, which boosted gross operating results to R1 077 million for the year, a 54%

improvement on 2005. After tax and minorities, income attributable to Sanlam increased by 38% to R730 million. This exceptional performance is founded on a sustained turnaround in its investment performance and an increase in its business base. This contributed to an increase in funds under management (also assisted by equity market growth) and consequently a higher level of management fees, including a major increase in the level of performance fees earned. The latter increased by 63% from R215 million in 2005 to R350 million in 2006. The performance fees are mostly based on performance against relative targets and are in many cases measured on the investment performance over a rolling period. The result is that although the level of these fees is performance related, it is not that sensitive to absolute market levels.

Sanlam Capital Markets reported another good set of results. Net operating profit of R141 million is only 12% up on 2005 but represents a return on equity of 35%, well ahead of its internal target of 25%. All its business units contributed to this strong performance after a relatively slow start to the year.

Santam's gross operating earnings for the year of R906 million are 11% down on the 2005 performance, the result of an anticipated moderation in the underwriting cycle. On a net basis the 2006 performance of R342 million is only 2% lower than in 2005. The smaller reduction in net earnings is in part due to an increase from 50,7% in 2005 to 54,7% in the Sanlam shareholders' fund holding in Santam.

An increase in claims experienced resulted in an average underwriting margin for the year of 6,1% compared to 8,7% for 2005. The average claims ratio (based on net earned premiums) for the year is 69% against 65,3% for 2005. The lower underwriting results were in part compensated for by an increase in interest earned on working capital balances from a combination of improved working capital management practices and an increase in interest rates during the year.

The net earnings contribution from **Independent Financial Services** of R16 million is 27% below that of 2005. This is mainly attributable to a reduction in the Group's interest in the Punter Southall Group from 61% at the end of 2005 to 27% at the end of 2006, as well as anticipated losses at the newly established businesses in the UK.

The 16% increase in net **corporate** and **other** to R160 million is mainly due to start-up expenditure on the Group's loyalty programme.

Investment income

A portion of the proceeds from the disposal of Absa during July 2005 was invested in a balanced portfolio. This resulted in a higher balanced portfolio investment asset base during 2006 compared to 2005, with a commensurate increase in investment income. This increase is, however, more than offset on a relative basis by the special Absa dividend of R249 million received during June 2005, resulting in an overall 20% reduction in net investment income. Excluding the 2005 Absa dividend, net investment income increased by some 8%.

Core earnings per share increased by 17% compared to 2005. The higher per share increase is the result of an 11,3% decrease in the weighted average number of shares in issue following the recent share buy-back programme (refer 'Capital management' section below).

Headline earnings

Attributable earnings are the aggregate of all earnings of the Group for the reporting period. Headline earnings are equal to attributable earnings but exclude earnings of a capital nature. Profits and losses realised on the disposal of subsidiaries, associated companies and joint ventures or the impairment of such investments and goodwill, as well as the Group's share of such earnings reported by associates and joint ventures, are regarded to be of a capital nature. Investment surpluses earned on the other investments held by the shareholders' fund are not of a capital nature and are included in headline earnings.

Headline earnings for 2006 reached a record **R6 838 million,** an improvement of 18% on 2005. The benefit of the share buy-back programme is evident in a 33% increase in headline earnings per share to 304,9 cents per share.

Net operating profit contributed R2 616 million (38%) to headline earnings, up 14% on 2005, with the balance essentially reflecting an increase in the aggregate investment return on the shareholders' discretionary capital. As referred to above, investment income of R786 million is 20% down on 2005, while net realised and unrealised investment surpluses increased by 61% due to the strong equity markets at year-end. This was partially offset by the net effect of:

- A 66% reduction in **equity-accounted** earnings. The 2005 equity-accounted earnings were boosted by Absa's earnings up to the sale of the shareholders' fund's stake in Absa in July 2005 as well as, following the initial block of shares acquired in African Life, a 20% interest in African Life's earnings from March 2005 to the final implementation of the transaction. The 2006 equity-accounted earnings of R164 million are limited to the appropriate share of the earnings of associated companies in Santam, Sanlam Life and Sanlam Properties;
- The amortisation (R45 million) of the **Value of Business Acquired** (VOBA) intangible asset recognised in terms of IFRS on the acquisition of African Life and Channel Life. VOBA represents the value of the book of long-term insurance business acquired as part of the African Life and Channel Life acquisitions, and is amortised through the income statement in terms of IFRS over the expected life of the in-force book;
- The after-tax cost recognised in terms of IFRS 2 *Share-based Payment* in respect of the **Broad-based Employee Share Plan** introduced during 2006. The cost of R19 million represents the fair value (after tax) of the 1,7 million Sanlam shares transferred to Sanlam employees in terms of the scheme;
- The non-recurrence of the financial claims provision recognised in 2005; and
- **Fund transfers** of R205 million, being R525 million (72%) lower than for the same period in 2005. The reduction is essentially due to the effect of the disposal of the shareholders' fund's interest in Absa during July 2005 as well as the increase in the Sanlam Limited share price during 2006. The disposal of the Absa holding resulted in the reversal in 2005 of R578 million of the cumulative shortfall in respect of the investment in Absa shares. Excluding fund transfers, headline earnings increased by 30%.

In terms of IFRS, the policyholders' fund's investments in Sanlam shares, Group subsidiaries (e.g. Santam) and associated companies (e.g. Absa up to July 2005) are not reflected as equity investments in the Sanlam balance sheet, but deducted from equity on consolidation (in respect of Sanlam shares) or reflected at net asset value (in respect of subsidiaries and associates). The valuation of the related policy liabilities however includes the fair value of these shares, resulting in a mismatch between policy liabilities and policyholder investments. The movement in this mismatch is recognised as a fund transfer in the income statement.

Dividend

It is Sanlam's practice to pay only one dividend per year. An important consideration for this decision is the cost associated with the distribution of the dividend payment to our 590 000 shareholder base.

Sanlam's policy is to aim for sustainable growth in dividend payments. The board uses cash operating earnings as a guide in setting the level of the dividend, subject to the Group's liquidity and solvency requirements. The strong financial performance during 2006 enabled the board to increase the total dividend by some 15% and still maintain a 1,2 times cash operating earnings cover. As a result of the reduction in the number of shares in issue following the share buy-backs, the dividend per share will increase by 18,5% on the 65 cents per share paid in 2005.

The board has declared a dividend of 77 cents per share in respect of the 2006 financial year, payable on Wednesday, 9 May 2007. The last day to trade to qualify for this dividend will be Thursday, 19 April 2007.

Business volumes

The presentation of business flows was amended during the year as part of an overall review of the most appropriate presentation of the Group's results. The reported business volumes (and the embedded value of new business) now include 100% of the business flows of Group operating subsidiaries but only the effective Sanlam interest in the business flows of strategic Group operating associates and joint ventures. The business flows of non-strategic associates are no longer included. All white label fund flows are presented under a separate heading as part of the Group's total business flows. White label fund flows relate to relatively low-margin business where the Group is principally providing administrative or life licence services to institutions. Due to the nature of this business, it is characterised by volatility in fund flows.

A consequence of the review of the definition of business volumes is that the Group business volumes no longer reflect those of the Punter Southall Group (PS). The Group's interest in PS was reduced from 61% to approximately 27% at the end of December 2006. This coincided with a change in the strategic intent of the PS holding from a strategic Group operating business that is a gatherer of new Group business volumes to an important alliance that is primarily aimed at generating business flows for other Group operations. Comparative figures have also been restated to exclude PS.

HEADLINE EARNINGS FOR 2006 REACHED A RECORD R6 838 MILLION, AN IMPROVEMENT OF 18% ON 2005.

New business volumes

Gross new business volumes

R million	2006	2005	%
per business			
Sanlam Personal Finance	**21 826**	17 879	22
South Africa	**15 645**	13 466	16
Africa	**5 424**	3 742	45
Other international	**757**	671	13
Sanlam Developing Markets	**2 003**	152	
South Africa	**1 366**	152	
Africa	**593**	—	
Other international	**44**	—	
Sanlam Employee Benefits	**2 180**	2 699	(19)
Sanlam Investments	**36 498**	26 785	36
South Africa	**32 076**	24 973	28
Africa	**252**	—	
Other international	**4 170**	1 812	130
Santam	**10 203**	8 871	15
New business excluding white label	**72 710**	56 386	29
White label	**7 938**	5 838	36
Sanlam Collective Investments	**7 647**	5 838	31
Sanlam Developing Markets	**291**	—	
Total	**80 648**	62 224	30
per licence			
Life business	**13 933**	11 220	24
Sanlam Personal Finance	**9 333**	8 248	13
Sanlam Developing Markets	**2 003**	152	
Sanlam Employee Benefits	**2 180**	2 699	(19)
Sanlam Investments	**417**	121	245
Investment business	**48 574**	36 295	34
Sanlam Personal Finance	**12 493**	9 631	30
Sanlam Investments	**36 081**	26 664	35
Santam	**10 203**	8 871	15
New business excluding white label	**72 710**	56 386	29
White label	**7 938**	5 838	36
Total	**80 648**	62 224	30

Total new business inflows for the year are 30% higher than for the corresponding period in 2005. The improved level of inflows experienced since the second half of 2005 has been maintained but the growth rate has moderated since June 2006, due to the relatively higher comparative base towards the end of 2005. The overall new business performance is impressive in the current competitive environment; a tribute to the Group's strategy to increase its distribution capacity and reach. Growth in both life and investment business remained very strong and exceeded the comparative period in 2005 by 24% and 34% respectively. The growth in life business includes the impact of the first-time inclusion of African Life, Channel Life and Shriram in the 2006 results. Excluding Sanlam Developing Markets, life business increased by 8%.

White label flows are 36% up on 2005, assisted to an extent by the first-time inclusion of SDM. The SDM white label business comprises life licence services provided by Alternative Channel, a subsidiary of Channel Life.

Total new **Life business** inflows of R13,9 billion are **24%** up on 2005. This is substantially due to strong inflows experienced by Glacier (formerly Innofin) as well as the maiden contribution from new acquisitions, as mentioned above.

- ***SPF Individual Life*** sales in South Africa are up 14% on 2005.
    - New recurring premium sales increased by 12% compared to 2005, driven by an 8% increase in the number of advisers and a 13% increase in their average premium size.
    - Total single premium sales were up 14% on 2005. SPF's Glacier Life insurance product range recorded excellent growth of 37%.

THE OVERALL NEW BUSINESS PERFORMANCE IS IMPRESSIVE IN THE CURRENT COMPETITIVE ENVIRONMENT; A TRIBUTE TO THE GROUP'S STRATEGY TO INCREASE ITS DISTRIBUTION CAPACITY AND REACH.

- ***Merchant Investors*** in the UK recorded a satisfactory 13% growth in new business volumes.
- The first time inclusion of ***SDM*** inflows of R2 billion made a material contribution to the strong growth in individual life flows, with both African Life and Channel Life performing to plan.
- ***SEB Group Life*** inflows are 19% down on the comparable 2005 inflows, a disappointing result following on the 39% growth reported for the six months to June. Although volatility in new business flows is typical to the nature of group life business, the low level of new business volumes since June 2006 must also be attributed to a difficult and very competitive market.

Investment-related inflows increased by **34%** on 2005 to R48,6 billion.

- With the exception of wholesale third-party and RSA multi-manager fund flows, where a decline from the exceptionally high 2005 flows was not unexpected, all other investment management businesses reported strong increases on the comparable 2005 inflows. SPI and the international fund management businesses in particular experienced exceptional increases in inflows, contributing to an overall 35% improvement in inflows in Sanlam Investments.
- In SPF, Glacier's investment and Sanlam Namibia's unit trust new business flows increased by an aggregate 30% compared to 2005.

In a renewed focus on the retention and procurement of quality and profitable business, **Santam** recorded a 15% increase in net premium inflows for 2006. In South Africa strong growth was achieved across most classes of business. International premiums however increased by only 2% in GBP terms.

New business volumes net of minority shareholders' interest are illustrated in the table below. The table gives an indication of the new business flows that are effectively attributable to the Group. On this basis, new business volumes increased by 27%. The slightly lower increase on a net basis is due to relatively lower growth in wholly owned businesses.

New business volumes (after minorities)

R million	2006	2005	%
Sanlam Personal Finance	**20 067**	16 829	19
Sanlam Developing Markets	**1 428**	152	
Sanlam Employee Benefits	**2 180**	2 699	(19)
Sanlam Investments	**34 975**	26 147	34
Santam	**5 581**	4 852	15
New business excluding white label	**64 231**	50 679	27
White label	**7 794**	5 838	34
Total	**72 025**	56 517	27

Net funds flow

Total fund inflows increased by 28% on 2005 while outflows in respect of fund withdrawals and policy benefits were up by 50%. Outflows in 2006 include a R21,6 billion withdrawal by the Public Investment Corporation (PIC) (2005: R6 billion) as part of an overall adjustment of its investment strategy that resulted in a *pro rata* reduction in their mandate allocation to all the major asset managers. Sanlam Investments' profitability is not expected to be materially affected by the withdrawal as the funds withdrawn were managed at marginal fees. At the same time, a new performance-based fee structure has been agreed on the remaining PIC funds. Excluding the PIC withdrawal, an overall positive net inflow of R14,1 billion was achieved compared to an inflow of R12,3 billion in 2005.

Individual life RSA business contributed R1 114 million to the net inflows, supported by a R1 011 million positive contribution from SDM. The shift from life to non-life business was again evident in 2006 with SPF's RSA life business recording net inflows of R103 million compared to a R2,3 billion net inflow of RSA non-life business.

Sanlam Investments' net flows amounted to R6,7 billion compared to R6,6 billion in 2005 (excluding the PIC withdrawals). Sanlam Investments' international (non-Africa) businesses performed extremely well with R3,3 billion in net inflows compared to R1,5 billion in 2005. The net outflows in SEB (Group life business) continued and remain a concern.

The net inflow of white label business is the combined effect of a R3,7 billion inflow in collective investments white label business and a R2 billion outflow from SDM. As mentioned above, white label flows are volatile in nature and large inflows and outflows are expected.

Net funds flow

R million	2006	2005
Sanlam Personal Finance	**3 678**	2 679
Sanlam Developing Markets	**1 669**	210
Sanlam Employee Benefits	**(2 835)**	(2 881)
Sanlam Investments	**6 722**	6 641
Santam	**3 166**	3 079
	12 400	9 728
PIC withdrawal	**(21 551)**	(6 000)
Net funds flow excluding white label	**(9 151)**	3 728
White label	**1 700**	2 572
Collective Investment Schemes	**3 675**	2 572
Sanlam Developing Markets	**(1 975)**	—
Total net (outflows)/inflows	**(7 451)**	6 300
Total inflows	**94 409**	74 039
Total outflows	**(101 860)**	(67 739)

Net of minority shareholders' interest, net fund flows amounted to R11,4 billion in 2006 compared to R10 billion in 2005 (excluding PIC withdrawals).

Net funds flow (after minorities)

R million	2006	2005
Sanlam Personal Finance	**3 170**	2 400
Sanlam Developing Markets	**917**	210
Sanlam Employee Benefits	**(2 835)**	(2 881)
Sanlam Investments	**5 774**	6 077
Santam	**1 732**	1 684
	8 758	7 490
PIC withdrawal	**(21 551)**	(6 000)
Net funds flow excluding white label	**(12 793)**	1 490
White label	**2 677**	2 572
Collective Investment Schemes	**3 675**	2 572
Sanlam Developing Markets	**(998)**	—
Total net (outflows)/inflows	**(10 116)**	4 062

Investment funds under management

Funds under management by Sanlam Investments increased by 24% during the year to R406 billion as at 31 December 2006. This increase is the aggregate result of strong equity markets and improved relative investment performance and was achieved despite the PIC withdrawal resulting in a net outflow of business. The increase in funds under management, combined with improved profitability, supported the increase in Sanlam Investments' valuation (refer to page 82).

New business embedded value

The aggregate value of **new life insurance business (Life VNB)** increased by 49% to R434 million compared to 2005. Net of minority interests the Life VNB attributable to Sanlam increased by 30% to R379 million. This increase was supported by the first-time inclusion of the African Life and Channel Life VNB in 2006. Excluding SDM, Life VNB decreased by only 3%, a commendable performance given the margin pressure caused by recent regulatory changes as well as a concerted effort to improve clients' yield reduction.

SPF Life VNB is marginally lower compared to 2005. Competitive pricing and an improvement in the value proposition provided to clients through solutions such as Stratus[SP], resulted in a reduction in the SPF Life VNB margin from 2,1% in 2005 to 1,9% in 2006. SEB's disappointing new business volumes for the year are reflected in the 15% reduction in Life VNB. Margins were however maintained at 1,1%.

The SDM Life VNB performance is in line with expectations at a margin that is significantly higher than the traditional SPF business, essentially due to its different mix of business. The value of new life business totalled R134 million at an average margin of 4,3%. Value attributable to Sanlam shareholders amounted to R81 million at a slightly lower margin of 3,5%.

Financial Review continued

The value of **non-life business** amounted to R64 million for 2006. The shift from life to non-life business, as aluded to elsewhere in this report, supported the value of non-life linked business, which amounted to R37 million. The profitability of non-life linked business was 0,7%. The value of new loan business written by Sanlam Home Loans and Sanlam Personal Loans amounted to R27 million in 2006. The value of new loan business as a percentage of loans granted was 1,3% in 2006.

Value of new business

R million	2006	2005	%
Life business:			
Value of new life business	**434**	291	49,1
Sanlam Personal Finance	**261**	262	(0,4)
Sanlam Developing Markets	**134**	(17)	
Sanlam Employee Benefits	**39**	46	(15,2)
Present value of new business premiums	**20 308**	16 533	22,8
Sanlam Personal Finance	**13 735**	12 297	11,7
Sanlam Developing Markets	**3 107**	125	
Sanlam Employee Benefits	**3 466**	4 111	(15,7)
Life new business margin	**2,14%**	1,76%	
Sanlam Personal Finance	**1,90%**	2,13%	
Sanlam Developing Markets	**4,31%**	(13,60%)	
Sanlam Employee Benefits	**1,13%**	1,12%	
Non-life business:			
Value of new non-life business	**64**		
Non-life linked business	**37**		
Loan business	**27**		
Present value of new business	**7 270**		
New non-life linked contributions	**5 182**		
Loans granted	**2 088**		
New non-life business margin	**0,88%**		
Non-life linked business	**0,71%**		
Loan business	**1,29%**		

Diversification

The significant progress made by the Group to build a well-diversified business within a defined financial services framework is illustrated in the tables below, which reflects the shift from life to non-life business as well as the expanding geographical footprint:

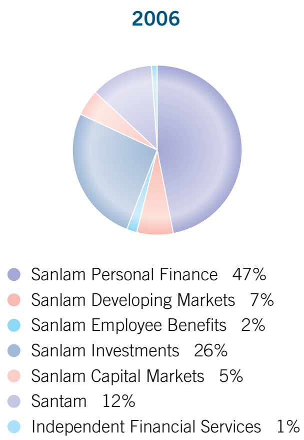
Result from financial services

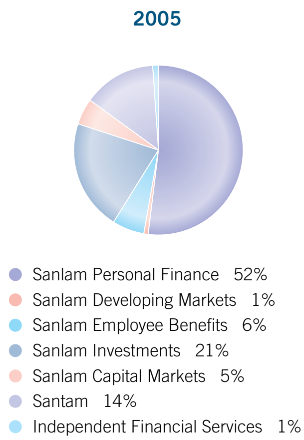
		Licence			Geographical	
	Total	**Life**	**Non-life**	**RSA**	**Africa**	**International**
2006	**2 616**	**1 422**	**1 194**	**2 088**	**209**	**319**
		54,4%	**45,6%**	**79,8%**	**8,0%**	**12,2%**
2005	2 300	1 336	964	1 925	81	294
		58,1%	41,9%	83,7%	3,5%	12,8%

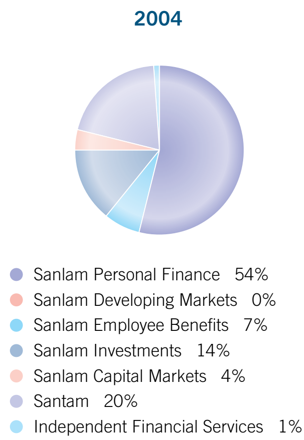
New business volumes

		Licence			Geographical	
	Total	**Life**	**Non-life**	**RSA**	**Africa**	**International**
2006	**80 648**	**14 224**	**66 424**	**68 676**	**6 269**	**5 703**
		17,6%	**82,4%**	**85,2%**	**7,8%**	**7,0%**
2005	62 224	11 220	51 004	55 348	3 742	3 134
		18,0%	82,0%	89,0%	6,0%	5,0%

The success of Sanlam's diversification strategy is also evident in the relative profit contribution of the Group businesses, with the reliance on Sanlam Life as the core operation reducing over time.







Corporate activity

Corporate activity in 2006 continued to support Sanlam's strategy to grow a more balanced and efficient business within a defined financial services framework and to create an optimal capital structure for the Group.

Disposals

- In a series of transactions during 2006 Sanlam disposed of 34% of ***Sanlam Financial Services (SFS)*** in the United Kingdom, which reduced the Sanlam interest in SFS to 27%. These transactions followed a need for a closer alignment of SFS management's interest by offering them larger equity participation, as well as a refinement of the Group's international business strategy, which led to a review of the Group's holding in SFS. Following the restructuring of SFS in 2004 that transferred certain of the key asset management activities to the Sanlam Investments group, the remaining SFS operations, now renamed the Punter Southall Group (PS), are no longer key to the Group's international solutions offering. However, it remains an important partner in our new UK distribution initiatives. In terms of the shareholders' agreement between Sanlam, PS and the other PS shareholders, PS exercised a call option on the 34% shareholding held by Sanlam. As per the agreement, the transaction value was set at the SFS valuation as at the end of 2005 and Sanlam realised a profit of R95 million on the sale. Sanlam Independent Financial Services manages the relationship and the remaining 27% investment in PS.

Acquisitions

- In August 2005 Sanlam announced the acquisition of a controlling interest in ***Channel Life*** for some R116 million. The investment in Channel Life, following the acquisition of African Life, provides Sanlam with a meaningful presence from which to consolidate and accelerate our offering in the entry-level market segment. The Channel Life acquisition became effective in February 2006 on obtaining all regulatory approvals and has subsequently been well integrated within the SDM business.
- In line with our strategic objective to re-enter the health management market, Sanlam announced in December 2005 that we had reached an agreement to acquire a majority interest in the ***Resolution Health Group,*** subject to the fulfilment of certain suspensive conditions. A key condition, the ratification of the provisional accreditation of Resolution Health Managed Care by the Council of Medical Schemes, remained unfulfilled as of 31 August 2006 and Sanlam consequently decided to terminate the proposed transaction. Sanlam will remain a participating employer of Resolution Health Medical Scheme. We remain committed to finding a quality and affordable health management solution as part of the Group's comprehensive solutions offering.

- The Group increased the shareholding of its shareholders' fund in ***Santam*** from 50,7% to 54,7% as at 31 December 2006. This has been achieved through open-market transactions throughout the year at a total cost of R446 million.
- In a composite transaction, Sanlam entered into a joint venture with ***Coris Capital.*** Coris is a financial services company that specialises in administrative services, including benefit administration, retained benefits trusts, disability management, risk management, collective investments, annuities and pensioner payroll administration. In terms of the joint venture, Sanlam acquired a 50% equity interest in Coris for R49 million and merged Sanlam Employee Benefits' Retirement Fund Administration business with Coris' current operations. At the same time Sanlam outsourced its Retirement Fund Administration service to the new venture. The combined venture operates under Coris' existing brand. In a further part of the transaction, Coris Multi-Manager was sold to Sanlam Investments for R25 million. This transaction added R21 billion to the asset base of Sanlam's Multi-Manager business and confirmed the latter as a major player in that industry.

Hybrid debt issue

- The R2 billion subordinated debt issue by Sanlam Life Insurance Limited in August 2006 marked another important milestone in optimising the Group's capital base. The introduction of long-term debt into Sanlam Life's capital structure and the concurrent investment of the proceeds in bonds and other liquid assets, led to a reduction in volatility in its regulatory capital base and consequently a lower overall capital requirement. The subordinated bonds were placed with a broad range of institutional investors in an auction book build and are split between a 7-year (R1,2 billion) and 10-year (R0,8 billion) maturity period. Fitch Ratings (Fitch), the international rating agency, has assigned both bonds a national rating of 'A+(zaf)'. The rating follows Fitch's standard notching methodology from Sanlam Life's Insurer Financial Strength 'AA(zaf)' rating. The 7-year and the 10-year bonds were respectively priced at 100 and 110 basis points over the comparable Government benchmarks.

Issued share capital

The Group continued to buy Sanlam shares in the market during the year as part of the capital management programme. A total of some 104 million shares, or 4,3% of Sanlam's issued shares as at 31 December 2005, were acquired during 2006 at an average price of R15,88 per share. Surplus capital of R1,6 billion was utilised for these share buy-backs. Sanlam cancelled and delisted 105 million shares during the year, thereby reducing the number of issued shares to 2 303,6 million.

Financial Review continued

The table below provides a summary of the total number of Sanlam shares acquired since the announcement of the share buy-back programme in July 2005. All percentages in the table are based on the 2 767,6 million shares in issue before the start of the buy-backs. Since July 2005 the Group has repurchased 463 million shares or 16,7% of the issued share capital as at 1 January 2005 at a total cost of R6,1 billion or R13,17 per share.

Share buy-back

	No of shares million	% of issued	Average price cps	R million
Acquired in 2005	358,96	13,0	12,39	4 446
Acquired in 2006	**103,55**	**3,7**	**15,88**	**1 644**
Acquired up to AGM	69,86	2,5	15,92	1 112
Acquired after AGM up to June 2006	13,49	0,5	14,60	197
Acquired after June 2006	20,20	0,7	17,48	353
	103,55	3,7	16,05	1 662
Dividend received			(0,17)	(18)
Total acquired in 2005/2006	**462,51**	**16,7**	**13,17**	**6 090**

The benefits of the share buy-back programme are evident in the positive impact on earnings per share in 2006 and 2005. In both financial years, per share earnings are significantly higher than the absolute increases in earnings. The shares were also acquired at less than embedded value, with a commensurate enhancement to the embedded value and return on embedded value per share.

Deferred shares vesting

	Value add R million	Ordinary shares million
2006		**0,74**
Life VNB	**3,7**	**0,49**
Third party net investment flows	**(71,4)**	**—**
SCI net flows	**1,9**	**0,25**
Previous years		**6,48**
Total number of shares vested		**7,22**

Sanlam 'A' deferred shares are held by Ubuntu-Botho Investments and qualify for conversion into Sanlam ordinary shares based on a formula linked to Sanlam's business flows for any year. The shares are convertible into ordinary shares when a calculated accrued value add of R7,65 per share, based on an agreed formula, has been achieved. The right to convert is determined and vests on the finalisation of each full year's audited results. To the extent that the conversion rights have vested, the deferred shares qualify for an ordinary dividend and are taken into account in the calculation of earnings and embedded value per share. 7,22 million deferred shares qualified to be converted at the end of 2006. A conversion entitlement of 0,74 million in respect of the 2006 financial year is set out in the table above.

Including the vested deferred shares, but net of Sanlam shares held by Group subsidiaries, Sanlam's effective issued share capital (used for embedded value per share) amounted to 2 286,7 million shares as at 31 December 2006 (2005: 2 366,5 million). The weighted average number of shares in issue (used to calculate earnings per share) decreased by 11% from 2 529,4 million in 2005 to 2 243,1 million in 2006.

Million	2006	2005	2004
Shares in issue:			
Opening balance	**2 408,6**	2 767,6	2 654,6
Shares cancelled	**(105,0)**	(359,0)	
New shares issued to Ubuntu-Botho	**—**	—	113,0
Actual shares in issue	**2 303,6**	2 408,6	2 767,6
Convertible deferred shares	**7,2**	6,5	5,8
Treasury shares held by subsidiary	**(17,8)**	(34,8)	(42,0)
Shares held by share incentive trust	**(6,3)**	(13,8)	(5,5)
Effective shares in issue	**2 286,7**	2 366,5	2 725,9
Average shares in issue:			
Opening balance	**2 408,6**	2 767,6	2 654,6
Shares cancelled	**(43,8)**	(76,4)	
Shares issued to Ubuntu-Botho	**—**	—	84,8
Average actual shares in issue	**2 364,8**	2 691,2	2 739,4
Shares under option (SUO)	**63,1**	89,6	132,1
SUO to be issued at fair value	**(29,9)**	(54,1)	(102,1)
Convertible shares accrued	**6,8**	6,2	3,0
Treasury shares held by subsidiary	**(52,8)**	(60,9)	(41,1)
Average effective shares in issue	**2 352,0**	2 672,0	2 731,3
Shares held by policyholder funds	**(108,9)**	(142,6)	(160,5)
Average shares in issue	**2 243,1**	2 529,4	2 570,8

Capital management

Solvency

- All ***life insurance*** companies in the Group were adequately capitalised at the end of December 2006. The capital of Sanlam Life Insurance Limited amounted to R34,2 billion, compared to R27,8 billion as at 31 December 2005. The capital adequacy requirements (CAR) were covered 4,4 times by regulatory capital at the end of December 2006, compared to 4,0 times as at 31 December 2005. There were no policyholder portfolios at 31 December 2006 with negative stabilisation reserves.
- ***Short-term insurer*** Santam maintained its healthy solvency position and its shareholders' fund constituted 62% of net earned premiums at the end of December 2006, compared to 61% as at 31 December 2005.

Discretionary capital

- One of the key focus areas of the Group is the optimal and most efficient use of the Group's capital. This requires that existing Group businesses operate on as small a capital base as possible, and that any excess capital be invested in ventures that will yield at least the risk-adjusted cost of capital (including potentially Sanlam's own shares), or returned to shareholders.
- A substantial portion of the Group's capital is held in support of its life insurance business activities, with the result that the management of the Group's capital efficiency substantially focuses on the most optimal allocation of supporting capital to the Life businesses. The level and nature of the supporting capital are determined by minimum regulatory capital requirements, as well as economic, risk and growth considerations. Sanlam applies stochastic modelling techniques on an ongoing basis to determine and confirm the most appropriate capital levels for the Life businesses. The target is set to maintain supporting capital at such a level that will ensure, within a 95% confidence level, that it will at all times cover the minimum statutory capital adequacy requirement (CAR) at least 1,5 times.
- As at 31 December 2006 the capital requirement for the Life business amounted to R14,8 billion, and the discretionary capital held in excess of the Group's immediate requirements amounted to some R6,2 billion. An analysis of the discretionary capital is provided in the table below:

Discretionary capital

	R billion
Group net asset value	37,5
Strategic investments	(13,9)
Capital backing life operations	(14,8)
	8,8
Provision for 2006 dividend and other	(2,6)
Discretionary capital	6,2

Application of discretionary capital

Sanlam's aim to maximise return on capital implies that no unproductive capital should be carried on its balance sheet for any extended period. Our policy and preference is therefore to actively search for and apply discretionary capital on growth opportunities that complement the Group's strategy and have the potential to exceed our risk-adjusted hurdle rates. Should such opportunities not become available within a reasonable timeframe, excess capital must be returned to shareholders in the most effective form. The Sanlam board considered the options currently available and decided to pursue the two initiatives set out below. Neither allows for a certain level of capital utilisation, which necessitates an ongoing process to evaluate the most appropriate utilisation of the current excess capital as well as any excess that may result from current initiatives to further optimise the capital utilisation in the Group.

Santam

- During the latter part of 2006 Sanlam entered into exploratory discussions with the Santam board and management aimed at a process that could have led to Sanlam acquiring the minorities' shareholding in Santam. An appropriate cautionary announcement was issued on 23 August 2006. In subsequent deliberations it however became clear that, although the Santam board was supportive of such a process, it was unlikely that Sanlam would gain sufficient support from minority shareholders to achieve this objective at a fair price.
- Santam is pursuing a strategy to implement appropriate steps to optimise its capital and operational structures. Santam announced a limited voluntary share buy-back offer on 27 February 2007. In terms of the offer, shareholders are invited to tender their Santam shares at a price of R102 per share. Santam indicated that it will accept shares tendered up to 10% of its issued share capital. The Santam board considers this to be the most effective way of returning surplus capital to shareholders.
- Sanlam is of the opinion that a number of Santam shareholders may wish to sell all their shares at the Santam buy-back offer price and believe that it will be accretive for Sanlam to increase its Santam shareholding at that price. It therefore agreed with the Santam board to make a simultaneous offer to the Santam shareholders to acquire any excess shares offered in terms of the limited voluntary buy-back. Sanlam's offer is capped to ensure a minimum free float of 20% following the Sanlam offer.
  The Santam board gave its formal support for the offer. The level of acceptance of the Sanlam offer is uncertain. By illustration, acceptances by 10% of the Santam shareholder base will be at a cost to Sanlam of approximately R1,2 billion.
- At the same time Santam proposed a scheme of arrangement in terms of which appropriate structures housing the BEE partners' interest will acquire on a compulsory basis 10% of each Santam shareholder's shares at a discount to market value (R82 per share) to facilitate the introduction of a BEE shareholding in Santam. Sanlam fully supports this as a business imperative for Santam.

Voluntary buy-back of Sanlam shares

The board decided that a substantial component of the excess capital, after allowing for a realistic assumption of the potential exposure in respect of the Santam offer, should be returned to shareholders. Sanlam remains of the opinion that the buy-back of our own shares is under the current circumstances still the most effective and cost-efficient way to achieve this. The following special buy-back arrangement has therefore been announced:

- A maximum of 125 million shares will be acquired in a voluntary buy-back.
- Shareholders will have the opportunity to tender their shares for acceptance in a price range between 1 700 and 2 100 cents per share.
- A book-build process will determine the eventual strike price at which all the shares will be acquired.

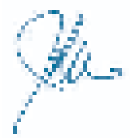
- In case of an oversupply of shares at the strike price, the shares tendered by each shareholder below the strike price will be accepted in full and in respect of shares tendered at the strike price, on a *pro rata* basis.
- The buy-back of the 125 million shares will be at a total cost of between R2,1 billion and R2,6 billion (excluding transaction costs).

The Sanlam board is of the opinion that this transparent process offers all shareholders an equal opportunity to sell their Sanlam shares if they so wish. Shareholders will be asked to approve the special buy-back of shares at a special general meeting convened for Tuesday, 24 April 2007 and, subject to its approval, can tender shares for acceptance up to Friday, 11 May 2007.

Prospects

The 2006 financial year has been another outstanding year for the Group, with a number of performance highlights. The success of the Group's strategy over the past three years is evident in the reported results over this period. Since demutualisation the Group has demonstrated that it can achieve its long-term return targets. A strong foundation has been laid for continued performance and increased return on embedded value. The favourable market conditions of the past year may, however, not continue in 2007 and will impact on Sanlam's ability to repeat the 2006 performance.

Management will remain focused on further optimising the Group's capital base and utilising the discretionary capital. The turnaround of the Employee Benefits business will also receive specific attention.



Kobus Möller, *Financial Director*

Financial Team

Left to right:

Danie Claassen –
Head: Group Tax Services

David Barnes –
Head: Investor Relations

André Nortier –
Chief Audit Executive: Sanlam Limited

Jeanne Masson –
Head: Corporate Finance

Wikus Olivier –
Head: Group Financial Reporting

BUSINESS REVIEW

Sanlam Personal Finance

Salient features

- New business volumes increase by 23%
- Net inflow of funds of R3 678 million
- Profit before tax increases by 10%
- Value of new business of R325 million

Lizé Lambrechts, *Chief Executive*

OUR STRATEGIC FOCUS FOR THE PAST FEW YEARS HAS BEEN TO IMPROVE OUR DISTRIBUTION CAPABILITIES AND OPERATIONAL EFFICIENCIES, TO FIND ALTERNATIVE WAYS TO OPERATE SUCCESSFULLY IN THE CHALLENGING FINANCIAL SERVICES INDUSTRY AND TO DIVERSIFY OUR BUSINESS. WE HAVE PROGRESSED WELL IN EXECUTING THESE STRATEGIES AND THIS IS EVIDENT IN THE GOOD OVERALL RESULTS ACHIEVED FOR 2006.

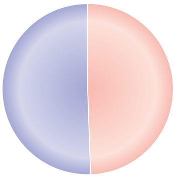
Who we are

Key results

R million	2006	2005	%
New business	**23 914**	19 427	23
Net inflow of funds	**3 678**	2 679	37
Profit before tax and minorities	**1 697**	1 548	10
Value of new business (VNB)[1]	**325**	—	—
VNB margin	**1,55%**	—	—
Return on embedded value	**26,2%**		

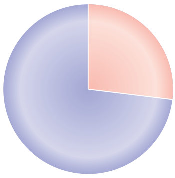
[1] *VNB for 2006 includes life and non-life business. Comparatives are not presented as the VNB for non-life business is calculated for the first time in 2006.*

CONTRIBUTION TO NET RESULT FROM FINANCIAL SERVICES



- Sanlam Personal Finance 47%
- Rest of Group 53%

CONTRIBUTION TO NEW BUSINESS VOLUMES



- Sanlam Personal Finance 27%
- Rest of Group 73%

Group profile and shareholding structure

South African operations

• Sanlam Individual Life division	**100%**	Life insurance
• Sanlam Home Loans	**50%**	Home loan joint venture with Absa
• Sanlam Personal Loans	**70%**	Personal loans joint venture with Direct Axis
• Innofin	**100%**	Linked product provider
• Multi Data	**100%**	Electronic money transfer
• Sanlam Trust	**100%**	Estate and trust services

Non-South African operations

• Consolidated Financial Services (CFS)	**55%**	Financial services in Namibia
• Sanlam Life Namibia	**100%**	Closed fund business in Namibia
• Merchant Investors Assurance (MIA)	**100%**	Niche UK-based life insurance company

Sanlam Personal Finance

Why we exist

Sanlam Personal Finance (SPF) shares the Sanlam group's vision to be the leader in wealth creation and protection, through the provision of credible financial advice, innovative solutions and long-term relationships with clients in the middle and affluent retail market primarily in South Africa and Namibia but also as a niche player in the United Kingdom. We foster a culture of passion for our clients, valuing diversity and innovation. To execute our vision we need to attract talented and motivated staff and therefore strive to be an employer of choice.

How we are performing

Business environment and operational review

The strong macro-economic conditions of the past few years continued to drive buoyant consumer sentiment and impacted positively on most of our business activities. More specifically, we have seen improved consumer sentiment towards the retail life industry, which has been subject to severe criticism over the past few years, particularly regarding the charge structures and client entitlements in respect of retirement annuity and other life investment and savings solutions. SPF and the life industry have responded by introducing more appropriate solutions and by working together with National Treasury to introduce regulations and practices that will improve and stimulate the savings levels in South Africa. These initiatives include the Statement of Intent agreement, which will be implemented by 31 May 2007, and the proposed new commission and early termination regulations that could become effective later in 2007 or early in 2008. The National Treasury Discussion Papers on Contractual Savings in the Life Insurance Industry and Social Security and Retirement Reform also propose further actions that will impact the life industry in the longer term.

The steady increase in interest rates and weakening of the rand during the year have put pressure on consumers' disposable income, but have not significantly dampened their spending and savings patterns. The perceived high level of stock markets towards the latter part of the year has contributed towards a more cautious approach by single-premium investors towards more secure guaranteed and money-market types of solutions rather than pure equity-based solutions.

The ongoing challenges facing the life industry and which have been highlighted in the past, such as the increased regulatory requirements (the Financial Advisory and Intermediary Services Act (FAIS), the Financial Intelligence Centre Act (FICA) and the Statement of Intent agreement), low inflation rates and increased consumerism, continue to put pressure on margins, cost efficiencies and service levels. SPF has always responded to these challenges successfully and the proposed new commission and early termination regulations will require us to find more innovative ways to remain competitive in this environment. These will also increase the need to focus on segmenting the middle market further and providing appropriate solutions to each segment in a manner that provides value to clients as well as appropriate returns for shareholders.

Our strategic focus for the past few years has been to improve our distribution capabilities and operational efficiencies and to find alternative ways to operate successfully in the challenging financial services industry and to diversify our business. We have progressed well in executing these strategies and this is evident in the good overall results achieved for 2006. Our key strategic focus areas are:

- Our middle-market focus, which has been sub-branded Sanlam Topaz, is based on increasing our distribution footprint, average premium size and productivity, while maintaining efficient cost levels. We were successful in growing our adviser numbers during 2006 from 1 788 to 1 933 and increasing their average recurring premium size by 13%, but productivity was lower than target levels. We will continue to execute this strategy in 2007, but with more incentives aimed at increasing productivity levels. The demographic profile of our advisers is changing significantly, with 50% of advisers with less than three years' service at SPF being black.
- Our affluent-market focus, which has been branded Glacier by Sanlam, is spearheaded by Innofin. During the latter part of 2006 the Glacier brand was successfully launched with an increase in its set of solutions and sales support for other solutions provided by the Sanlam group, such as trust services and short-term insurance. The focus for 2007 will be to further vest this brand and roll out a more complete set of solutions.
- The strategy to increase our presence in Gauteng is progressing well, albeit slower than planned, with sales from this province comprising 32% of our total RSA sales. During 2007 we will intensify our initiatives in this province to increase our penetration in the broker market and continue to drive existing adviser initiatives.
- Our focus to increase our share of Absa broker sales continued the positive trend of the past few years and during 2006 we further increased our share of their sales from 21% to 24%.
- Success was achieved in 2006 in increasing the sales of our supporting brokers, as well as converting non-supporting brokers, with the conclusion of an agreement with Masthead, a broker-servicing entity. We plan to further build on this strategy in 2007.
- Our strategy to diversify our business to supplement the core individual life business was strengthened with the establishment of a new business during the year, namely Strategic Business Development. Its immediate focus will be to further develop our retail credit competency, currently conducted by Sanlam Personal Loans and Sanlam Home Loans, implement our medical strategy, further develop our professional and self-employed market strategies and investigate further growth opportunities.
- We will prepare for the implementation of the proposed new commission and early termination values in a manner that will ensure continued intermediary viability, value for clients and appropriate returns for shareholders.
- MIA, our UK life insurance initiative, has successfully transformed its business from a closed-book operation to a niche player in the affluent specialist pensions market and will now focus on growing its new business.
- Our Namibia activities, which provide financial services to the entry-level and middle market, are based on a bancassurance model and are conducted together with our local partners, Bank Windhoek (30%), BEE partners Nammic (5%) and Regent Life (10%). Leveraging

Sanlam Personal Finance

synergies from this partnership impacted positively on our Namibia results during 2006. The African Life operations in Namibia, namely Namlife, were sold to CFS with effect from 1 January 2007. Integrating these operations while continuing to leverage synergies from our bancassurance model will be the main focus for 2007.

- Over the past few years we have reduced our capital-intensive solutions where appropriate returns on capital (ROE) were not being achieved and replaced them with more appropriate solutions that require less capital and provide higher ROEs. Sales of capital-intensive solutions comprised less than 10% of total South African sales in 2006. During 2007 we will continue to optimise the use of our capital.

Financial review

Summary of results

Our growth strategies of the past few years are paying off and the business achieved strong results in 2006. Total sales increased by 23%, resulting in an increase in market share of the South African life recurring and single premiums as measured by the Life Offices Association (LOA). The value of new business was boosted by these improved sales but was partially offset by the impact of providing better value to clients with improved termination values offered on life savings solutions. Profits grew by 10% while the net inflow of funds grew by 37% to R3,7 billion. The net result of this performance was a return on embedded value of 26,2%, which exceeded our target of the 10-year bond yield plus 4%.

New business

The table below analyses the new business sales achieved in 2006.

Analysis of new business sales

R million	2006	2005	%
South Africa (SA)	**17 733**	15 014	18
Single	**14 699**	12 634	16
Life	**7 299**	6 398	14
Non-life investment business	**7 400**	6 236	19
Recurring[1]	**946**	832	14
Non-life loan business	**2 088**	1 548	35
Non-SA	**6 181**	4 413	40
Single	**6 135**	4 366	41
Life	**1 056**	971	9
Non-life	**5 079**	3 395	50
Recurring – life	**46**	47	(2)
Total new business	**23 914**	19 427	23
Life	**9 333**	8 248	13
Non-life	**14 581**	11 179	30

[1] *Includes R14 million new recuring premiums for Topaz Investments non-life linked savings solution.*

The 16% growth in South African single premiums was driven by the buoyant equity market conditions, competitive rates offered on guaranteed plan and annuity solutions, as well as high levels of service. Sanlam Investment Management's excellent investment performance contributed towards the better sales in single premium savings and investment solutions.

The 14% increase in South African life and non-life new recurring premiums was driven by specific focus on competitive solutions, an 8% increase in the number of advisers combined with a 13% increase in premium size and increased support from brokers, particularly Absa brokers and Masthead. This growth included a 30% increase in sales of the Matrix whole-life solutions, 9% growth in endowment policies and a 7% increase in sales of retirement annuities (RAs). The growth in sales of RAs was achieved notwithstanding the bad press they received over the past few years as well as a decline in the 2006 industry retirement annuity sales for the nine months ended 30 September as measured by the LOA. The Stratus^{SP} solution launched in the third quarter of 2005, which offers significantly enhanced termination values for RA and endowment policies, supported improved sales. The launch of Topaz Personal Investments, a non-life linked solution aimed at the lower end of the middle market during the third quarter of the year has shown encouraging sales.

Non-SA new business consists of our Namibia (CFS group) and UK operations (MIA). MIA focuses on selling new solutions to a niche market in the UK and posted a 13% growth in life sales. The growth in Namibia sales resulted primarily from increased sales of unit trusts and non-life discretionary linked solutions. These increased sales were driven by the buoyant equity markets and by leveraging the synergies offered by our bancassurance model in Namibia.

Non-life loan business consists of mortgage loans sold by Sanlam Home Loans (SHL), a joint venture with Absa, and unsecured personal loans offered to our policyholder client base by our joint venture with Direct Axis, namely Sanlam Personal Loans (SPL). SHL achieved new loan sales growth of 46% amounting to R2 678 million. Although satisfactory, this growth is lower than anticipated due to a conscious decision to turn away marginal business that may have a negative impact on bad debts and the cost of funding provided through a listed securitisation bond issue. SPL continued its strong growth of the past few years and posted an 18% growth in new loan sales to R1 070 million.

Net flow of funds

The net inflow of funds, which is a robust measure of the growth in our underlying business, grew by 37%. The turnaround in the South African life position to a net inflow of R103 million compared to a net outflow of R1 185 million last year is a particularly good achievement and was driven largely by the growth in single premiums. Our retention of maturity payments within the Sanlam group by means of policy continuations and the issue of new life or non-life solutions remained at 49%. The net outflow of non-SA life business is the effect of the run-off of the closed books of both Namibia and MIA. A large component of the Namibia net outflows has been retained as non-life unit trust and linked business and is reflected in the good growth in the Namibia non-life net inflow for 2006.

The table below analyses the net flow of funds achieved per solution line in 2006.

Net flow of funds

R million	2006	2005	%
SA net inflow	**2 417**	1 528	58
SA life	**103**	(1 185)	>100
• Inflow	**16 582**	15 233	9
Recurring premiums	**9 283**	8 835	5
Single premiums	**7 299**	6 398	14
• Outflow	**(16 479)**	(16 418)	0
Death and disability	**(1 689)**	(1 595)	(6)
Maturities	**(7 856)**	(8 657)	9
Annuities	**(3 152)**	(2 963)	(6)
Surrenders	**(3 782)**	(3 203)	(18)
SA non-life	**2 314**	2 713	(15)
• Inflow	**7 416**	6 236	19
• Outflow	**(5 102)**	(3 523)	(45)
Non-SA net inflow	**1 261**	1 151	10
• Life	**(360)**	60	(>100)
• Non-life	**1 621**	1 091	49
Net inflow of funds	**3 678**	2 679	37

Sanlam Personal Finance

Operating profit before tax and minorities

The tables below analyse the components of operating profit achieved in 2006.

Income statement

R million	2006	2005	%
Financial services income	**5 829**	5 457	7
Sales remuneration	**(938)**	(959)	2
Income after sales remuneration	**4 891**	4 498	9
Underwriting policy benefits	**(1 354)**	(1 213)	(12)
Administration costs	**(1 840)**	(1 737)	(6)
Profit before tax and minorities	**1 697**	1 548	10
Admin cost ratio	**37,6%**	38,6%	
Operating margin	**34,7%**	34,4%	

Analysis of profit per component

R million	2006	2005	%
Administration	**328**	233	41
Risk	**498**	546	(9)
Market-related	**871**	769	13
Profit before tax and minorities	**1 697**	1 548	10

Analysis of profit per business

R million	2006	2005	%
SA individual life	**1 390**	1 338	4
SA non-life	**176**	109	61
Non-SA	**131**	101	30
Profit before tax and minorities	**1 697**	1 548	10

The largest component of administration profits is derived from the South African individual life business and increased by 10% to R165 million. These profits are driven by new business, the number of in-force policies and to a lesser extent the performance of equity markets. The in-force policies are declining and result in lower policy fee income, which offsets partially the positive impact that the higher equity markets have on asset-based fees. The growth in the remainder of the administration profits was driven by increased profits from Glacier, Namibia and Sanlam Home Loans (see comments below on these profits). The effective cost management processes that have been in place for several years have contained the growth in the individual life administration costs to 4%.

Risk profits declined by 9% due to increased underwriting claims. This is in line with our expectation, which we have highlighted in the past, that it would be difficult to maintain the high levels of risk profits going forward due to competitive pressure on the pricing of risk solutions.

Market-related profits were 13% up on 2005 mainly due to the positive impact of the strong equity markets and increased interest rates.

The 61% growth in the SA non-life profits is in line with our strategy to supplement our South African life profits. This growth includes a 54% increase in Glacier's profits to R80 million and was achieved on the back of good top-line growth, the strong equity markets that increased their asset base and fees accordingly and good cost control. Sanlam Personal Loans continued its good performance and grew its profits by 38% on the back of good sales of new loans. Our 70% share of these profits amounted to R60 million. Sanlam Home Loans, our 50% joint venture with Absa, which is still in its growth stage, posted a small profit for 2006 –

one year ahead of expectation. Both loan businesses have experienced increased arrears due to rising interest rates, but these are still within expected parameters. Adequate provision has been made against these arrears. In both businesses we have also discontinued marginal lending, which has improved the arrears position. Sanlam Trust again grew its profits significantly by 60% to R18 million and although relatively small in the context of SPF's total profits, represents a significant improvement from a loss-making business a few years ago. The non-SA profit growth arose primarily from improved earnings from our Namibia operations arising largely from leveraging synergies from our bancassurance model, particularly regarding credit life business and unit trust inflows. MIA profits declined by 10% largely due to the cost of investing in new business capabilities.

Value of new business

The table below analyses our value of new business for 2006.

Value of new business (VNB)

R million	2006	2005	%
Life			
PV premiums	**13 735**	12 297	12
VNB	**261**	262	0
VNB margin	**1,90%**	2,13%	
Non-life			
PV premiums	**7 270**	—	
VNB[(1)]	**64**	—	
VNB margin[(1)]	**0,88%**	—	
Total			
PV premiums	**21 005**	—	
VNB	**325**	—	
VNB margin	**1,55%**	—	

[(1)] *Comparatives for non-life VNB have not been presented as this is the first time these figures have been calculated.*

Life VNB remained at last year's levels notwithstanding the negative impact of the improved early termination values offered to clients by our Stratus[SP] endowment and retirement annuity investment solutions, which were launched in the third quarter of 2005. It was further impacted by improved pricing in order to retain the competiveness of our solutions. The VNB for non-life business relates to linked investment and savings solutions and loan business. The VNB margins on the linked investment and savings business is lower than the life business mainly because of the shorter term nature of this business.

Our expectations

The improved consumer sentiment towards life solutions should continue to have a positive impact on our business, but higher interest rates may impact on their disposable income and ability to save as well as their ability to service their credit obligations.

The new commission and early termination regulations are certain to shift market dynamics, and volatility in equity markets will always be a risk of our business and will impact our results.

This notwithstanding, we believe that our strategies are appropriate to position Sanlam Personal Finance well for continued growth.

In summary

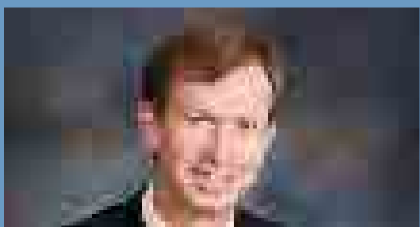
Against the backdrop of ongoing challenges facing the life industry, 2006 was a good year for Sanlam Personal Finance – we performed very strongly and succeeded in providing appropriate solutions to the various market segments, thereby providing value to our clients and ensuring appropriate returns for our shareholders. We are grateful for the ongoing role played by the Life Offices' Association (LOA) in joining us in seeking solutions to issues and challenges facing the industry. Our thanks also go to our staff members and intermediaries whose huge team effort is reflected glowingly in our results.

Sanlam Personal Finance

Our leadership

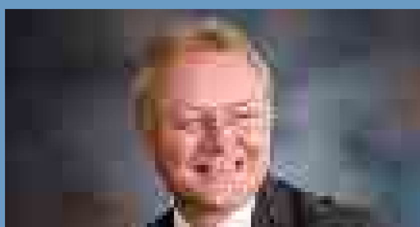
Executive committee


Lizé Lambrechts – Chief Executive

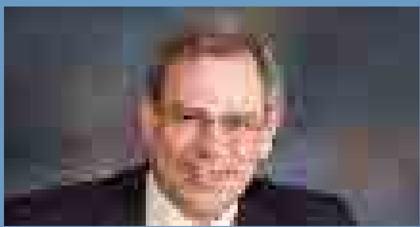

Hennie de Villiers – Topaz and Information Technology


Anton Gildenhuys – Strategic Business Development


Kobus Vlok – Distribution


Wally Harris – Finance

Executive committee, continued



Joubert Ferreira – Actuarial

Robert Goff – Human Resources

Anton Raath – Glacier

Lukas van der Walt – Merchant Investors

Divisional board and committee membership

Johan van Zyl – Chairman, Human Resources

Flip Rademeyer – Audit, Actuarial and Risk

Kobus Möller – Audit, Actuarial and Risk

Chris Swanepoel – Audit, Actuarial and Risk, Human Resources

David Ladds – Audit, Actuarial and Risk

Heinie Werth

Margaret Jenks

Ian Kirk

Lizé Lambrechts

BUSINESS REVIEW

Sanlam Developing Markets

Salient features

- New business volumes excluding white label R2 billion
- Profit before tax and minorities R421 million
- Acquisitions of African Life and Channel Life bedded down
- India delivering to expectations in first year

Heinie Werth, *Chief Executive*

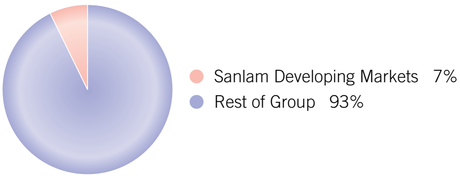
THE EARLY PART OF 2006 WAS DOMINATED BY THE INTEGRATION OF AFRICAN LIFE WITH SANLAM AND OF SANLAM GROUP SOLUTIONS WITH AFRICAN LIFE. THE INTEGRATION PROCESS IDENTIFIED AND REALISED SIGNIFICANT OPERATIONAL BENEFITS. WE ALSO SAW MUCH-IMPROVED NEW BUSINESS VOLUMES COMING THROUGH IN THE SECOND HALF OF THE YEAR.

Who we are

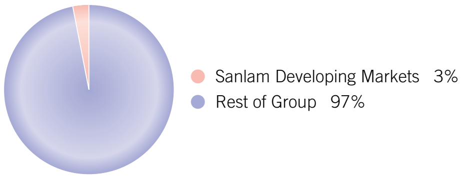
Key results

R million	2006	2005
Present value of new business premiums	**3 107**	125
Value of new life business (VNB) (before minorities)	**134**	(17)
Operating profit/(loss) (before tax and minorities)	**421**	(36)
Net flow of funds excluding white label	**1 669**	210

CONTRIBUTION TO NET RESULT FROM FINANCIAL SERVICES



CONTRIBUTION TO NEW BUSINESS VOLUMES



Group profile and shareholding structure

Sanlam Developing Markets

South Africa

African Life SA **(100%)**

Sanlam Group Solutions **(100%)**

Channel Life/Safrican **(50%)**

Rest of Africa

Namlife **(70%)**

Botswana Life **(54%)**

Pan Africa Kenya **(50%)**

ELAC Ghana **(39%)**

African Life Tanzania **(65%)**

African Life Zambia **(100%)**

International

Shriram Life India **(26%)**

Sanlam Developing Markets

Why we exist

Sanlam Developing Markets (SDM) provides affordable financial services solutions primarily to the entry-level market in South Africa and to the wider financial services segments in other developing markets in which Sanlam operates (six other African countries as well as India).

The business came into being at the end of 2005 with the 100% acquisition of African Life and a controlling stake in Channel Life in 2006. Sanlam's existing operations in this market, namely Sanlam Group Solutions (SGS) and our 55% interest in Safrican, were transferred to this division.

Sanlam Developing Markets strives to protect and grow the financial well-being of our clients in all markets in which we operate.

As such, our clients are our core and we aim to be:

- The solution provider of choice;
- The employer of choice; and
- The investment of choice.

How we are performing

Business environment

The lower interest-rate environment experienced in South Africa over the last few years appears to have come to an end with quarterly rate increases totalling 200 basis points since mid-2006. However, our markets have grown in general as consumers' disposable income continues to rise.

There is concern that the current proliferation of household debt, together with higher interest rates, will impact on the affordability of our solutions as well as the ability to acquire and maintain solutions already owned. This is compounded by the increased aggressive competition in the entry-level market as a result of the Financial Sector Charter requirements, resulting in a number of new niche players in this segment.

In the other African countries in which we operate there were strong performance from equity markets, especially in Botswana and Kenya, mainly driven by a surplus of institutional funds flow and lack of liquidity in these markets rather than fundamental economic performance. The rise in commodity prices globally has resulted in increased economic activity, particularly in Botswana, and should give rise to economic growth in the African countries in years to come. Interest rates remained relatively stable with recent declines in Ghana and Botswana. Exchange rates relative to the South African rand also remained stable during the review period.

Operational review

The early part of 2006 was dominated by the integration of African Life with Sanlam and of Sanlam Group Solutions with African Life. The integration process identified and realised significant operational benefits. We also saw much-improved new business volumes coming through in the second half of the year, while the first half remained stable on levels similar to those of the previous three years.

During the year we also focused on ways to extract synergies between Channel Life and the Sanlam group, while our new insurance venture in India, Shriram Life, started operations in January 2006 and is performing to expectation.

African Life SA / SGS

During 2006, African Life focused on ongoing diversification of its distribution capability. A direct channel, on an outsourced basis, was successfully established producing very satisfactory numbers in its first year of operation. In addition, the implementation of a new call-centre platform with superior additional functionality will improve our delivery on our client-centric strategy.

During the integration phase it was decided that the single premium business was not core to our market segment and as a result this distribution channel was transferred to SPF early in 2007. This will assist us in focusing on recurring premium business in future.

African Life's endorsed branding strategy "African Life, a member of the Sanlam group" was successfully implemented and positively received by both staff and advisers during 2006, providing further impetus for earnings growth in 2007.

The new administration platform (Orfeo), which went live in August 2005, required significant additional enhancements to meet the required level of performance. The complexity of the implementation and inadequate planning on implementation contributed to a breakdown in internal controls after going live, but before the date of acquisition by Sanlam. This breakdown in internal controls is not considered material for the Sanlam group. We worked hard during the year to develop a robust and efficient platform and continue to focus on further stabilisation and improvements. The lack of system stability unfortunately impacted our ability to deliver new solutions during the year; however, 2007 promises to be a better year.

The business will adopt "Zimele", the stamp of approval for FSC-compliant solutions, and has recently had its ZCC solution, a solution that has been in the market for more than 1 year, certified as compliant.

Channel Life / Safrican

During 2006 Channel Life focused on building a stronger base for customer growth and improved service. This included completion of the migration to a new administration platform, stabilisation of the administration platform in Safrican, an increase in call-centre seats from 50 to 120 by year-end, and an expansion of its national broker business activities. The network marketing division achieved great success moving from start-up to over 3 000 sales per month by December 2006.

A new initiative, Channel Ubuntu, which includes setting up service centres using containers in rural areas, was also launched and three such centres were rolled out during the year.

Alfinanz, the back-office system provider in the Channel group, also received the Financial Services Excellence Award from Everest/Forbes, the first time a South African entity has won this international award.

Towards the end of 2006 Channel Life acquired the remaining 45% in Safrican from Thebe Investment Corporation and now owns 100% of the business.

African operations

Results of the African operations were generally in line with expectations. In Botswana macro-economic factors are stabilising, but this has not yet filtered through to the consumer market. Market conditions remain tough and there is strong competition for disposable income. Despite this, Botswana Life has retained its position as the dominant life insurer in the country with more than 70% market share of recurring premium solutions.

The opportunities for broader financial services solutions in this region remain strong. Given our position in the Botswana market we aim to provide solutions across the entire market and not just at entry-level. The solution offering includes risk, investment, retirement and employee benefits solutions.

The life insurance industry penetration in other African countries is still in its infancy. Given the size of the formal sector, approximately 5 million people, the opportunities in these countries are exciting. Our solutions provide a competitive advantage as we leverage from our South African experience.

In Kenya, distribution problems hampered sales in the first half of the year. These issues have now been resolved and the latter half showed improvement.

The smaller businesses in Zambia, Ghana and Tanzania have all shown good growth and performed well, in most cases outperforming our expectations.

Namlife is to be integrated with Sanlam's operations in Namibia with effect from 1 January 2007.

Sanlam Developing Markets

Shriram

The Indian life insurer, Shriram, has seen substantial growth in its first year of operation. There are currently 9 400 active agents focusing mainly on South India, but gradually expanding to other regions. Our focus over the coming months will be on improved premium collection and systems, as well as on investigating ways to accelerate our growth given the vast opportunities this country has to offer.

Financial review

The business has changed significantly since 2005 with the acquisition of both African Life and Channel Life. The 2005 results comprise SGS and our 55% interest in Safrican at the time. The financial performance during 2006, especially due to improved performance in the latter half of 2006, was in line with expectations following the acquisition and the integration of the various businesses.

New business

R million	2006	2005
South Africa	**1 366**	152
Recurring premiums	**461**	72
Single premiums	**905**	80
Rest of Africa	**593**	—
Recurring premiums	**219**	—
Single premiums	**374**	—
International	**44**	—
Recurring premiums	**22**	—
Single premiums	**22**	—
New business excluding white label	**2 003**	152
White label	**291**	—
Total new business including white label	**2 294**	152

African Life's main contributor to recurring new business volumes in South Africa is the funeral solution Family Burial Plan. Two new solutions, Solutions Life Plan, which provides more cover than that normally provided by a burial plan, and Solutions Health Plan, based on hospital cash-type benefits, contributed for the first time. The direct distribution channel, via outsourced call centres, also contributed for the first time.

Channel Life's contribution was driven by individual policy sales, increasing from 15 000 per month to 25 000 per month by year-end. This in turn was driven by the call-centre initiative, increased broker support and a new network marketing initiative. Channel Life is well poised for further good growth in 2007.

Botswana was the main contributor to "Rest of Africa" with sales of its individual life recurring premium solution and its annuity solution.

International comprises our 26% interest in Shriram Life and reflects our share of its results for the first year of operation.

Value of new life business

R million	2006	2005
South Africa	**52**	(17)
Rest of Africa	**79**	—
International	**3**	—
Total before minorities	**134**	(17)
Minorities	**(53)**	—
Total after minorities	**81**	(17)

Value of new life business (VNB) for SDM was R134 million before minorities and R81 million after minorities. The most significant contributor to the SA businesses was Channel Life. While new business sales in African Life lagged expectations in the first half, they recovered reasonably in the second half. However, the contribution from African Life was impacted by reduced margins resulting from the Orfeo system challenges described earlier and higher non-inception and lapse rates as a result of system changes. These conditions are not expected to recur in 2007.

Botswana Life was the main contributor to the African operations. Good sales of the annuity solution sold by Botswana Life contributed strongly to the result. Ongoing sales of this solution remain a function of the availability of matching assets, which continues to be a challenge given the size and structure of the Botswana economy.

Net flow of funds

R million	2006	2005
South Africa	**1 011**	210
Recurring	**1 936**	327
Single	**905**	80
Outflows	**(1 830)**	(197)
Rest of Africa	**614**	—
Recurring	**587**	—
Single	**374**	—
Outflows	**(347)**	—
International	**44**	—
Recurring	**22**	—
Single	**22**	—
Outflows	**—**	—
Net cash flow excluding white label	**1 669**	210
White label	**(1 975)**	—
Single	**291**	—
Outflows	**(2 266)**	—
Total net cash flow including white label	**(306)**	210

African Life's single premium business realised net outflows as maturity payments exceeded new business inflows given a reduced emphasis on this line of business. The remaining business showed satisfactory growth in net fund flows. Also impacting significantly were outflows from Channel Life's subsidiary, Alternative Channel, which deals mainly in white-labelled single premium business. This business, by its very nature, does not produce regular recurring premiums. Some R6 billion in assets in Alternative Channel was transferred off the licence in terms of the original acquisition agreement and is therefore excluded from the net funds flow shown above.

Operating profit

R million	2006	2005
South Africa	**196**	(36)
Rest of Africa	**233**	—
International	**(8)**	—
Operating profit before tax and minorities	**421**	(36)
Tax	**(106)**	8
Operating profit after tax before minorities	**315**	(28)
Minorities	**(108)**	(3)
Operating profit after tax and minorities	**207**	(31)

SDM produced sound operating profits boosted by good investment returns on fixed-interest securities and equities.

In African Life SA the main contributor was the individual recurring business, followed by the single premium business. Integration benefits realised were approximately R20 million, with a further R25 million anticipated in 2007. These were to a degree offset by once-off expenses relating primarily to the endorsed branding strategy and IT platform stabilisation. Channel Life's contribution to profit before tax and minorities was driven by increased sales volumes directly attributable to the increase in call centre seats, increased broker support and expanding its distribution through network marketing.

Exceptionally good profits from Botswana Life were a result of excellent sales of its annuity solution together with exceptional returns from the equity market. The other African businesses contributed positively except for Tanzania, which produced a small loss in its second

Sanlam Developing Markets

year of operation. Shriram in India also contributed a small loss in its first year of operation.

Our expectations

Much effort went into building the foundations of this new business during 2006. The emphasis was on bedding down the acquisitions, stabilising the base and aligning practices and governance with the Sanlam group.

Looking forward to 2007 the South African operations will focus on increased and improved regional penetration, particularly in areas previously under-represented, improved multi-channel distribution capability, improved financial solutions offering, superior client service and administration and optimising Group synergies within the business and within the Sanlam group.

The other African operations will continue their growth plans and will focus on cementing key partnerships with other financial institutions. Potential strategic acquisitions will be investigated.

Shriram in India remains focused on increasing its distribution footprint. However, strategies will focus on accelerating growth.

The business has deployed additional capability to focus on structural growth opportunities, both within and outside South Africa and in line with Sanlam's strategy to become a leading financial services group in the developing markets.

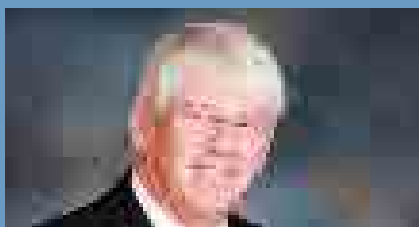
In summary

The year under review was a challenging one for us. We can, nevertheless, look back with satisfaction on what we have achieved in our first year of business. Our staff have our unqualified admiration and gratitude for the hard work and commitment they showed throughout the year.

Our leadership

Sanlam Developing Markets Executive committee

Heinie Werth – Chief Executive



John Burbidge – Rest of Africa businesses

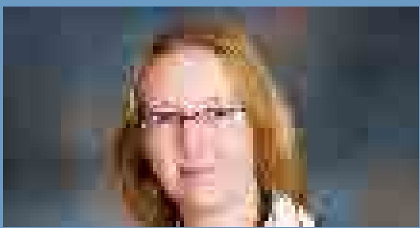
Margaret Dawes – Finance and Risk Management

Robert Dommisse – Structural Growth

Margaret Jenks – Marketing and Communications

Sanlam Developing Markets Executive committee, continued

Doug Lacey – African Life RSA Life Business



Anne Livingstone – Actuarial Services

Wilmot Magopeni – Market Development

Steven Mostert – Group Synergies and Integration

African Life board and committee memberships

Non-executive directors

Johan van Zyl – Chairman, Human Resources

Margaret Jenks

Ian Kirk – Audit, Actuarial and Risk

Lizé Lambrechts

Kobus Möller – Audit, Actuarial and Risk

Temba Mvusi

Flip Rademeyer – Audit, Actuarial and Risk

Chris Swanepoel – Audit, Actuarial and Risk, Human Resources

Tom Wixley – Audit, Actuarial and Risk, Human Resources

Executive directors

Heinie Werth

John Burbidge

Margaret Dawes

Sanlam Investments



Salient features

- Substantial growth in operating profit for third consecutive year
- Assets under management exceeded R400 billion
- Solid investment performance across all asset classes
- Greater diversification across a broader range of specialist investment businesses
- Continued emphasis on client centricity and a performance-based culture

Johan van der Merwe, *Chief Executive*

SANLAM INVESTMENTS INCREASED OPERATING PROFIT BY MORE THAN 50% YEAR ON YEAR FOR THREE CONSECUTIVE YEARS AS WE CONTINUE TO EXPAND AND DIVERSIFY TO ACHIEVE OUR CORE PURPOSE – TO CREATE SOUTH AFRICA'S LEADING INVESTMENT MANAGEMENT BUSINESS. THIS IS A VITAL CONTRIBUTION TO THE GROUP'S STRATEGY TO BECOME A DIVERSIFIED FINANCIAL SERVICES ENTERPRISE.

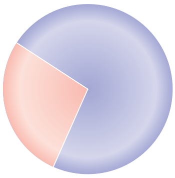
Who we are

Key results

R million	2006	2005	%
Investment management businesses			
Operating profit before tax and minorities	**1 077**	699	54
Gross inflow of funds	**44 145**	32 623	35
Net (outflow)/inflow of funds	**(11 154)***	3 213	
Funds under management	**405 853**	326 779	24
Sanlam Capital Markets			
Operating profit before tax and minorities	**151**	151	—
Return on equity	**35,3%**	31,5%	

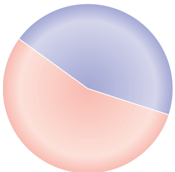
**Includes Public Investment Corporation withdrawal of R21 551 million (2005: R6 000 million).*

CONTRIBUTION TO NET RESULT FROM FINANCIAL SERVICES



Sanlam Investments 26%
Rest of Group 74%

CONTRIBUTION TO NEW BUSINESS VOLUMES



Sanlam Investments 55%
Rest of Group 45%

Profile of Sanlam Investments

Sanlam Investment Management (SIM)	The second largest investment manager in South Africa as measured by assets under management. SIM manages financial assets for individual, institutional, retail and corporate clients and offers investment strategies in vehicles ranging from collective investments to institutional portfolios.
Octane Holdings Limited (Octane)	A specialist alternative investment provider, focusing on hedge fund-of-funds. Octane is based in Switzerland with a research office in New York and offices in South Africa.
Sanlam Collective Investments (SCI)	The third largest manager of collective investment portfolios in South Africa. SCI offers a wide range of retail, multi-managed, institutional and third-party collective investment funds.
Sanlam Asset Management (Ireland) (SAMI)	SAMI is an international investment management business based in Dublin, and manages funds domiciled in Ireland.
Sanlam Multi-Managers International (SMMI)	An investment management advisory business. SMMI is dedicated to active multi-management. It has been advising on multi-manager funds globally since 1999.
Sanlam Properties (SP)	Sanlam Properties specialises in strategic property services, including portfolio management, development, sales and listings.
Sanlam Private Equity (SPE)	One of the largest private equity fund managers in South Africa. SPE offers both a direct and a fund-of-funds investment programme. SPE also drives the Group's BEE investment programme.
Sanlam Private Investments (SPI)	SPI is a private client portfolio management and stockbroking business, serving high net worth individuals, charitable trusts and smaller institutions.
SIM Emerging Markets (SIM-EM)	A fund and investment management business, focusing on emerging markets, particularly in Africa and Asia. SIM-EM has offices in Namibia, Botswana, Kenya, Nigeria and Zambia.
Sanlam Capital Markets (SCM)	SCM is a provider of risk management and structured product solutions.
SIM Global	SIM Global actively manages long-only international funds for local and international clients.
Hedgehog Capital	Specialising in alternative investment strategies, Hedgehog Capital's initial focus is on the incubation of hedge fund strategies.
Sanlam Structured Solutions	Sanlam Structured Solutions offers derivative-based skills to the cluster to enhance returns on portfolios and to improve the product offering to clients.

Sanlam Investments

Who we are

Sanlam Investments consists of some of South Africa's leading investment and wealth management businesses and is based in Cape Town, with a presence in sub-Saharan Africa, the United Kingdom and elsewhere in Europe and the United States.

The business is diversified across a broad range of specialist investment businesses. Its areas of expertise include conventional asset management, alternative investment solutions, collective investment schemes, property asset management, private client investment management and stockbroking, multi-management, structured products, private equity fund management and risk management. It provides these investment services to a diverse client base that includes corporations, financial institutions, government, parastatals, individuals, medical schemes and charities.

Sanlam Employee Benefits was incorporated into Sanlam Investments on 1 January 2007, but is still reported on separately in this report.

Why we exist

Our core purpose is to create South Africa's leading investment management business.

We differentiate ourselves from our competitors by propagating a small-business culture while leveraging off our large corporate resource base. This gives us the ability to inspire investment businesses to flourish within an entrepreneurial environment.

Over the medium term, Sanlam Investments aims to:

- Entrench an aspirational brand synonymous with a top-quality and innovative investment house;
- Deliver sustained and competitive investment results across the spectrum of investment businesses;
- Achieve top-quartile investment performance over three and five years;
- Meet or exceed the requirements for broad-based black economic empowerment (BEE) in the Financial Sector Charter;
- Aggressively grow third-party assets under management;
- Enhance the international strategy;
- Propel a performance culture that attracts and retains excellent people; and
- Ensure that new and emerging businesses are fully bedded down and sustainable to create a solid platform for further growth.

How we are performing

Business environment and operational review

The economic environment in 2006 saw very diverse returns in asset classes, with equities performing well, while the bond, cash and property sectors underperformed.

The JSE All Share Index posted double-digit real returns for the fourth consecutive year.

Strong economic growth translating into super profits is usually a powerful spur to equity markets. 2006 proved no exception, with both developed and especially developing equity markets posting the best returns in years.

Investment performance

Buoyed by the strong investment markets, Sanlam Investments delivered solid investment performance for its clients across all asset classes during the year under review. Performance highlights include:

- Improved results in the Alexander Forbes Large Manager Watch, which ranks the eleven largest fund managers, with SIM placed second over one year and fifth over three years in the local rankings, and third over one year and sixth over three years in the global rankings.
- SMMI's Matrix funds ranked first among all multi-managed funds for 2006 in the Alexander Forbes Multi-Manager Survey.
- Funds managed on behalf of the Sanlam group have outperformed their benchmarks every year for three years, with this year's outperformance at about 4% on average.
- All absolute return funds exceeded their benchmarks.
- In S&P Micropal's rankings of collective investment schemes, the Sanlam Small Cap Fund came first in its sector over one and two years and second over three years, the Sanlam Growth Fund was first in its sector over one year and third over three years, while the Sanlam Industrial Fund ranked first in its sector over three years.
- SIM Global's funds also achieved outstanding rankings in the S&P Micropal performance ratings, with the Sanlam Global Financial Fund coming first in the world for 2004 and 2006, and the Sanlam Global Best Ideas Fund ranking fourth in the world for 2005 and first for 2006.

These top performance results showcase the exceptional talent the business has amassed, the robustness of the investment platform underpinning the investment process and the soundness of our investment philosophy.

Industry challenges

During the year we continued with our strategy of developing smaller niche investment boutiques within the asset manager as a response to a trend of growing specialisation in the market. This trend of specialisation has also resulted in a proliferation of small, niche asset managers. Despite the growing ranks of competitors, we still attracted strong inflows as our boutique structure has been very successful, particularly as the absolute return and active quants teams proved to be leaders in their respective segments.

The cornerstones of the asset management industry are investment performance and relationships with clients. In the past few years, the entire financial services industry has come under strong scrutiny by regulators, the media and consumer watchdogs over a number of issues, generally placing the entire industry in a negative light. As a client-centric business, we believe that we need to put our clients' needs first in order to restore their trust in Sanlam and the financial services industry.

Sanlam Investments

A major industry challenge is to provide total value for money for investors by looking at investors' total expense ratios. The Pension Funds Adjudicator has pressurised the industry to disclose all "secret profits" by being transparent about the total fees charged to clients. Transparency is one of our core values that, along with our client-centric approach, will ensure that we are responsive to the Adjudicator's challenge to ensure that we offer the best value for money to clients, while ensuring that they have a clear view of the fees they pay and the rationale behind the fee structures.

We look forward to the revision of the retirement fund regulations, as the industry awaits the second reform paper from Government. It is anticipated that the long-awaited reforms of the prudential investment guidelines of Regulation 28 may allow for greater flexibility, particularly with regard to international allocation in order to achieve stronger returns for retirement funds.

Diversification

Although Sanlam Investments, and in particular the investment management businesses, benefited from strong equity market conditions, we cannot predict when these buoyant conditions will end. For this reason we have made it our aim to diversify the business across a wide range of investment disciplines to ensure a number of different income streams that will enable us to achieve sustainable performance and a business that can weather any market cycle.

Our competitive advantage, which differentiates us from other industry players, is our ability to inspire investment businesses to flourish within an entrepreneurial environment. The number of successful smaller businesses created in the larger business since 2002, as well as our steady growth pattern over the past five years, shows that our formula and business model are successful. We foster a small-business culture within a family of related businesses, while leveraging off our large corporate resource base by providing shared activities on an "opt in" basis. By encouraging an entrepreneurial business model we allow our employees to do new things, be innovative, take ownership and responsibility and keep producing results.

Our team needs to have the right mindset to create a favourable environment for entrepreneurial businesses. Our successful formula relies on the passionate ownership culture that is continuously embedded in the cluster. We believe that this sets us apart from other firms and helps to make us a magnet for talent.

Since the establishment of Sanlam Investments in 2002, many of the underlying businesses have reached critical mass, with a few years of strong financial performance, substantial assets under management and sustainable business models. For example, SIM Global now has an outstanding three-year track record, making it easier to attract new inflows. Likewise, SMMI has been restructured over the past few years with a focus on building a track record, which will enable it to attract new inflows from institutional funds.

Some of the key achievements for 2006 across the businesses include:

- Solid profit growth supported by performance fees, strong markets and good cost control;
- Strong gross new business inflows;
- The acquisition of Coris Capital by Sanlam Multi-Manager International (SMMI);
- The establishment of an asset manager in Kenya;
- Sanlam Private Investments' partnership with Swiss private bank, Pictet & Cie, and the launch of its online trading platform, Sanlam iTrade; and
- Streamlining of the collective investment schemes' offering to provide client-centric solutions.

Transformation

In the year under review we made steady progress towards meeting the requirements for BEE as contained in the Financial Sector Charter (FSC). We reached most of our employment equity targets and are making sound progress on delivering our 2008 FSC targets.

We are committed to BEE and have taken decisive action on a number of fronts:

- Sanlam Properties has established Khulela as its primary BEE property vehicle and has also assisted Vukile to become the strongest BEE company in the listed property sector. It also launched the black-owned and controlled Vusani Property Investment Fund.
- Sanlam Private Equity is in the process of launching four new specialist private equity funds focusing on investments that will provide superior returns and also satisfy FSC requirements.
- SCM continues to provide debt funding for BEE transactions.
- The cluster has a number of personal development programmes as well as fast-tracker programmes, which are predominantly aimed at black employees to ensure that we are able to meet the FSC's requirements for black representation across all levels of the business, while at the same time helping to alleviate the shortage of black investment professionals across the country.

In the year ahead we will continue to focus on investment in training and development of staff in order to foster a learning culture, while at the same time ensuring that we meet and exceed the requirements of the Charter.

Financial review

Sanlam Investments reported excellent results for the 2006 financial year, with operating profit before tax increasing by 54% to R1 077 million. Operating profit has increased by more than 50% year on year for three consecutive years, while we continue to expand the business to provide a wider range of financial services to our clients. This outstanding achievement is as a result of strategic changes implemented in the business since 2003, combined with the efforts and contributions of all our staff.

All of the businesses within the cluster contributed to the strong increase in operating profits in 2006. This can be attributed to specific initiatives in the different businesses, but also to a few key interventions implemented throughout, which collectively made a substantial impact

Sanlam Investments

on their success. Some of these key interventions include:

- The Sanlam Investments strategy of creating smaller entrepreneurial business units resulted in empowered business units with increased focus and a sense of ownership, excelling in all aspects of business operations, including client centricity, sales and profit generation. This was achieved without losing the obvious benefits of operating in a larger cluster of investment businesses. Some of our more significant profit contributions were as a result of cross-cluster initiatives to leverage off the resources and opportunities in the different businesses. The successful combination of small-business energy and large-business leverage continues to be a key driver of our business profitability.
- Investment businesses in general derive fees from pools of assets managed on behalf of clients. The operational leverage effect of increased assets under management is therefore very strong in our businesses, and increases in assets under management benefit us directly. During the period under review net inflows from clients continued at high levels and the cluster reported a net inflow of R10,4 billion (excluding a withdrawal by the Public Investment Corporation (PIC) of R21,6 billion). A combination of buoyant financial markets and excellent investment performance increased the cluster's total assets under management from R327 billion in 2005 to R406 billion. This impacted positively on our profitability.

Fund flows

Sanlam Investments reported a net outflow of R11,2 billion of funds for 2006. This included a withdrawal of R21,6 billion by the PIC towards the end of the year, as the PIC withdrew funds across the board from a number of fund managers as a result of its continued restructuring. The fee structure on the funds we continue to manage for the PIC was restructured, which means that the net effect of the PIC's withdrawal resulted in a very small fee and profitability impact on the business. If the PIC's withdrawal is excluded, the cluster reported net inflows of R10,4 billion.

Our international business units also reported strong sales, with SIM Global and Octane in particular attracting strong inflows.

Profitability

The operating profit of the cluster's South African operations increased by 62%, with all underlying businesses contributing to the increase. Sanlam Investment Management received substantial performance fees and reported a very strong increase in operating profits. The business also benefited from the restructured Retail Investments unit, which launched several new products during the year.

Sanlam Private Investments (SPI) continued to focus on broadening the range of investment services available to clients. This included the formalising of its relationship with a premier

Swiss bank, Pictet, providing lending facilities to clients and introducing an online trading platform, Sanlam iTrade. The result was an increased level of discretionary services provided to SPI's clients and a higher relative percentage of annuity-type income. Overall operating profit continued to grow strongly as a result of record net inflows and higher brokerage volumes.

Sanlam Properties continued to leverage its strong property investment expertise and experience, with involvement in selected property developments. The San Ridge Square Shopping Centre joint venture was completed and the San Ridge Village and Houghton Village developments are progressing satisfactorily. We are confident that these and other projects in the pipeline will continue to add to Sanlam Properties' core expertise of property asset management and enhance profitability in the short to medium term.

SMMI completed the merger with Coris Capital, which resulted in SMMI's assets under management increasing to more than R90 billion. The business now has a full range of retail and institutional products together with the local and international expertise to manage multi-manager mandates. SMMI's South African retail products have shown strong sales, supported by very good investment results in official surveys and strong support from the Sanlam distribution network.

SCI reported strong growth in operating profits, with the Sanlam Dividend Income Fund in particular reporting good sales. SCI's white label business continued to grow strongly and contributed significantly to the profitability of the business this year.

SIM-EM was incorporated in Sanlam Investments as part of the African Life transaction, with Botswana Insurance Fund Management as the core business. The business reported sound profit growth, benefiting from its expansion into Zambia and strong financial markets in the region. In the future, SIM-EM will spearhead the expansion into Africa and will co-ordinate our efforts in Africa.

As mentioned earlier, SIM Global, our niche international asset manager, continued to produce outstanding performance results. This led to high performance fees and continued high inflows into the SIM Global funds. Octane, our international hedge fund-of-funds manager, maintained their longer term track record of strong investment performance and attracted substantial net inflows during the period under review.

Sanlam Investments income statement – Investment management businesses

R million	2006	2005	%
Fee income			
Performance fees	**350**	215	63
Other fee income	**1 502**	1 107	36
Brokerage	**91**	67	36
Net interest income	**53**	36	47
Financial services income	**1 996**	1 425	40
Administration costs	**(919)**	(726)	27
Operating profit before tax	**1 077**	699	54
Tax and minorities	**(347)**	(171)	103
Operating profit	**730**	528	38

Sanlam Investments

Operating profit before tax and minorities – summary per operation

R million	2006	2005	%Δ
South Africa	**737**	456	62
Rest of Africa	**47**	9	>100
International	**293**	234	25
	1 077	699	54

Our expectations

Our challenge and principal strategic focus will be to ensure that the excellent investment performance achieved in 2006 is sustained in 2007, despite any lull or volatility in the markets. We believe that this is possible if we adhere to our investment philosophy and process and have the courage of our convictions.

We have set tough targets for the cluster to build on the business successes of 2006 to ensure that we achieve our vision to create South Africa's leading investment management business. One of the ways in which we aim to fulfil our strategy is by enhancing our international investment proposition, in particular emerging markets through SIM-EM. We see Africa as the next frontier and believe that we have the skills and expertise to be successful in other emerging markets. In 2006 we reinforced our strategy and commitment to growth throughout Africa by successfully implementing our model in Zambia, Kenya and Nigeria, and making inroads into Ghana.

Our model allows us to manage smaller amounts of savings in a cost-effective manner, to provide positive real returns in illiquid markets, and to create flexible and relevant investment products in developing economies. This model could also be emulated in other emerging markets over time and we are already evaluating opportunities in Asia.

A further enhancement of our international investment proposition is the registration of SIM Global's funds for sale in South Africa by the Financial Services Board. We expect a quick and positive uptake of the available capacity in these funds. Considering the top performance of the SIM Global funds on an international scale, we believe there is an opportunity to market these funds to international investors and will seek ways to achieve this in the year ahead.

In line with the Sanlam group's client-centric approach, Sanlam Employee Benefits (SEB) has joined Sanlam Investments as one of the underlying business units from January 2007. There are already many synergies between SEB and the other businesses in the cluster, and in many cases we service the same clients. The incorporation of SEB will allow the cluster to provide a more unified offering to clients while leveraging off cross-selling opportunities. We have already made significant progress with a project to integrate SEB into the cluster and believe we can create similar positive results and synergies with SEB as we did with the incorporation of SCM.

Sanlam Capital Markets

Who we are

Sanlam Capital Markets (SCM) is 100% held by Sanlam. Its major operating areas are as follows:

- Debt Structuring – debt origination, structuring and portfolio management.
- Equities – structured equity transactions, as well as equity trading, underwriting and stock broking.
- Market Activity – trading and structuring of equity and interest rate derivative products, including centralised funding for SCM.

The operating areas are supported by:

- Risk – identification, quantification and control of the risks assumed in the SCM business, including market risk, credit risk, liquidity risk, legal risk and operational risk.
- Finance – provides management and statutory financial reporting to the stakeholders of SCM and also performs the financial control function.
- Corporate Services – provides IT, HR, marketing and secretarial support to the business.

Key results

R million	2006	2005
Financial services income	**370**	331
Administration costs	**(219)**	(180)
Operating profit before tax	**151**	151
Taxation	**(10)**	(25)
Operating profit after tax	**141**	126
Return on equity	**35,3%**	31,5%
Administration cost ratio	**59,2%**	54,4%

Why we exist

SCM provides risk management and structured product solutions to the South African savings industry, public sector enterprises and corporates, and engages in associated capital market activities, including proprietary risk-taking. SCM's vision is to be an indispensable high-performance, financial-engineering business. SCM provides Sanlam with a substantial financial engineering capability. The business was formed out of the restructuring of Gensec Bank three years ago and has subsequently delivered Sanlam a cumulative return of almost 87% on its initial investment of R400 million. The business model is well established with excellent trading and risk management systems.

Sanlam Investments

How we are performing

Business environment

Economic growth, a relatively low interest rate environment, notwithstanding the 200 basis points increase over the year, and buoyant equity markets provided a positive environment for SCM's operating performance. This was evidenced by a return on equity of over 35% for the year.

Financial review

Revenue for the year at R370 million was spread across the different business units. Increased client flows drove improved performance in trading and broking areas, while strong demand for derivative solutions enhanced profitability in Market Activity. Debt Structuring was successful in sourcing deals for the Group and earning structuring fees in specific transactions.

SCM's focus on delivering client solutions enabled it to deliver a return on equity of 35,3%.

In summary: Sanlam Investments and SCM

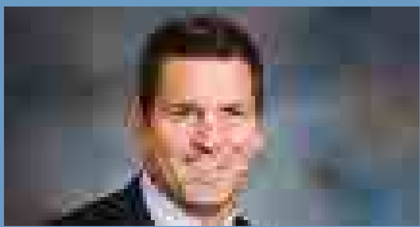
We have experienced another phenomenal year, with strong profits, robust investment performance and a marked increase in assets under management. We have shown that these results are sustainable because of our culture of passionate ownership, where each individual performs above expectations and lives our values of transparency, innovation and passion.

We wish to thank the board and staff of the cluster for their inspirational leadership and entrepreneurial spirit that assured that we achieved the tough targets that we set for ourselves.

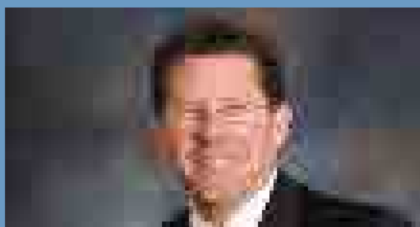
Our clients have remained loyal to us, and we wish to thank you for your ongoing support, which we hope to reward by continuing to deliver investment excellence.

Our leadership

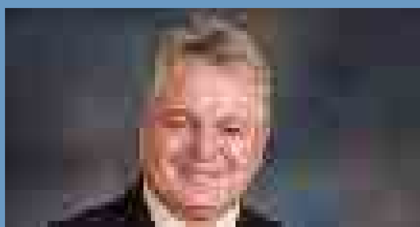
Heads of businesses

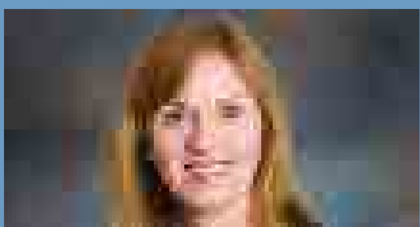

Johan van der Merwe – Chief Executive Officer: Sanlam Investments


Armien Tyer – Managing Director: Sanlam Investment Management


Tienie van der Mescht – Managing Director: Sanlam Collective Investments


Sanjeev Gupta – Chief Executive: SIM Emerging Markets


Pieter Kriel – Chief Executive: Sanlam Private Equity

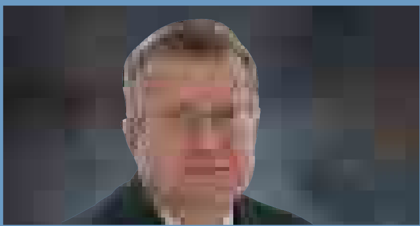

Anet Ahern – Chief Executive: Sanlam Multi-Manager International


Daniël Kriel – Chief Executive: Sanlam Private Investments

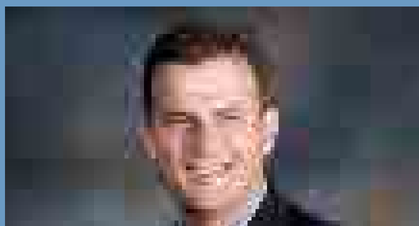
Sanlam Investments

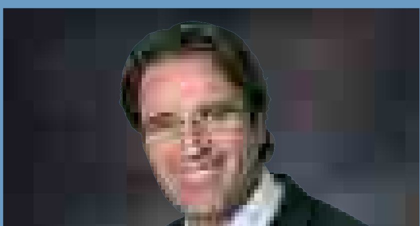
Our leadership, continued

Heads of businesses, continued

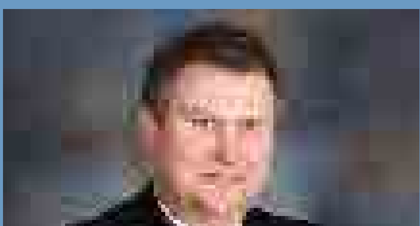

John van Helden – Chief Operating Officer: Sanlam Asset Management (Ireland)


Banus van der Walt – Chief Executive: Sanlam Properties


Thomas Schlebusch – Chief Executive: Hedgehog Capital


Robbie Alexander – Chief Executive: Octane Holdings Limited


Dawie de Villiers – Chief Executive: Sanlam Structured Solutions


Mark Murning – Chief Executive: Sanlam Capital Markets


Kokkie Kooyman – Chief Executive: SIM Global

Executive committee

Johan van der Merwe – Chief Executive Officer

Robert Roux – Chief Operating Officer

Armien Tyer – Sanlam Investment Management

Sanjeev Gupta – Emerging Markets

Hendrik Pfaff – Retail Investments

Anet Ahern – Sanlam Multi-Manager International

Tienie van der Mescht – Sanlam Collective Investments

Pieter Kriel – Sanlam Private Equity

Daniël Kriel – Sanlam Private Investments

Tega Shiimi Ya Shiimi – Sanlam Investment Management, Namibia

Banus van der Walt – Sanlam Properties

Robbie Alexander – Octane Holdings

Deon Gouws – Sanlam Multi-Managers International, London

Johan Redelinghuys – Product Development

Thomas van Heerden – Information Technology

Francois Kellerman – Finance

Raymond Schkolne – Human Resources

Claire Rabe – Marketing and Communication

Qarnita Loxton – Legal and Compliance

Sanlam Investment Management

Board of directors and committee memberships

Non-executive directors

Johan van Zyl – Chairman, Human Resources and Nominations committee

Flip Rademeyer – Audit and Risk committee

Chris Swanepoel – Audit and Risk, Central Credit committee

Kobus Möller – Audit and Risk committee

Temba Mvusi

Independent non-executive directors

Attie du Plessis – Chairman, Audit and Risk committee

David Ladds – Audit and Risk committee, Human Resources and Nominations committee, Central Credit committee (Chairman)

Anton Botha – Human Resources and Nominations committee

Executive directors

Johan van der Merwe

Armien Tyer

BUSINESS REVIEW
Sanlam Employee Benefits


Salient features

- Return on embedded value 21%
- Outsourced retirement fund administration to Coris Capital (50% owned) resulting in improved embedded values
- Operating profit before tax decreased by 68%
- New premium volumes 19% lower
- New business margins maintained

Robert Roux, *Acting Chief Executive*

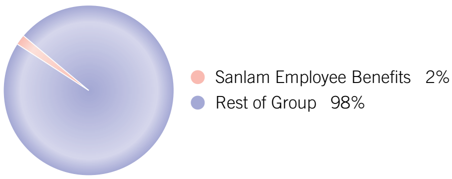
IN 2006 OUR OBJECTIVES WERE TO ESTABLISH RETIREMENT FUND ADMINISTRATION AS AN AUTONOMOUS BUSINESS AND TO IMPROVE OUR DISTRIBUTION CAPABILITY TO ORGANISED LABOUR AND THE STATE-OWNED ENTERPRISE MARKET. WE MADE GOOD PROGRESS IN ACHIEVING SOME OF THESE OBJECTIVES.

Who we are

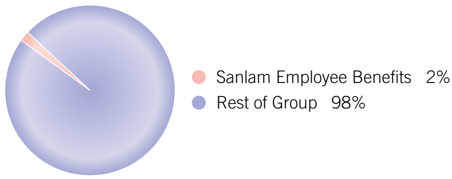
Key results

R million	2006	2005	%
New business	**2 180**	2 699	(19)
Net outflow of funds	**(2 835)**	(2 896)	2
Operating profit	**70**	217	(68)
Value of new business (VNB)	**39**	46	(15)
VNB margin	**1,13%**	1,12%	

CONTRIBUTION TO NET RESULT FROM FINANCIAL SERVICES



CONTRIBUTION TO NEW BUSINESS VOLUMES



Group profile and shareholding structure

Sanlam Employee Benefits (SEB)	**100%**	Retirement fund business
Sanlam Umbrella Fund Administrators (SUFA)	**100%**	Umbrella fund administration (SME focus)
Sanlam Customised Insurance (SCIL)	**100%**	Cell captive insurer

In addition to these companies, SEB has close business relations with the following companies in the Independent Financial Services structure:

Coris Capital	Retirement fund administration back-office on outsourced basis
Simeka	Broker servicing substantial portion of the SEB book

Sanlam Employee Benefits

Why we exist

In line with the Group's vision to be the leader in wealth creation and protection, Sanlam Employee Benefits (SEB) is focused on a long-term relationship with retirement funds and retirement fund brokers to provide them with competitively priced, innovative solutions.

SEB prides itself on three key pillars that underpin strategic and tactical planning, as well as service provision to clients. These are: encouraging the emergence of "no-limit individuals", the development of a "fighting team" and becoming a "results-oriented" organisation, which not only result in growth in shareholder value, but also ensure that the retirement fund members we serve realise their lifelong goal of having adequate savings when they reach retirement, or cover when something unforeseen happens to them. Our underlying philosophy is to be driven by the needs of our clients – the only solution we believe that works for both parties.

SEB is a provider of life insurance solutions for South African-based group schemes and retirement funds, investment and annuity solutions for retirement funds and retirement fund administration for retirement and umbrella funds.

SEB's strategic direction is aligned to that of the Sanlam group as we seek to maximise returns. We are currently focused on the following short-term objectives:

- Optimise the return on SEB's capital.
- Promote risk-underwriting solutions as our core offering, while setting competitive rates.
- Design life licence enhanced value-added investment solutions for retirement funds that require smoothing, pooling and guarantees.
- Provide a flexible platform for asset manager selection to address the fund termination challenge.
- Ensure an efficient, cost-effective administration offering to our clients in conjunction with Coris Capital. While the profit contribution from administration will be relatively modest, we see this facility as being integral to our aim of providing the whole package to our clients.
- Capitalise on the unique umbrella fund solution that addresses the general concerns regarding the umbrella fund industry.

How we are performing

Business environment and operational review

The South African retirement fund industry is undergoing a process of turmoil and is facing a number of challenges. Government, regulators and the market look towards increasing demands for transparent, simple and value-for-money solutions. The Financial Services Board's enquiries into undisclosed fee-taking and margins (generally referred to as secret profits) created some distrust amongst the general public in the role players. An internal audit on our business practices, commissioned by SEB, has not found any area of concern in this regard.

The group risk market is a highly commoditised sector of the insurance market. Solution pricing plays a significant role, and competition is fierce. SEB offers a wide range of innovative solutions, competitively priced and backed by reliable service, to the schemes and individual members.

Consultants and trustees increasingly prefer the multi-manager route, which enables them to avoid the concentration of investment risk in a single asset manager and have more flexibility of movement. At the same time demand is shifting to retirement fund investments from non-life product providers, while the popularity of smoothed bonus fund products with guarantees is waning. Recognising the permanent shifts in market dynamics, Sanlam incorporated SEB within the Investment cluster to become the Institutional cluster, from January 2007. Clients will be able to find the best investment solution by selecting from a range of insurance, multi-manager or asset manager products.

During 2006, and together with Sanlam Investment Management, SEB created a new tool for the retirement fund market: the Sanlam Asset Liability Index (SALI). This tool assists the trustees of a fund to ensure that the balance between equities and less risky investments in a member's portfolio of retirement savings is aligned with his/her age/life stage.

The lifting of the exemption for the preparation and auditing of financial statements for insured funds has introduced an extra cost burden, reducing the benefits that small to medium-sized funds had of investing fund assets in insurance policies. Again this has shifted market dynamics and SEB has therefore introduced a unique umbrella fund solution that addresses all the issues that the regulators have with this industry.

Over the last three to five years the increasing awareness of trustee duties and members' rights as well as members' involvement in providing for their retirement has created a demand for increased functionality and improved service delivery from retirement fund administrators. This, together with more legislative requirements, has led to increased costs to the administrator in a highly competitive environment. We therefore continue to explore new ways to achieve cost efficiencies and to obtain economies of scale.

In this regard, one of the strategic objectives for the year was to establish a more efficient and cost-effective retirement fund administration (RFA) solution for our clients. The Independent Financial Services (IFS) business in conjunction with SEB focused on the value proposition that shareholders and clients derived from the RFA division, resulting in Sanlam buying 50% of Coris Capital, a specialist retirement fund administrator, and outsourcing the RFA back-office services to Coris. Our clients should benefit by getting more and improved services and/or functionality and SEB will benefit by increasing profitability and lowering the risk associated with administration. SEB will monitor the service levels to ensure that our RFA clients receive consistently good service. Intensive testing of the system solutions preceded the migration process from the SEB systems to the Coris system and preparation of the data to be transferred. The first funds migrated successfully in February 2007 and the last ones are scheduled for the end of 2008.

A new direct distribution channel was established. The channel had no client base to start with and developed special capabilities to work in the union, parastatal and Government market. It has established relations with key decision-makers within the most important labour organisations, and we believe this should yield some benefits in the near future. The sales process is tailored for the market on which the channel focuses.

Financial review

Summary of results

During 2006 SEB reported a 19% drop in new business while operating profits decreased off a high base by 68% compared to 2005.
Risk underwriting profits in 2006 halved due to higher claims and the fact that fierce

Sanlam Employee Benefits

competition had reduced premium rates, while we provided for potential losses resulting from the clean-up of data in the process of transferring it to the Coris platform.

New business

Total new business premiums decreased by 19% as illustrated in the table below:

R million	2006	2005	%
Recurring premiums	**192**	194	(1)
Single premiums	**1 988**	2 505	(21)
Total new business	**2 180**	2 699	(19)
VNB margin	**1,13%**	1,12%	

Increasing competition in the market resulted in reduced new business volumes. However, SEB managed to attract more new recurring risk premiums than in 2005 in spite of fierce competition, but attracted lower new recurring fund contributions.

Net flow of funds

Market forces and an improved claims experience during 2005 resulted in SEB reducing risk premium rates for many of our existing clients in 2006, which had a negative impact on growth. During 2006 structured products with a maturity value of R0,6 billion more than the 2005 value were paid out, becoming responsible for the largest part of the growth in uninsured contractual benefits. Although we are not satisfied with terminations of R2 billion, we are pleased with the reduction of R1,7 billion compared to 2005. The net outflow is attributable to a relatively small recurring premium book, the fluctuating single premium income and relatively high contractual policy benefits.

R million	2006	2005	%
Inflow	**4 844**	5 371	(10)
Recurring premiums	**2 856**	2 866	0
Single premiums	**1 988**	2 505	(21)
Outflow	**(7 679)**	(8 267)	7
Insured benefits	**(1 273)**	(1 202)	(6)
Uninsured contractual benefits	**(4 391)**	(3 348)	(31)
Fund terminations	**(2 015)**	(3 717)	46
Net outflow of funds	**(2 835)**	(2 896)	2

Operating profit

Operating profit declined by 68% compared to 2005, partly as a result of a number of non-recurring events totalling R68 million.

R million	2006	2005	%
Financial services income	**1 744**	1 743	0
Sales remuneration	**(41)**	(40)	(3)
Income after sales remuneration	**1 703**	1 703	0
Underwriting policy benefits	**(1 291)**	(1 203)	(7)
Administration costs	**(342)**	(283)	(21)
Profit before tax	**70**	217	(68)
Administration cost ratio	**20,1%**	16,6%	
Operating margin	**4,1%**	12,7%	

The marginal increase in financial services income, which consisted mainly of risk-underwriting premiums and fees earned, was largely due to a reduction in fees earned on funds under management given the net outflow of funds, reduced risk-premium rates and low growth in fund membership.

The increase in administration expenses, excluding extraordinary provisions, was restricted to 4%.

The contribution of the different business units to overhead and project expenditure is analysed in the table below.

Contribution to operating profit per product

R million	2006	2005	%
Administration	**(54)**	(21)	(>100)
Underwriting	**77**	155	(50)
Investment	**132**	161	(18)
Contribution	**155**	295	(47)
Overhead expenditure	**(70)**	(63)	(11)
Project expenditure	**(15)**	(15)	—
Operating profit	**70**	217	(68)

The increased loss, due to the provisions already referred to, from the administration business was incurred despite a healthy increase in fee income and only marginally increased operating expenditure.

Underwriting profits halved due to a 9% increase in the claims ratio, partly caused by higher claims and partly by fierce competition having a negative impact on premiums.

The net outflow of funds reduced the base for investment fee income and consequently the profit contribution from the investment product. However, the strong increase in the market value of the assets under management countered the effect of the outflow. A reduction in the assumed long-term interest rates following the issue of the new, long-dated R209 Government bond in July 2006, together with the inability to match expected cash flows at these long durations due to a scarcity of suitable assets, resulted in a R14 million loss in the non-participating annuity portfolio.

New business embedded value

Total VNB decreased by R7 million to R39 million, mainly due to lower new business volumes. However, the margin (VNB as a percentage of the present value of new recurring premiums plus single premiums) increased marginally to 1,13%, mainly due to the Coris transaction and the mix of business sold.

R million	2006	2005	%
Present value of premiums	**3 466**	4 111	(16)
VNB	**39**	46	(15)
VNB margin	**1,13%**	1,12%	

Funding position of participating portfolios

SEB had no participating portfolios with negative bonus stabilisation reserves as at 31 December 2006.

Our expectations

2006 has been a challenging year as market dynamics put pressure on margins, and new solutions and structures were put in place especially for RFA. Looking forward we aim to improve profitability through a focus on operational efficiencies and service delivery.

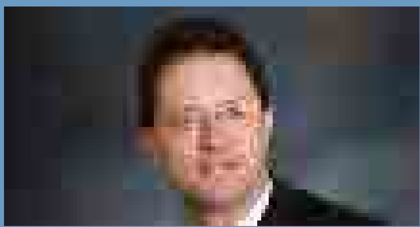
The incorporation into the Institutional cluster and the outsourcing partnership with Coris Capital represent exciting opportunities to expand our client reach, drive cost savings as a result of synergies utilised by these two initiatives, and improve client service as we migrate to the Coris platform.

An increased focus on umbrella fund business is aimed to substantially increase our presence in that market.

Sanlam Employee Benefits

Our leadership

Executive committee



Robert Roux – (Acting) Chief Executive

Themba Gamedze – Chief Executive until 31 December 2006

Marius Saayman – Finance, Risk Management and Operations

Tamuka Kaseke – Strategic Ventures

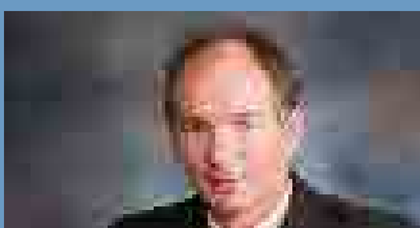
Miles Mafojane – Institutional Business

Executive committee, continued

Deon Booysen – Client Solutions

Douw Kruger – Key Accounts

Elias Masilela – Stakeholder Strategy



Wouter Thom – Risk Benefit Solutions

Divisional board and committee memberships

Johan van Zyl – Chairman, Human Resources

Flip Rademeyer – Audit

Kobus Möller – Audit

Johan van der Merwe

Temba Mvusi

Nick Christodoulou – Audit, Human Resources

Chris Swanepoel – Audit, Human Resources

BUSINESS REVIEW
Santam

Salient features

- Return on shareholders' funds of 33%
- Gross written premium increased by 12%
- Headline earnings per share of 1 555 cents per share
- Total dividend increased by 13% to 380 cents per share
- R2,2 billion in cash generated by operations

Steffen Gilbert, *Chief Executive*

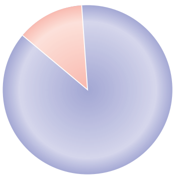
SANTAM CONCLUDED ANOTHER SUCCESSFUL YEAR IN WHICH IT GENERATED A 33% RETURN ON SHAREHOLDERS' FUNDS. THIS WAS PREDOMINANTLY DUE TO EXCEPTIONAL INVESTMENT INCOME ON THE BACK OF FIRM EQUITY MARKETS, TEMPERED BY A NORMALISED UNDER-WRITING PERFORMANCE AS A DIRECT RESULT OF A SOFTER INSURANCE CYCLE AND AN ESCALATION IN THE AVERAGE CLAIMS COST.

Who we are

Key results

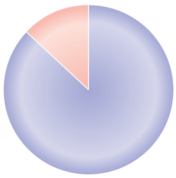
R million	2006	2005	%
Gross written premium	**12 736**	11 355	12
Underwriting result	**627**	775	(19)
Investment return on insurance funds	**279**	241	16
Insurance result	**906**	1 016	(11)
Net profit for the year	**342**	349	(2)

CONTRIBUTION TO NET RESULT FROM FINANCIAL SERVICES



Santam 12%
Rest of Group 88%

CONTRIBUTION TO NEW BUSINESS VOLUMES



Santam 13%
Rest of Group 87%

Group profile

Santam is the largest short-term insurer in South Africa with operations in Namibia, the United Kingdom and elsewhere in Europe. It underwrites all classes of risk.

Insurance classes	% contribution to gross written premium
Motor	**41**
Property	**29**
Alternative risk	**11**
Liability	**6**
Engineering	**4**
Transportation	**2**
Accident and health	**3**
Crop	**3**
Miscellaneous	**1**
Guarantee	**<1**

Santam

Why we exist

Purpose

Santam's purpose is to be recognised as the best in everything we choose to do.

Nature of business and strategic focus

Santam is the largest player in the South African short-term insurance market, with a market share exceeding 20%. The company offers personal, commercial, corporate and alternative risk solutions and insures most of the top 100 companies listed on the JSE Limited.

In response to the challenges facing the short-term insurance industry, Santam has developed a strategy to guide the company to 2010 and beyond. In essence, it consists of six thrusts – expanding the market, exploiting technology, developing distribution channels, igniting human capital, increasing efficiency and focusing on clients – that will reinvent the way in which Santam does business in support of its ongoing objective of sustainable success.

How we are performing

Business environment and operational review

The short-term insurance industry is facing a number of challenges, including an increasingly onerous regulatory environment, changes in accounting practices, increased competition and evolving client needs, but Santam excels in managing complexity. As a result of the 2010 redefinition project, the company has been able to rise to these challenges and is on track to turn them into competitive advantages.

To bring the 2010 strategy to life, a number of strategic initiatives were identified and commenced during 2006. The transformation of insurance services initiative will leverage the current claims, service and procurement capabilities, whilst the broker model initiative will enable intermediaries to compete effectively in the future distribution environment that is currently feeling the effects of competition, regulation and consumerism.

These will reinvent the way in which Santam does business in support of its ongoing objective of sustainable success. The organisation has adopted a collective approach towards planning and implementation, making strategy everyone's business. Aligned with the levels of work methodology, the leadership team manages the strategic plan in 90-day cycles. At the end of each cycle, progress is monitored and goals set for the next cycle, which facilitates the collective focus, learning and momentum in making the chosen strategic changes a reality.

Inspirational leadership is a key ingredient to firmly claim Santam's position as a leading brand. Hence the prominent focus on its people and their role as ambassadors of the brand. To anchor and equip the organisation for future change, the brand values were refined and simplified into three philosophies that will guide all actions: think big; inspire and embrace. This will enable the company to build the brand from the inside out, ensuring that stakeholders' experiences when dealing with Santam reinforce the desired perceptions and positioning in the market.

During the year under review, Santam redefined the meaning of brand leadership within the organisation. The company identified the drivers that in future will be used to measure its position in the different individual and organisational market segments that it targets.

Being a leader requires innovation and agility, traits that Santam demonstrated when it became the first short-term insurer to offer home and household insurance to the entry-level market (LSM 3 to 5). The company continues to focus its corporate social investment initiatives at this end of the market.

During 2006, Santam received several prestigious industry awards:

- Top primary insurer on the African continent, as rated by the esteemed global insurance and reinsurance publication, *Reactions*;
- South Africa's top short-term insurer, according to the *Sunday Times* top 500 Companies survey;
- Best short-term insurer in the categories motor and property insurance, as rated by PricewaterhouseCoopers. Santam was also ranked first in the client relationship category, joint first in the category technically competent staff and second in the alternative risk transfer category;
- The only short-term insurer to qualify for the JSE Socially Responsible Investment (SRI) index; and
- The only insurer amongst South Africa's top ten most accountable companies, as rated by AccountAbility.

Adding to this list, the South African Insurance Association (SAIA) has recently presented Santam with the Pioneer Award as the first company to launch a product specifically designed to meet the Financial Sector Charter requirements. Santam's home and household insurance for the entry-level market was launched in Soweto last year, and is the only such product to date.

Financial review

Santam concluded another successful year in which it generated a 33% return on shareholders' funds compared to 34% in 2005. This was predominantly due to exceptional investment income on the back of firm equity markets, tempered by a normalised underwriting performance as a direct result of a softer insurance cycle and an escalation in the average claims cost. Headline earnings of R1,82 billion for the year were slightly higher than the R1,78 billion of the previous year, equating to headline earnings per share of 1 555 cents as against 1 540 cents for 2005.

After renewed focus on retaining and procuring quality and profitable business, gross premium growth tapered off in the second half of the year, resulting in an overall increase of 12% for the year, while net written premium was up 15% from 2005. Growth was achieved across most classes of business. International premiums increased by only 2% in GBP terms due to Santam Corporate experiencing a decline in premium income, whilst positive growth was achieved in both Westminster Motor Insurance Association and Santam Europe.

Underwriting margins remained under pressure during the year due to an increase in claims in the personal and commercial

Santam

lines of business. Results were also adversely affected by several catastrophic events, the largest being floods in Namibia and in the Southern and Eastern Cape, as well as a number of very large corporate industrial claims that negatively affected the property and engineering classes of business. Notwithstanding these unfavourable events, the benefits of Santam's corrective action to address unprofitable business are becoming apparent, with profitability increasing, especially in the personal lines business. Specialist underwriting classes continue to experience favourable claims ratios. As part of Santam's ongoing assessment of insurance liabilities in terms of claims experience, the level of the incurred but not reported (IBNR) reserve was reduced by a further R43,5 million during the second half of the year, totalling a reduction of R88,5 million for the full year. Continued initiatives to improve efficiencies and the increased level of activity contributed to the acquisition cost ratio declining from 26% to 25%.

In line with the company's ongoing strategy of optimising the retention of more business with an acceptable risk profile, the level of reinsurance earned premium declined to 17,2% of gross earned premium compared to 19,2% for 2005. If the impact of cell business is excluded, the ratio for 2006 decreased to 11,2% as against 16,1% for 2005.

International operations showed a 48% improvement in pre-tax profits compared with 2005. Notwithstanding increased competition, Westminster Motor Insurance Association achieved a positive underwriting result for the year after a loss in the first half. Business volumes increased in Santam Europe, albeit at a slower than desired rate. The company achieved an after-tax profit for the year. In line with Santam's strategy of focusing on businesses where it is in control of underwriting activities, the shareholding in Santam Corporate Limited (its participation in a Lloyds syndicate) was sold to the Beazley Syndicate for GBP14,3 million.

The combined effect of all insurance activities resulted in a net insurance margin of 8,8% as opposed to 11,4% in 2005.

Investment return on insurance funds exceeded that of the previous year by 16%, mainly due to a 14% higher average float level (funds generated by insurance activities). This was primarily due to a continued focus on cash and working capital management and the impact of refinements made to the reinsurance programme. Despite lower underwriting profitability for the year, the company's operating activities generated R2,2 billion in cash, which was only 7% less than the R2,37 billion generated in 2005.

Benefiting significantly from the continued bullish performance of local equities, Santam increased its total investment-related income (excluding the investment return on insurance funds) by 24% year on year, despite the R762 million special dividend paid during the year that reduced the capital base. Earnings from associated companies were in line with 2005 earnings with very good results reported by Credit Guarantee Insurance Corporation of Africa Limited and Lion of Africa Insurance Company Limited.

The Group ended the year with a healthy solvency ratio of 62%, which was slightly higher than the 61% reported at the end of 2005. Net asset value per share increased from 4 927 cents to 5 634 cents during the year due to the increase in profitability.

Our expectations

Following a reduction in underwriting margins in the first half of 2005, the insurance cycle has now softened into a downturn. It is anticipated that underwriting margins will remain under pressure due to the softer market but claims experience will most likely improve, barring a recurrence of the abnormal number of catastrophe claims experienced in 2006.

Competition will remain rife and is likely to spill over to the lower end of the market as more short-term insurers are expected to launch affordable solutions aimed at first-time policyholders. It will, however, remain a challenge to find the right mix of pricing and distribution channels to make products and services accessible to this market.

Assuming that equity markets continue to perform well, a reasonable performance is expected in the year ahead. Anticipated higher interest rates will have a favourable effect on cash-related investments.

The international businesses will remain focused on achieving sufficient growth to ensure that operations yield profitable results and the required return on invested capital.

Against this background, Santam aims to enhance shareholders' value through a continued focus on profitability as well as optimising capital levels.

Santam intends to reduce its excess capital by making a voluntary offer to repurchase 10% of its issued ordinary shares from shareholders at a premium price. Parent company Sanlam will make an offer to acquire the excess shares tendered at the same price, subject to Sanlam's shareholding not exceeding 80% of Santam's issued ordinary shares.

In accordance with the objectives of its capital reorganisation programme, the company is also looking to create various types of secondary capital instruments. The issue of these instruments will not adversely affect Santam's current Insurer Financial Strength rating.

Santam further intends to enter into a broad-based BEE transaction for the benefit of staff, community trusts and strategic business partners. The proposed transaction will involve the sale of 10% of Santam's issued ordinary shares. To facilitate the deal, a scheme of arrangement will be proposed which will oblige Santam shareholders to sell 10% of their ordinary shares at a discounted price of R82 per share.

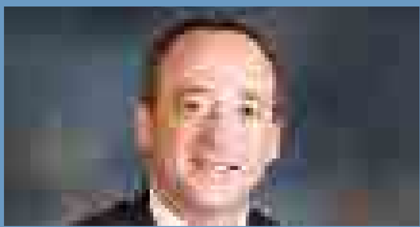
In summary

Our good results are in line with our purpose to be recognised as the best in everything we choose to do. Our board and management would like to extend their sincere gratitude to Santam's staff, brokers and other business partners for their efforts and contributions during the year.

Santam

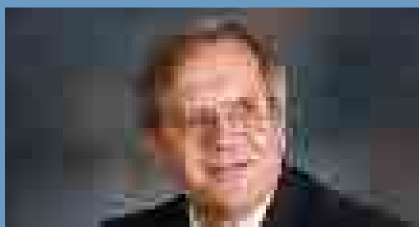
Our leadership

Executive committee

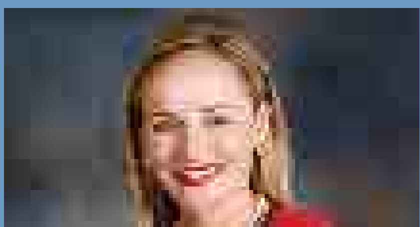


Steffen Gilbert – Chief Executive

Edward Gibbens – Broker Distribution



Hendri Nigrini – Risk Services

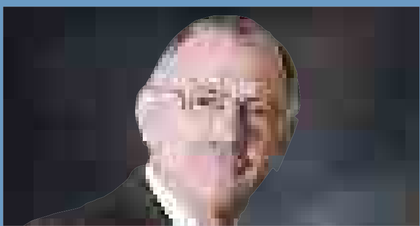


Margaret Massie – People and Brand Services

Pankaj Ranchod – Insurance Services

Executive committee, continued

Machiel Reyneke – Corporate Services



Koos van Tonder – Santam International Operations

Mpumi Tyikwe – Corporate and Specialist Distribution

Board members and committee memberships

Non-executive directors

Desmond Smith – Chairman, Human Resources

Themba Gamedze

Jurie Geldenhuys – Audit and Risk

Jannie le Roux – Human Resources, Sustainability

Namane Magau – Sustainability

Alwyn Martin – Audit and Risk

Kobus Möller

Raisibe Morathi

Flip Rademeyer – Audit and Risk, Investment

Jeremy Rowse

George Rudman – Audit and Risk

Johan van Zyl – Human Resources

Peter Vundla – Sustainability

Executive directors

Steffen Gilbert – Investment

Machiel Reyneke – Investment

BUSINESS REVIEW
Sanlam Independent Financial Services

Salient features

- A total of R252 million was returned to the Sanlam group at a profit of R95 million, through the reduction of the shareholding in Punter Southall Group from 61% to 27%.
- IFS showed a 32% return on the market value of its total portfolio (2005: 15%).
- Intrinsic is now a top-10 UK financial advisory business

Themba Gamedze, *Chief Executive*

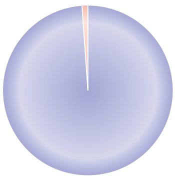
BUSINESS FLOWS DIRECTED TO THE SANLAM GROUP WERE R893 MILLION SINGLE PREMIUMS AND R1,5 BILLION RECURRING PREMIUMS TO SANLAM LIFE, R1,2 BILLION NET INFLOWS TO SANLAM INVESTMENT MANAGEMENT AND R168 MILLION TO SANLAM TRUST.

Who we are

Key results

R million	2006	2005	%
Headline earnings	**34**	24	42
Net operating profit	**16**	22	(27)
Return on embedded value	**31,9%**	15%	

CONTRIBUTION TO NET RESULT FROM FINANCIAL SERVICES



Investment structure

Investment	IFS shareholding	Description
Punter Southall Group (formerly Sanlam Financial Services)	**27%**	UK-based financial services advisory group
Intrinsic	**29%**	UK-based multi-tied financial services intermediary
Nucleus	**42,5%**	UK-based investment management administration platform
Coris Capital	**50%**	Retirement fund administration
Gensec Property Services	**35%**	Property management
Simeka Consultants and Actuaries	**35%**	Consultants and actuaries
Thebe Community Financial Services	**30%**	Financial services group aimed at developing market
The Bull and Bear Financial Services Group	**30%**	Financial services intermediary

Sanlam Independent Financial Services

Who we are

Sanlam Independent Financial Services (IFS) invests in financial intermediary businesses that attract strong customer loyalty, have well-defined customer bases, are generally non-Sanlam branded and, if South African, have appropriate empowerment credentials.

While the investment by IFS creates the framework and access to distribution entities, the Sanlam core solution providers unlock the opportunities by ensuring that their solutions are market competitive in terms of pricing, investment performance and service levels, and that the necessary relationships with decision-makers are in place.

Why we exist

Sanlam Independent Financial Services aims to be a significant investor in distribution businesses and businesses that deliver essential services to the Sanlam group, in return for a combination of an attractive risk-adjusted return on investment and business flows.

How we are performing

Investment activities

During 2006 our focus in the UK was on reducing our shareholding in Punter Southall Group from 61% to 27%, with the intent of creating capacity for a substantial holding by a new generation of management. The capital returned to IFS was reinvested in Intrinsic and the acquisition of a 42,5% stake in Nucleus, a start-up investment administration platform in the UK.

Locally our major project was the restructuring of the loss-making retirement fund administration business of Sanlam Employee Benefits (SEB) and the consequent introduction of Coris Capital with effect from 1 October 2006 as a 50/50 joint venture partner.

Operational and financial review

Headline earnings increased by 42% in 2006. The improvement is largely attributable to an increase in investment income from the investments in Intrinsic and Nucleus. A disappointing performance from Thebe Community Financial Services (TCFS) and planned start-up losses in Nucleus and Coris had a negative effect on operating profits.

Headline earnings

R million	2006	2005
Punter Southall Group (PS)	**31**	28
Nucleus Financial Services	**(5)**	—
Gensec Property Services (GPS)	**8**	6
Simeka Consultants and Actuaries (Simeka)	**1**	2
Coris Capital	**(3)**	—
Thebe Community Financial Services (TCFS)	**(4)**	2
Cluster overheads and other	**(8)**	(6)
Gross operating profit	**20**	32
Tax and minorities	**(4)**	(10)
Net operating profit	**16**	22
Investment return	**18**	2
Headline earnings	**34**	24

Punter Southall Group

The positive results of reducing our shareholding in favour of the management of Punter Southall can already be seen in the operating results. The increase in profit before tax and minorities grew from GBP2,5 million in 2005 to GBP5,8 million in 2006. All divisions achieved solid growth in revenues, and assets under management were up from GBP1,8 billion in 2005 to GBP3 billion in 2006. Further synergies and organic growth are expected from recent acquisitions, investment management joint ventures and the aggressive recruitment of top professionals in the year ahead.

Intrinsic

Since its launch in January 2006, Intrinsic has recruited 700 advisers to the business and as a result became a Top-10 UK advisory business in terms of size. Intrinsic's weekly business written now exceeds GBP1 million and business flows to the Sanlam group are showing potential, especially short-term business to Santam International. The business's key objective going forward is profitable growth.

Sanlam Independent Financial Services

Nucleus

Nucleus was established in June 2006 and went live on 22 December following the receipt of regulatory approvals and implementation of the investment management administration platform. Nucleus has already attracted a significant amount of interest from independent financial advisers in the market, who are incentivised with shareholding in Nucleus to place assets on the platform. Nucleus' performance to date is in line with the original business plan and this investment offers the potential for substantial investment flows to Merchant Investors and Sanlam Multi-Manager International (SMMI).

Gensec Property Services

Following the merger with JHI, effective from 1 January 2007, Gensec Property Services is the second largest player in the industry. The growth in profits was driven by good performance on the Sanlam portfolio and new business concluded on the back of an improved company profile. The company is now well positioned to capitalise on synergies and growth opportunities in Africa and the Middle East.

Simeka

During 2006, Simeka focused on client retention and the enhancement of its future service delivery model. Operating results showed an improvement on 2005, if restated for the sale of Sanlam Consultants and Actuaries. Simeka maintained its R550 million risk book with Sanlam Employee Benefits and directed R1,9 billion of investments to the Sanlam group. Significant potential consolidation opportunities remain in 2007.

Coris Capital

We believe that the combination of the enhanced features of the Coris retirement fund administration platform and processes and their highly skilled staff will add significant value to SEB's client base. In addition, the service level agreement with Coris will have a positive effect on Sanlam Employee Benefits' performance, with substantial expected cost savings in the region of R39 million in 2007, increasing to R60 million from 2009 onwards. These efficiency gains improved SEB's value of in-force life business by R145 million. As part of the transaction, Coris sold its multi-manager business to Sanlam, resulting in a substantial increase in SMMI's assets under management and economies of scale.
To date, the financial performance of Coris has been in line with the business plan.

Thebe Community Financial Services

A number of measures have been implemented at Thebe Community Financial Services to streamline the business. The loss-making divisions were closed down or sold and the debt-collection business is in the process of implementing re-engineered processes, technology and sales infrastructure in support of accelerated growth in revenue and efficiencies.

Our expectations

Excluding any new investments, growth in profitability over the next three to four years is expected to come mainly from the UK investments as these businesses continue to focus on growing the sales infrastructure and adviser productivity, and gathering assets under management. Service delivery and client centricity remain key.

2007 will be another challenging year as the younger businesses focus on new client acquisition and optimising organisational strategy and structures and IFS, as an investment business, continues to focus on optimising returns and improving business flows to the Sanlam group. In addition, we aim to diversify the portfolio in terms of geography, company life stage and mix of business flows to the Sanlam solution providers, and we will strive to be proactive in managing the risks or exiting those investments that do not meet our objectives.

Our leadership

Board members

Non-executive directors

Johan van Zyl – Chairman

Kobus Möller

Ian Kirk

Executive directors

Nick Christodoulou – Chief Executive to 2006

Themba Gamedze – Chief Executive from 2007

Liezl Myburgh – Chief Operating Officer from 2006

Directors' Responsibility for Financial Reporting

The board of Sanlam Limited takes responsibility for the integrity, objectivity and reliability of the Group and company financial statements of Sanlam Limited in accordance with International Financial Reporting Standards. Adequate accounting records have been maintained. The board endorses the principle of transparency in financial reporting. The responsibility for the preparation and presentation of the financial statements has been delegated to management.

The responsibility of the external auditors, Ernst & Young Registered Auditors Inc., is to express an independent opinion on the fair presentation of the financial statements based on their audit of Sanlam Limited and its subsidiaries.

The audit committee has confirmed that effective systems of internal control and risk management are being maintained. There were no breakdowns in the functioning of the internal financial control systems during the year, which had a material impact on the Sanlam group financial statements. The board is satisfied that the financial statements fairly present the financial position, the results of operations and cash flows in accordance with International Financial Reporting Standards and supported by reasonable and prudent judgements consistently applied.

The board of Sanlam Limited takes responsibility for the integrity, objectivity and reliability of the Report on the Sanlam Group Embedded Value. The responsibility for the preparation and presentation of the Report on the Sanlam Group Embedded Value has been delegated to management.

The responsibility of the appointed external auditors, Ernst & Young Registered Auditors Inc., is to express an independent opinion on the fair presentation of the Report on the Sanlam Group Embedded Value.

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

The financial statements on pages 167 to 285 and the Report on the Sanlam Group Embedded Value on pages 288 to 299 were approved by the board and signed on its behalf by:

Roy Andersen, *Chairman*

Johan van Zyl, *Group Chief Executive*

7 March 2007

Certificate by the Company Secretary

In my capacity as Company Secretary, I hereby certify, in terms of the Companies Act, that for the year ended 31 December 2006, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

Johan Bester, *Company Secretary*

7 March 2007

Report of the Chief Actuary of Sanlam Limited

Statutory valuation

The following major life insurance companies have been consolidated in the Sanlam Limited group financial statements set out on pages 167 to 285:

- Sanlam Life Insurance Limited;
- African Life Assurance Company Limited;
- Merchant Investors Assurance Company Limited;
- Sanlam Life Namibia Limited; and
- Botswana Insurance Holdings Limited.

In respect of each of the above companies I have obtained confirmation from the appointed Statutory Actuary that:

- The valuation of the company, as at 31 December 2006, has been performed in all material respects on the bases as set out on pages 184 to 189, as applicable. The valuation has been prepared and the results are presented in accordance with the applicable actuarial and statutory guidelines;
- The company was financially sound on the statutory basis as at the valuation date and, in the opinion of the Statutory Actuary, is likely to remain financially sound for the foreseeable future; and
- The management actions assumed for the calculation of the capital adequacy requirements have been approved by the board of directors of the company, and the Statutory Actuary expects that these actions would be taken if the corresponding risks were to materialise.

Salient information extracted from the above companies' financial statements is presented on pages 252 to 258.

Embedded value

The Sanlam group embedded value and the value of new life insurance business have been calculated and presented in accordance with the applicable guidelines (Professional Guidance Note 107) of the Actuarial Society of South Africa.

André Zeeman FIA, FASSA, *Chief Actuary*

Sanlam Limited
7 March 2007

Report of the Independent Auditors

To the members of Sanlam Limited

We have audited the annual financial statements and the Group annual financial statements of Sanlam Limited, which comprise the Directors' Report, the Balance Sheet as at 31 December 2006, the Income Statement, the Statement of Changes in Equity and Cash Flow Statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 167 to 285.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and Group as of 31 December 2006, and of the financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Ernst + Young Registered Auditors Inc.

Ernst & Young Registered Auditors Inc.
Registered Auditor

Cape Town
7 March 2007

Directors' Report for the year ended 31 December 2006

Nature of business

The Sanlam group is one of the largest established financial services groups in South Africa. Its core activities are set out elsewhere in the annual report.

Sanlam Limited is a public company incorporated in terms of the Companies Act, No 61 of 1973, as amended, in South Africa and listed on the JSE Limited and the Namibian Stock Exchange.

Corporate governance

The board of Sanlam endorses the Code of Corporate Practice and Conduct recommended in the King II Report on Corporate Governance. Disclosures with regard to compliance with the Code are provided in the Corporate Governance Report.

Group results

Headline earnings increased from R5 813 million (229,8 cents per share) in 2005 to R6 838 million (304,9 cents per share) in 2006. Further details regarding the Group's results are included in the Financial Review and the business reviews. The information in the Financial Review and Corporate Governance Report, requiring disclosure in the Directors' Report in terms of the Companies Act, has been audited.

The holding company's interest in the after-tax profit of the Group subsidiaries, summarised per cluster, is set out in the Segmental Income Statement on page 248.

Share capital

The change in the issued share capital of the company during the financial year relates to the cancellation of issued shares acquired in terms of the Group's capital management programme. Details of the change are provided in note 11 to the annual financial statements on page 207.

Dividend

The board has declared a dividend of 77 cents per share (2005: 65 cents), payable on 9 May 2007, to shareholders registered on 26 April 2007.

Subsidiaries

Details of the company's principal subsidiaries are set out on page 264.

Directors' interest in contracts

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

Interest of directors and officers in share capital

Details of the shareholding by directors at the date of this report are provided in the Corporate Governance Report elsewhere in the annual report.

Directors and secretary

Particulars of the directors and company secretary at the date of this report, as well as changes in directorships, are set out elsewhere in the annual report.

Post-balance sheet events

No material facts or circumstances have arisen between the dates of the balance sheet and this report which affect the financial position of the Sanlam Limited group as reflected in these financial statements.

Basis of Presentation and Accounting Policies

Basis of presentation

Introduction

The consolidated financial statements are prepared on the historical-cost basis, as modified by the revaluation of investment properties, investment instruments, derivative assets and liabilities and long-term policy liabilities, in accordance with International Financial Reporting Standards (IFRS) and the Companies Act, No 61 of 1973, as amended, in South Africa. The financial statements are presented in South African rand rounded to the nearest million, unless otherwise stated.

The following new or revised IFRSs and interpretation have effective dates applicable to the Group's 2006 financial year:

- *Amendment to IAS 19: Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures*
- *Amendment to IAS 21: The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation*
- *Amendments to IAS 39: Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions*
- *Amendments to IAS 39: Financial Instruments: Recognition and Measurement – The Fair Value Option*
- *Amendments to IAS 39: Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts – Financial Guarantee Contracts*
- IFRIC 4: *Determining whether an arrangement contains a lease*

The application of these standards and interpretation did not have a significant impact on the Group's reported results and cash flows for the year ended 31 December 2006 and the financial position at 31 December 2006. Disclosure in the notes to the financial statements has been amended in accordance with the requirements of the revised IAS 19 and IAS 39.

The following new or revised IFRSs and interpretations have effective dates applicable to the Group's 2007 financial year (unless otherwise indicated):

- IFRS 7: *Financial Instruments – Disclosures*
- *Amendment to IAS 1: Presentation of Financial Statements – Capital Disclosures*
- IFRS 8: *Operating Segments* (effective 2009 financial year)
- IFRIC 8: *Scope of IFRS 2*
- IFRIC 9: *Reassessment of Embedded Derivatives*
- IFRIC 10: *Interim Financial Reporting and Impairment*
- IFRIC 11: *IFRS 2: Group and Treasury Share Transactions* (effective 2008 financial year)
- IFRIC 12: *Service Concession Arrangements* (effective 2008 financial year)
- AC 503: *Accounting for Black Economic Empowerment (BEE) Transactions*

The Group has not early adopted any of these standards or interpretations. The application of these standards and interpretations in the 2007 financial reporting period is not expected to have a significant impact on the Group's reported results, financial position and cash flows.

A glossary containing explanations of technical terms used in these financial statements is presented on page 300.

The following sections provide additional information in respect of the presentation of selected items in the Group financial statements on pages 190 to 264 and the shareholders' fund information on pages 265 to 285.

Group financial statements

Insurance contracts

The Group elected in the 2005 financial year to disclose only five years of claims experience in its claims development tables, as permitted in the first year in which it adopts IFRS 4: *Insurance Contracts.* The disclosure was extended for an additional year in 2006, and will be extended for an additional year in each succeeding year until the full disclosure requirements have been satisfied.

Use of estimates, assumptions and judgements

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

- The fair value of unlisted investments;
- Deferred taxation;
- The valuation of policy liabilities; and
- Potential claims and contingencies.

Although estimates are based on management's best knowledge and judgement of current facts as at the balance sheet date, the actual outcome may differ from these estimates, possibly significantly. Refer to note 31 for further information on critical estimates and judgements.

Policyholders' and shareholders' activities

The assets, liabilities and activities of the policyholders and shareholders in respect of the life insurance businesses are managed separately and are governed by the valuation bases for policy liabilities and profit entitlement rules, which are determined in accordance with prevailing legislation, IFRS, generally accepted actuarial practice and the stipulations contained in the Sanlam Life demutualisation proposal. The valuation bases in respect of policy liabilities and the profit entitlement of shareholders are set out on pages 184 to 189.

The Group financial statements set out on pages 190 to 264 include the consolidated activities of the policyholders and shareholders. Separate financial information on the activities of the shareholders of the Sanlam group is disclosed on pages 265 to 285. The Statement of Actuarial Values of Assets and Liabilities of the major life insurance businesses of the Group are disclosed on pages 252 to 258.

Cash, deposits and similar securities

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

- Cash, deposits and similar securities included in the asset mix of policyholders' and discretionary shareholders' fund investment portfolios, which are disclosed as investments in the Group balance sheet; and
- Working capital balances that are disclosed as working capital assets, apart from bank overdrafts, which are disclosed as working capital liabilities.

Financial instruments

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

- Note 7: Investments;
- Note 15: Long-term policy liabilities;
- Note 16: Term finance;
- Note 30: Capital and risk management; and
- Note 31: Critical accounting estimates and judgements.

Cash flow statement

The Group cash flow statement includes the activities of both shareholders and policyholders. Cash flows relating to the acquisition or disposal of investments are recognised as cash flow from investing activities.

Segmental information

The Group's segments are based on the dominant source and nature of the Group's risks and returns, which are also reflected in the Group's operational management structure. The primary segmental information is presented for business segments. The segments are life insurance; investment management; capital market activity; short-term insurance; independent financial services and corporate activities. The life insurance segment includes the activities of Sanlam Personal Finance, Sanlam Employee Benefits and Sanlam Developing Markets. The premiums in respect of the majority of individual underwriting business can be rerated. The individual and employee benefits products are therefore subject to similar risks and are accordingly not disclosed as separate segments. Refer to the business reviews on pages 108 to 161 for additional information on these business segments.

The secondary segmental information provides an analysis per geographical area. The geographical segments are identified as segments that are subject to risks and returns that differ from those of segments operating in other economic environments. The segments are Republic of South Africa, Africa and other international.

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

Shareholders' fund information

Introduction

The Group financial statements include the consolidated results and financial position of both the shareholder and policyholder activities. It also does not distinguish between the shareholders' financial services and investment activities, which are separate areas of management focus and an important distinction in evaluating the Sanlam group's financial performance. Information for the shareholders' fund is presented on pages 265 to 285 to provide this additional information.

The basis of presentation and accounting policies in respect of the shareholders' fund information are the same as those set out on pages 168 to 189 apart from the specific items described below.

Basis of consolidation

Sanlam group companies are consolidated in the Sanlam group shareholders' financial statements at net asset value. The policyholders' and outside shareholders' interests in these companies are treated as minority shareholders' interest on consolidation. A separate balance sheet reflecting the investment in these companies, other than Sanlam Life, Merchant Investors, African Life and Channel Life, at fair value, is presented for information purposes. The embedded value of Sanlam Life, Merchant Investors, African Life and Channel Life (including the value of in-force life business) is not reflected in this balance sheet, but shown separately in the Embedded Value Report on pages 288 to 299.

Funds received from clients

Funds received from clients include single and recurring long- and short-term insurance premium income from insurance and investment policy contracts, which are included in the financial statements. It also includes contributions to collective investment schemes, inflows of assets managed and administered on behalf of clients and non-life insurance linked-product contributions, which are not otherwise included 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.

White label fund flows relate to business where the Group is principally providing administrative or life licence services to third party institutions. Due to the nature of white label business, it is characterised by volatility in funds received from clients.

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 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 premiums are regarded as new business.

New business includes the Group's share of new business written by associates and joint ventures where the Group is actively involved in the strategic operational management of the businesses.

Payments to clients

Payments to clients include policy benefits paid in respect of long- and short-term insurance and investment policy contracts, which are included in the financial statements. It also includes withdrawals from collective investment schemes, outflows of assets managed and administered on behalf of clients and non-life insurance linked-product withdrawals, which are not otherwise included 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 transacted at arm's length, are eliminated.

White label fund flows relate to business where the Group is principally providing administrative or life licence services to third party institutions. Due to the nature of white label business it is characterised by volatility in payments to clients.

Payments to clients include the Group's effective share of payments to clients by strategic operational associates and joint ventures.

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 Home Loans, Sanlam Personal Loans, Shriram 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 investments in Peermont, Safair Lease Finance and the Santam group's associates are the main non-operating associates and joint ventures. Dividends received from non-operating associates and joint ventures are included in core earnings. The equity-accounted retained earnings are reflected as equity-accounted earnings.

Core earnings

A Sanlam core earnings figure is presented to provide an indication of "normalised" earnings. Core earnings comprise the net result from financial services and net investment income earned on the shareholders' fund, but exclude abnormal and non-recurring items as well as investment surpluses. Net investment income includes dividends received from non-operating associated companies and joint ventures but excludes the equity-accounted retained earnings.

Segregated funds

Sanlam also manages and administers assets for the account of and at the risk of clients. As these are not the assets of the Sanlam group, they are not recognised in the Sanlam group balance sheet in terms of IFRS, but are disclosed in a note to the shareholders' fund information.

Accounting policies

Introduction

The Sanlam group has identified the accounting policies that are most significant to its business operations and the understanding of its results. The accounting policies that involve the most complex or subjective decisions or assessments are those that relate to insurance liabilities, deferred acquisition costs, the ascertainment of fair values of financial assets, financial liabilities and derivative financial instruments, and the determination of impairment losses. In each case, the determination of these is fundamental to the financial results and position, and requires management to make complex judgements based on information and financial data that may change in future periods. Since these involve the use of assumptions and subjective judgements as to future events and are subject to change, the use of different assumptions or data could produce materially different results.

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

Significant accounting policies

Basis of consolidation

Subsidiaries and consolidated funds are entities (including special-purpose entities) that are controlled by Sanlam Limited or any of its subsidiaries. The Group has control over an entity where it has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether control exists.

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

The results of subsidiaries and consolidated funds are included from the effective dates when control is acquired to the effective dates when the Group ceases to have a controlling interest, using accounting policies uniform to the Group. Intergroup transactions, balances and unrealised profits on intergroup transactions are eliminated. Unrealised losses are also eliminated unless the transaction indicates the impairment of the asset transferred.

The interest of minority shareholders in subsidiaries is stated at the minorities' share of the recognised values of the subsidiaries' assets and liabilities. Net losses attributable to minority shareholders in excess of the minority interest are recognised against the equity attributable to the shareholders of the parent, except to the extent that the minority shareholders are required and capable to contribute additional equity to cover the losses.

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

The Group offers cell captive facilities to clients. Cells are classified as special-purpose entities and are regarded as being controlled by the cell owner. For this reason these cell captive facilities are not consolidated by the Group. In the case of third party cells, the insurer is still the principal to the insurance transaction, although the business is written on behalf of the cell owner. The insurer, however, in substance reinsures this business to the cell as the cell owner remains responsible for the solvency of the cell.

The cell owner's interest liability represents the cell owner's funds withheld by the insurer, similar to an insurance deposit.

Property and equipment

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

Owner-occupied property

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

Goodwill

Goodwill may arise on the acquisition of or change in the shareholding (adjustment) in a subsidiary company or the acquisition of a business. It represents the excess of the cost of an acquisition or adjustment over the Group's share of the fair value of the net identifiable assets of the subsidiary or business at the date of acquisition or adjustment. Goodwill is not amortised. For impairment purposes, the carrying amount of goodwill is allocated to cash-generating units, reviewed bi-annually for impairment and written down where this is considered necessary. Impairment losses in respect of goodwill are recognised in the income statement and are not reversed. Where a number of related businesses acquired in the same business combination are allocated to different Group business divisions, the related goodwill is held on a Group level and the businesses are combined for purposes of determining the recoverable amount of the goodwill. The gain or loss on the disposal of a subsidiary or business includes the carrying amount of goodwill attributable to the entity or business sold.

Goodwill in respect of associates and joint ventures is included in the carrying value of investments in associates and joint ventures.

Value of insurance and investment business acquired

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

VOBA is amortised on a straight-line basis over the expected life of the client relationships underlying the book of in-force business acquired. VOBA is tested for impairment on a bi-annual basis and written down for impairment where this is considered necessary. The gain or loss on the disposal of a subsidiary or business includes the carrying amount of VOBA attributable to the entity or business sold. VOBA is derecognised when the related contracts are settled or disposed of.

Other intangible assets

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

Costs associated with software development for internal use are capitalised if the completion of the software development is technically feasible, the Group has the intent and ability to complete the development and use the asset, the asset can be reliably measured and will generate future economic benefits. The assets are reflected at their depreciated cost prices less provisions for impairment in value, where appropriate. Depreciation is provided for on a straight-line basis, taking into account the residual value and estimated useful lives of the assets. The residual values, estimated useful lives of the assets and depreciation methods are reviewed at each balance sheet date and adjusted as appropriate.

Deferred acquisition costs

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

Long-term reinsurance contracts

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

Financial instruments

Financial instruments carried on the balance sheet include investments (excluding investment properties, associates and joint ventures), receivables, cash, deposits and similar securities, investment policy contracts, term finance liabilities, liabilities in respect of external investors in consolidated funds and trade creditors.

Recognition and derecognition

Financial instruments are recognised when the Group becomes party to a contractual arrangement that constitutes a financial asset or financial liability for the Group that is not subject to suspensive conditions. Financial assets are derecognised when the contractual rights to receive the cash flows expire or when the asset is transferred. Financial liabilities are derecognised when the obligation to deliver cash or other resources in terms of the contract is discharged, cancelled or expires.

Collateral placed at counterparties as part of the Group's capital market activities are not derecognised. No transfer of ownership takes place in respect of collateral other than cash and any such collateral accepted by counterparties may not be used for any purpose other than being held as security for the trades to which such security relates. In respect of cash security, ownership transfers in law. However, the counterparty has an obligation to refund the same amount of cash, together with interest, if no default has occurred in respect of the trades to which such cash security relates. Cash collateral is accordingly also not derecognised.

Classification

Financial instruments are classified into the following categories:

- Financial assets: At fair value through profit or loss
Loans and receivables
- Financial liabilities: At fair value through profit or loss
Other financial liabilities

The classification of financial instruments is determined at initial recognition based on the purpose for which the financial assets are acquired or liabilities assumed. Financial instruments classified as at fair value through profit or loss comprise of held-for-trading assets and liabilities as well as financial instruments designated as at fair value through profit or loss. All non-trading financial instruments are designated as at fair value through profit or loss apart from:

- Working capital receivables that are classified as loans and receivables based on their short-term nature;
- Financial assets acquired as part of interest margin business to match specific financial liabilities, which are classified as loans and receivables;
- Term finance liabilities incurred as part of interest margin business and matched by specific financial assets, which are classified as other financial liabilities; and
- Working capital payables that are classified as other financial liabilities based on their short-term nature.

The Group designates financial instruments as at fair value through profit or loss in line with its risk management policies and procedures that are based on the management of the Group's capital and activities on a fair value basis, apart from the exceptions outlined above. The Group's internal management reporting basis is consistent with the classification of its financial instruments.

Initial measurement

Financial instruments at fair value through profit or loss are initially recognised at fair value. Costs directly attributable to the acquisition of financial assets classified as at fair value through profit or loss are recognised in the income statement as investment surpluses. Other financial instruments are recognised at the fair value of the consideration given or received in exchange for the instrument plus transaction costs that are directly attributable to their acquisition. Regular way investment transactions are recognised by using trade date accounting.

Subsequent measurement and impairment

Financial instruments classified as at fair value through profit or loss are carried at fair value after initial recognition, with changes in fair value recognised in the income statement as investment surpluses. The particular valuation methods adopted are disclosed in the individual policy statements associated with each item.

Loans and receivables and other financial liabilities are carried at amortised cost using the effective-interest rate method.

The carrying values of all loans and receivables are reviewed for impairment bi-annually. A financial asset is deemed to be impaired when there is objective evidence of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the asset's estimated future cash flows, and is recognised in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can objectively be attributed to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement, to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Investments

Investment properties

Investment properties comprise properties held to earn rental income and/or for capital appreciation. Investment properties that generate income are carried at fair value based on valuations by valuators internally employed by the Sanlam group, less the cumulative straight-line rental adjustment (refer to the accounting policy for investment income). The valuators have appropriate qualifications and extensive experience in property valuations. Fair value is determined by discounting expected future cash flows at appropriate market interest rates. Valuations are carried out on a monthly basis. Investment property under development is valued at cost less provision for impairment in value, where appropriate. Changes in the fair value of investment properties are recognised in the income statement as investment surpluses.

When investment properties become owner-occupied, the Sanlam group reclassifies it to owner-occupied properties at a deemed cost equal to the fair value of the investment properties at the date of reclassification. When owner-occupied properties become investment properties, they are reclassified to investment properties at a deemed cost equal to the fair value of the properties at the date of reclassification. The difference between the carrying value and fair value of the properties at the date of reclassification to investment properties is recognised directly in equity as a revaluation surplus.

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

Associates

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

Investments in associates, other than those held by investment-linked life insurance funds, are initially recognised at cost. The results of these associated companies after initial recognition are accounted for using the equity method of accounting, whereby the Group's share of associates' post-acquisition profit or loss is recognised in the Group income statement as equity-accounted earnings, and the Group's share of associates' post-acquisition movement in reserves is recognised in reserves, with a corresponding adjustment to the carrying value of investments in associates. Net losses are only recognised to the extent of the net investment in an associate, unless the Group has incurred obligations or made payments on behalf of the associate. Equity-accounted earnings are based on accounting policies uniform to those of the Group. The carrying value of the investment in an associate includes goodwill, net of accumulated impairment losses, and is reviewed bi-annually for impairment and written down where this is considered necessary.

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

Investments in associates for which significant influence is intended to be temporary, because the investments have been acquired and held exclusively with a view to their subsequent disposal, are accounted for as non-current assets held for sale.

Joint ventures

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

The results of joint ventures, other than those held by investment-linked life insurance funds, are accounted for using the equity method of accounting, whereby the Group's share of the joint ventures' profit or loss is recognised in the Group income statement as equity-accounted earnings, and the Group's share of joint ventures' post-acquisition movement in reserves is recognised in reserves, with a corresponding adjustment to the carrying value of investments in joint ventures. The carrying value of the investment in a joint venture is reviewed bi-annually for impairment and written down where this is considered necessary.

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

Other investments

Other investments comprise:

- Equities and similar securities (including non-trading derivatives);
- Public sector stocks and loans;
- Debentures, insurance policies, preference shares and other loans; and
- Cash, deposits and similar securities.

These investments are either classified as at fair value through profit or loss (measured at fair value), or as loans and receivables (measured at amortised cost), as described in the financial instruments accounting policy note. Loans of investment scrip are not treated as sales and purchases.

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

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

Derivative instruments

Derivative financial instruments include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency, interest rate and equity options and other derivative financial instruments that are measured at fair value.

Fair values are obtained from quoted market prices. In the absence of quoted market prices the Group uses valuation techniques that incorporate all factors that market participants would consider in setting the price and are consistent with accepted economic methodologies for pricing derivatives such as discounted cash flow models and option pricing models, as appropriate. The Group calibrates its valuation techniques against market transactions or any available observable market data. Gains or losses on derivatives measured using these valuation techniques are recognised in the income statement to the extent that they arise from a technique that incorporates only variables based on observable market data and there has been a change in one of these variables (including time).

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

Derivatives are used for trading purposes by Sanlam Capital Markets and for non-trading purposes by other Group businesses. The fair values related to trading derivatives are included in trade and other receivables (refer to policy note below), and the fair values of non-trading derivatives are included in equities and similar securities. Non-trading transactions are those which are held for economic hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions or cash flows measured at fair value, as well as structures incorporated in the product design of policyholder products. The hedge accounting treatment prescribed by IAS 39: *Financial Instruments: Recognition and Measurement* is not applied. Although the nature of these derivatives is non-trading from a management perspective, IAS 39 requires all derivatives to be classified as held for trading for accounting purposes.

Cash, deposits and similar securities

Cash, deposits and similar securities consist of cash at hand, call deposits at banks, negotiable certificates of deposit and other short-term highly liquid investments.

Short-term insurance technical provisions and assets

Outstanding claims

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

Unearned premiums

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

Short-term insurance technical assets

The benefits to which the Group is entitled under its short-term reinsurance contracts are recognised as short-term insurance technical assets. These assets represent longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

In certain cases a reinsurance contract is entered into retrospectively to reinsure a notified claim under the Group's property insurance contracts. Where the premium due to the reinsurer differs from the liability established by the Group for the related claim, the difference is amortised over the estimated remaining settlement period.

Commissions and other incremental acquisition costs related to securing new contracts and renewing existing contracts are capitalised to deferred acquisition cost assets and amortised to the income statement over the period in which the related premiums are earned. All other costs are recognised as expenses when incurred.

The Group assesses its short-term insurance technical assets for impairment on a bi-annual basis. If there is objective evidence that an asset is impaired, the Group reduces the carrying amount of the asset to its recoverable amount and recognises the impairment loss in the income statement.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (salvage). The Group may also have the right to pursue third parties for payment of some or all costs (subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

Trade and other receivables

Trade and other receivables are measured at amortised cost (being settlement value less provision for impairment), apart from trading account and money market investments.

Trading account and money market investments relate to derivative transactions undertaken by Sanlam Capital Markets for market making, to service customer needs, for proprietary purposes, as well as any related economic hedging transactions. These transactions are marked-to-market (fair values) after initial recognition and any profits or losses arising are recognised in the income statement as financial services income. The fair values related to such contracts and commitments are determined on the same basis as described for non-trading derivatives in the policy note for derivative instruments and are reported on a gross basis in the balance sheet as positive and negative replacement values to the extent that set-off is not required by IAS 32 *Financial Instruments: Disclosure and Presentation.*

Other financial liabilities

Other financial liabilities include:

- Term finance liabilities incurred as part of interest margin business and matched by specific financial assets measured at amortised cost;
- Other term finance liabilities measured at stock exchange prices or amortised cost as applicable;
- Insurance contract liabilities measured according to the bases disclosed in the section on Policy Liabilities and Profit Entitlement;

- Investment contract liabilities measured at fair value, determined on the bases as disclosed in the section on Policy Liabilities and Profit Entitlement; and
- External investors in consolidated funds measured at the attributable net asset value of the respective funds.

Trade and other payables

Trade and other payables are measured at amortised cost, apart from trading account and money market liabilities that are measured at fair value (refer to the description on the measurement of trading account and money market assets in the accounting policy note for trade and other receivables, which also applies to trading account and money market liabilities).

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions for onerous contracts are recognised when the expected benefits to be derived from contracts are less than the unavoidable cost of meeting the obligations under the contracts. Provisions are measured at the present value of the amounts that are expected to be paid to settle the obligations.

Share capital

Share capital is classified as equity where the Group has no obligation to deliver cash or other assets to shareholders. Preference shares issued by the Group that are redeemable or subject to fixed dividend payment terms are classified as term finance liabilities. Dividends paid in respect of term finance are recognised in the income statement as a term finance expense.

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

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

Non-distributable reserve

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

Foreign currency translation reserve

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

Consolidation reserve

A consolidation reserve is created for differences in the valuation bases of long-term policy liabilities and investments supporting those liabilities. Certain assets held in policyholder portfolios may not be recognised at fair value in terms of IFRS, whereas the valuation of the related policy liabilities are based on the assets at fair value. This creates a mismatch with a corresponding impact on the shareholders' fund. A separate reserve is created for these valuation differences due to the fact that they represent accounting differences and not economic losses for the shareholders' fund. Valuation differences arise from the following:

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

The reserve represents temporary differences insofar as the mismatch is reversed when the affected investments are realised.

Financial services income

Financial services income includes:

- Income earned from long-term insurance activities, such as investment and administration fees, risk underwriting charges and asset mismatch profits or losses in respect of non-participating business;
- Income from short-term insurance business, such as short-term insurance premiums;
- Income from investment management activities, such as fund management fees and collective investment and linked-product administration fees;
- Income from capital market activities, such as realised and unrealised gains or losses on trading accounts, unsecured corporate bonds and money market assets and liabilities, other securities-related income and fees, and commissions; and
- Income from other financial services, such as independent financial advice and trust services.

Fees for investment management services

Fees for investment management services in respect of investment contracts are recognised as services are rendered. Initial fees that relate to the future rendering of services are deferred and recognised as those future services are rendered.

Fee income – long-term policy contracts

Investment and insurance contract policyholders are charged for policy administration, risk underwriting and other services. These fees are recognised as revenue on an accrual basis as the related services are rendered.

Short-term insurance premiums

Short-term insurance premiums are accounted for when receivable, net after a provision for unearned premiums relating to risk periods that extend to the following year. Premiums outstanding for more than sixty days are not included in income. Inward short-term reinsurance agreement premiums are accounted for on an intimated basis.

Consulting fees earned

Consulting fees are earned for advice and other services provided to clients of the Group's financial advisory businesses. Fees are accounted for on an accrual basis as the related services are rendered.

Investment return

Investment income

Interest income is accounted for on a time proportionate basis that takes into account the effective yield on the asset and includes the net income earned from interest margin business.

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

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

Investment surpluses

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

Premium income – long-term policy contracts

Premium income from long-term insurance and investment policy contracts is recognised as an increase in long-term policy liabilities.

The full annual premiums on individual insurance and investment policy contracts that are receivable in terms of the policy contracts are accounted for on policy anniversary dates, notwithstanding that premiums are payable in instalments. The monthly premiums in respect of certain new products are in terms of their policy contracts accounted for when due.

Group life insurance and investment contract premiums are accounted for when receivable. Where premiums are not determined in advance, they are accounted for upon receipt.

The unearned portion of accrued premiums is included within long-term policy liabilities.

Policy contract benefits

Underwriting benefits

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

Underwriting policy benefits in respect of long-term insurance business include the change in the corresponding actuarial liabilities.

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

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

Other policy benefits

Other policy benefits are not recognised in the Group income statement but reflected as a reduction in long-term policy liabilities.

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

Sales remuneration

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

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

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

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

Administration costs

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

Leases

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

Borrowing costs

Borrowing costs are recognised as an expense in the income statement on an accrual basis.

Taxation

Normal income tax

Current income tax is provided in respect of taxable income based on currently enacted tax legislation.

Deferred income tax

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

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

The amount of deferred income tax provided is based on the expected realisation or settlement of the deferred tax assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets relating to unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax balances are reflected at current values and have not been discounted.

Foreign currencies

Transactions and balances

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

Foreign operations

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

Retirement benefits

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

The Group's contributions to the defined-contribution and defined-benefit funds are charged to the income statement in the year in which they are incurred. A valuation in accordance with IAS 19: *Employee Benefits* is performed on the balance sheet date. For the purpose of calculating pensions, medical contributions are deemed to be a part of pensionable salary. Retirement fund contributions are made on the pensionable salary. Therefore, pensioners fund post-retirement medical contributions themselves from their increased pensions. The Group has provided in full for its medical contribution commitments in respect of pensioners and disabled members who are not covered under the current scheme.

Defined-benefit plans

The schemes are valued using the valuation basis for past-service cost. Any deficits advised by the actuaries are funded either immediately or through increased contributions to ensure the ongoing soundness of the schemes. Contributions are expensed during the year in which they are funded. The net surplus or deficit in the benefit obligation is the difference between the present value of the funded obligation and the fair value of plan assets. The Group recognises the estimated liability using the projected unit credit method. The present value of the overfunded portion of these schemes is recognised as an asset to the extent that there are material benefits available in the form of refunds and reductions in contributions. The amount of actuarial gains and losses recognised in the income statement is equal to the amount that the cumulative actuarial gains and losses at the end of the previous reporting period exceed the greater of 10% of the present value of the defined obligation or 10% of the fair value of the plan assets, amortised over the employees' average working life.

Defined-contribution plans

Group contributions to the pension and provident funds are based on a percentage of the payroll and are charged against income as incurred.

Medical aid benefits

Group contributions to medical aid funds are charged to the income statement in the year in which they are incurred.

Post-retirement medical aid benefits

The present value of the post-retirement medical aid obligation is actuarially determined annually and any deficit or surplus is immediately recognised in the income statement. The Group recognises the estimated liability using the projected unit credit method. The Group has no significant exposure to any other post-retirement benefit obligation.

Contingencies

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

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

Equity compensation plans

Sanlam operates a staff share incentive scheme through Sanlam Limited Share Incentive Trust. Shares are offered on a combined option and deferred delivery basis, which staff can take up in tranches over a period of up to seven years, provided that they remain in the employment of the Group. The beneficiaries under the scheme are executive directors, management and sales advisors employed on a full-time basis.

The fair value of equity instruments granted is measured on grant date using option-pricing models. The models are consistent with those used for pricing financial instruments and incorporate all factors and assumptions that market participants would consider in determining a willing buyer/seller price. The fair value on grant date is recognised in the income statement on a straight-line basis over the vesting period of the equity instruments (adjusted to reflect actual levels of vesting), with a corresponding increase in equity.

The Sanlam Limited Share Incentive Trust is consolidated in the Group financial statements.

Long-term incentive plan

The Sanlam share incentive scheme (refer to accounting policy note on Equity compensation plans) has been replaced with a long-term incentive bonus scheme. In terms of the scheme, employees are paid bonuses that vest over a period of between three and five years. The beneficiaries under the scheme, which include executive directors, management and sales advisors employed on a full-time basis, are not entitled to the benefits under the scheme before the vesting dates. The cost associated with the bonuses are recognised in the income statement over the vesting period.

Dividends

Dividends proposed or declared after the balance sheet date are not recognised at the balance sheet date.

Policy liabilities and profit entitlement

Introduction

The valuation bases and methodology used to calculate the policy liabilities of all material lines of long-term insurance business and the corresponding shareholder profit entitlement for Sanlam Life are set out below. The same valuation methodology, where applicable, is applied to value the policy liabilities of African Life and the Namibian insurance companies, as well as investment contracts issued by Merchant Investors and the Channel Life group of companies, unless otherwise stated. The valuation methodology in respect of insurance contracts issued by Channel Life and its subsidiaries and Merchant Investors is not presented in view of their relatively small contribution to earnings and the relative small size of their insurance contract liabilities.

The valuation bases and methodology, which complies with South African actuarial guidelines and requires minimum liabilities to be held based on a prospective calculation of policy liabilities, serves as a liability adequacy test. No adjustment is required to the value of the liabilities at 31 December 2006 as a result of the aforementioned adequacy test.

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

The methodology has been applied for purposes of the Group financial statements and the changes to determine the prudential regulatory results in terms of the requirements of the Long-term Insurance Act of 1998, as amended (LTIA), are presented at the end of this section.

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

Classification of contracts

A distinction is made between investment contracts without discretionary participation features (DPF) (which fall within the scope of IAS 39 *Financial Instruments: Recognition and Measurement)*, investment contracts with DPF and insurance contracts (where the Financial Soundness Valuation (FSV) method continues to apply, subject to certain requirements specified in IFRS 4 *Insurance Contracts)*.

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

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

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

An investment contract with DPF entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. These additional benefits have the following features:

- The benefits constitute a significant portion of each policy's total benefits;
- The timing and amount of the benefits are at the discretion of the Sanlam group; and
- The benefits are based on the investment performance of a specified pool of underlying assets.

All investment contracts that fall within the scope of IAS 39 (i.e. all investment contracts without DPF) are designated as at fair value through profit or loss.

Insurance contracts and investment contracts with DPF

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

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

The value of policy liabilities at 31 December 2006 exceeds the minimum requirements in terms of the LTIA, PGN 104 and PGN 110.

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

Best estimate of future experience

The best estimate of future experience is determined as follows:

- Future investment return assumptions are derived from market yields of fixed-interest securities on the valuation date, with adjustments for the other asset classes. The appropriate asset composition of the various asset portfolios, investment management expenses, taxation at current tax rates and charges for investment guarantees are taken into account.

  For some of the Group's African operations, where long-term fixed-interest markets are underdeveloped, investment return assumptions are based on an assessment of longer-term economic conditions. The future investment returns for Namibian businesses are based on the market yields of South African fixed-interest securities on the valuation date.

  Refer to note 8 on page 256 for investment return assumptions per asset class.
- Unit expenses are based on the 2006 actual expenses and escalated at estimated expense inflation rates per annum. The allocation of initial and renewal expenses is based on functional cost analyses.
- Assumptions with regard to future mortality, disability and disability payment termination rates are consistent with Sanlam's recent experience or expected future experience if this would result in a higher liability. In particular, mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of Aids and for expected improvements in mortality rates in the case of annuity business.
- Persistency assumptions with regard to surrender and lapse rates are consistent with Sanlam's recent experience or expected future experience if this would result in a higher liability.

Asset portfolios

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

Unrecouped expenses

The timing of fees recovered from some individual life policies do not correspond to the timing of the expenses incurred in respect of the policies. For certain of these policies an unrecouped expense account is created and included in the valuation of the policy liabilities. The unrecouped expense account is increased with expenses incurred and reduced by an allocation of policy charges. Policy charges are designed to ensure that on average the unrecouped expense account is redeemed over the lifetime of the related policies. Unrecouped expenses are derecognised when the related contracts are settled or disposed of.

Bonus stabilisation reserves

Nearly all of Sanlam Life's individual and Group stabilised bonus portfolios are valued on a retrospective basis. If the fair value of the assets in such a portfolio is greater than the policyholders' investment accounts (net premiums invested plus declared bonuses), a positive bonus stabilisation reserve is created, which will be used to enhance future bonuses. Conversely, if assets are less than the investment accounts, a negative bonus stabilisation reserve is created. A negative bonus stabilisation reserve will be limited to the amount that the Statutory Actuary expects will be recovered through the declaration of lower bonuses during the ensuing three years, if investment returns are in line with long-term assumptions. Negative bonus stabilisation reserves in excess of 7,5% of the investment accounts are specifically disclosed. Bonus stabilisation reserves are included in long-term policy liabilities.

Provision for future bonuses

Provision was made for future bonuses so that each asset portfolio, less charges for expenses (including investment guarantee charges) and profit loadings, for each line of business would be fully utilised for the benefit of the policyholders of that portfolio. As all the portfolios had positive bonus stabilisation reserves, the provision for future bonuses for these portfolios exceeded the expected long-term after-tax investment returns less expense recoveries.

Reversionary bonus business

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

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

Individual stable bonus, linked and market-related business

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

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

An exception to the above relates to policy liabilities in respect of African Life's individual Universal Life business (including stable bonus and market-linked business), which are valued prospectively. Negative values are not allowed for in respect of any of these policies.

Group stable bonus business

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

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

Participating annuity business

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

Non-participating annuity business

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

Other non-participating business

Other non-participating business forms less than 5% of the total liabilities. Most of the other non-participating business liabilities are valued on a retrospective basis. The remainder is valued prospectively and contains discretionary margins via either an explicit interest rate deduction of approximately 2% on average or by not allowing policies with negative reserves.

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

Provision for HIV/Aids and other pandemics

A specific provision for HIV/Aids-related claims is maintained and included as follows:

- Within "Other non-participating business" (refer above) in respect of Sanlam Life; and
- Within the related prospective reserves in respect of African Life.

A prospective calculation according to the relevant guidelines is performed for Sanlam Life's non-participating individual policies and for those with a small savings element. The provision for Sanlam Life's other individual policies (71% of Sanlam Life's total HIV/Aids provision for individual policies) is built up by increasing the opening provision by the HIV/Aids risk premiums and investment returns on the underlying assets. It is then reduced by claims attributed to HIV/Aids and further limited to a maximum of the prospective calculation without allowance for future increases in HIV/Aids risk premiums. This retrospectively built-up provision is higher than a prospective calculation done according to the relevant guidelines allowing for possible increases in future HIV/Aids risk premiums. This difference can be regarded as a discretionary margin. It is the intention to rerate premiums as experience develops.

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

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

Provision for minimum investment return guarantees

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

Working capital

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

Reinsurance

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

Investment contracts (other than with DPF)

Contracts with investment management services

The liabilities for individual and group contracts are set equal to the retrospectively accumulated fair value of the underlying assets. No deduction is made for unrecouped expenses. The profits or losses that accrue to shareholders are equal to fees received during the period concerned plus the movement in the DAC asset less expenses incurred.

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

Non-participating annuity business

Term annuity instalments and expected future expenses in respect of these instalments are discounted at market-related interest rates. All profits or losses accrue to the shareholders when incurred.

Guaranteed plans

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

Prudential regulatory results

The valuation of assets and policy liabilities for prudential regulatory purposes is generally in line with the methodology for the published results. Some adjustments are however required, as set out below.

Reinsurance

Policy liabilities are valued net of reinsurance and the reinsurance asset is eliminated.

Investment contracts with investment management services

The liabilities are set equal to the retrospectively accumulated fair value of the underlying assets less unrecouped expenses (set equal to the DAC asset) in the case of individual business. These retrospective liabilities are higher than the prospective liabilities calculated as the present value of expected future benefits and expenses less future premiums at the relevant discount rates.

The DAC asset is eliminated.

Group undertakings and inadmissible assets

The value of assets is reduced by taking into account the prescribed valuation bases for Group undertakings and to eliminate inadmissible assets (as defined in the LTIA).

Capital adequacy requirements

The excess of assets over liabilities of life insurance operations on the prudential regulatory basis should be sufficient to cover the capital adequacy requirements in terms of the LTIA, PGN 104 and PGN 110. The capital adequacy requirements provide a buffer against experience worse than that assumed in the valuation of assets and liabilities.

On the valuation date the ordinary capital adequacy requirements were used as they exceeded the termination and minimum capital adequacy requirements, apart from African Life and Channel Life where termination capital adequacy requirements applied.

The largest element of the capital adequacy requirements relates to stabilised bonus business. Consistent with an assumed fall in the fair value of the assets (the "resilience scenario"), which is prescribed in the actuarial guidance notes, the calculation of the capital adequacy requirements takes into account a reduction in non-vesting bonuses and future bonus rates and for the capitalisation of some expected future profits (resulting from discretionary margins in the valuation basis and held as part of the liabilities). The resilience scenario assumes that:

- Equity values decline by 30%;
- Property values decline by 15%;
- Fixed interest yields and inflation-linked real yields increase or decrease by 25% of the nominal or real yields (whichever gives the worst result); and
- Assets denominated in foreign currencies decline by at least 20% on the valuation date and do not subsequently recover within the short-term.

Sanlam Group Balance Sheet at 31 December 2006

	Note	2006 R million	2005 R million
Assets			
Property and equipment	1	**259**	249
Owner-occupied properties	2	**530**	492
Goodwill	3	**2 163**	2 174
Value of business acquired	4	**977**	982
Deferred acquisition costs	5	**1 397**	1 155
Long-term reinsurance assets	6	**427**	389
Investments	7	**280 627**	232 851
Properties	7.1	**14 602**	12 748
Investment properties		**13 659**	11 646
Straight-line rental adjustment		**943**	1 102
Equity-accounted investments	7.2	**3 417**	1 037
Equities and similar securities	7.3	**141 456**	120 763
Public sector stocks and loans	7.4	**53 921**	47 998
Debentures, insurance policies, preference shares and other loans	7.4	**31 743**	21 173
Cash, deposits and similar securities	7.4	**35 488**	29 132
Deferred tax	8	**549**	372
Short-term insurance technical assets	9	**2 288**	2 372
Working capital assets		**46 265**	35 716
Trade and other receivables	10	**37 103**	27 427
Cash, deposits and similar securities		**9 162**	8 289
Total assets		**335 482**	276 752
Equity and liabilities			
Capital and reserves			
Share capital and premium	11	**955**	956
Treasury shares		**(377)**	(639)
Other reserves	12	**7 953**	7 517
Retained earnings		**20 590**	17 186
Shareholders' fund		**29 121**	25 020
Minority shareholders' interest	14	**3 934**	3 443
Total equity		**33 055**	28 463
Long-term policy liabilities	15	**237 864**	198 234
Insurance contracts		**125 517**	109 591
Investment contracts		**112 347**	88 643
Term finance	16	**5 760**	2 879
Interest-bearing liabilities matched by assets		**3 689**	2 835
Other interest-bearing liabilities		**2 071**	44
External investors in consolidated funds		**8 010**	6 030
Cell owners' interest		**329**	268
Deferred tax	8	**1 929**	1 623
Short-term insurance technical provisions	9	**7 752**	6 702
Working capital liabilities		**40 783**	32 553
Trade and other payables	17	**37 801**	30 071
Provisions	18	**996**	886
Taxation		**1 986**	1 596
Total equity and liabilities		**335 482**	276 752

Sanlam Group Income Statement for the year ended 31 December 2006

	Note	2006 R million	2005 R million
Net income		**69 960**	63 307
Financial services income	19	**24 221**	20 393
Reinsurance premiums paid	20	**(2 432)**	(2 339)
Reinsurance commission received	21	**383**	445
Investment income	22	**12 022**	10 722
Investment surpluses	22	**37 903**	35 282
Finance cost – margin business	26	**(223)**	(293)
Change in fair value of external investors' liability		**(1 914)**	(903)
Net insurance and investment contract benefits and claims		**(50 072)**	(41 440)
Long-term insurance contract benefits	23	**(24 658)**	(21 070)
Long-term investment contract benefits	23	**(18 614)**	(14 094)
Enhanced early termination benefits	23	**—**	(620)
Short-term insurance claims		**(8 086)**	(6 904)
Reinsurance claims received	21	**1 286**	1 248
Expenses		**(8 956)**	(7 769)
Sales remuneration		**(3 300)**	(2 632)
Administration costs	24	**(5 656)**	(5 137)
Impairment of investments and goodwill	3	**(30)**	(12)
Amortisation of value of business acquired	4	**(45)**	—
Net operating result		**10 857**	14 086
Equity-accounted earnings	25	**423**	944
Finance cost – other	26	**(114)**	(136)
Profit before tax		**11 166**	14 894
Taxation	27	**(3 070)**	(2 803)
Shareholders' fund		**(1 894)**	(1 684)
Policyholders' fund		**(1 176)**	(1 119)
Profit for the year		**8 096**	12 091
Attributable to:			
Shareholders' fund		**6 945**	10 927
Minority shareholders' interest		**1 151**	1 164
		8 096	12 091
Earnings attributable to shareholders of the company (cents):			
Profit for the year:			
Basic earnings per share	28	**315,2**	439,2
Diluted earnings per share	28	**309,6**	432,0

Sanlam Group Statement of Changes in Equity for the year ended 31 December 2006

R million	Share capital	Share premium	Treasury shares	Non-distributable reserve
Balance at 1 January 2005	29	4 331	(486)	9 415
Total recognised income	—	—	—	—
Profit for the year	—	—	—	—
Equity-accounted movement in associated companies' reserves	—	—	—	—
Movement in foreign currency translation reserve	—	—	—	—
Net realised investment surpluses on treasury shares	—	—	—	—
Share-based payments	—	—	—	—
Transfer to non-distributable reserve	—	—	—	124
Transfer (from)/to consolidation reserve	—	—	—	—
Dividends paid[1]	—	—	—	—
Acquisitions, disposals and other movements in minority interests	—	—	—	—
Treasury shares acquired through business combinations	—	—	—	—
Shares cancelled	(4)	(3 400)	—	—
Cost of net treasury shares sold[2]	—	—	(153)	—
Balance at 31 December 2005	25	931	(639)	9 539
Total recognised income	—	—	—	—
Profit for the year	—	—	—	—
Movement in foreign currency translation reserve	—	—	—	—
Net realised investment surpluses on treasury shares	—	—	—	—
Share-based payments	—	—	—	—
Transfer to non-distributable reserve	—	—	—	46
Transfer (from)/to consolidation reserve	—	—	—	—
Dividends paid[1]	—	—	—	—
Acquisitions, disposals and other movements in minority interests	—	—	—	—
Shares cancelled	(1)	—	—	—
Cost of net treasury shares sold[2]	—	—	262	—
Balance at 31 December 2006	24	931	(377)	9 585

[1] *Dividend of 65 cents per share declared during 2006 (2005: 50 cents per share) in respect of the 2005 financial year.*

[2] *Comprises movement in cost of shares held by subsidiaries and the share incentive trust.*

Foreign currency translation reserve	Retained earnings	Subtotal: equity holders	Consolidation reserve	Total: equity holders	Minority shareholders' interest	Total equity
(157)	9 373	22 505	(2 820)	19 685	3 515	23 200
66	10 942	11 008	—	11 008	1 163	12 171
—	10 927	10 927	—	10 927	1 164	12 091
—	15	15	—	15	—	15
66	—	66	—	66	(1)	65
—	25	25	—	25	—	25
—	64	64	—	64	5	69
—	(124)	—	—	—	—	—
—	(798)	(798)	798	—	—	—
—	(1 295)	(1 295)	—	(1 295)	(788)	(2 083)
—	—	—	—	—	(452)	(452)
—	41	41	(72)	(31)	—	(31)
—	(1 042)	(4 446)	—	(4 446)	—	(4 446)
—	—	(153)	163	10	—	10
(91)	17 186	26 951	(1 931)	25 020	3 443	28 463
318	6 945	7 263	—	7 263	1 257	8 520
—	6 945	6 945	—	6 945	1 151	8 096
318	—	318	—	318	106	424
—	(188)	(188)	—	(188)	—	(188)
—	74	74	—	74	9	83
—	(46)	—	—	—	—	—
—	(271)	(271)	271	—	—	—
—	(1 467)	(1 467)	—	(1 467)	(668)	(2 135)
—	—	—	—	—	(107)	(107)
—	(1 643)	(1 644)	—	(1 644)	—	(1 644)
—	—	262	(199)	63	—	63
227	20 590	30 980	(1 859)	29 121	3 934	33 055

Sanlam Group Cash Flow Statement for the year ended 31 December 2006

	Note	2006 R million	2005 R million
Cash flow from operating activities		**(5 436)**	1 938
Cash utilised in operations	36.1	**(11 754)**	(3 526)
Interest and preference share dividends received		**7 002**	6 084
Interest paid		**(223)**	(429)
Dividends received		**4 158**	3 317
Dividends paid		**(2 123)**	(2 059)
Taxation paid		**(2 496)**	(1 449)
Cash flow from investment activities		**11 704**	13 069
Net disposal of investments		**12 081**	14 864
Acquisition of subsidiaries	36.2	**(480)**	(2 247)
Disposal of subsidiaries	36.3	**103**	452
Cash flow from financing activities		**971**	(6 919)
Shares cancelled		**(1 644)**	(4 446)
Movement in treasury shares		**(125)**	35
Term finance raised		**2 969**	103
Term finance repaid		**(229)**	(2 611)
Net increase in cash and cash equivalents		**7 239**	8 088
Cash, deposits and similar securities at beginning of year		**37 408**	29 320
Cash, deposits and similar securities at end of year	36.4	**44 647**	37 408

	2006 R million	2005 R million
1. Property and equipment		
Computer equipment	**96**	100
Cost	**396**	412
Accumulated depreciation and impairment	**(300)**	(312)
Furniture, equipment, vehicles and other	**163**	149
Cost	**389**	370
Accumulated depreciation and impairment	**(226)**	(221)
Total property and equipment	**259**	249
Reconciliation of carrying amount		
Balance at beginning of year	**249**	184
Additions and expenditure capitalised	**120**	103
Disposals	**(31)**	(12)
Acquired through business combinations	**10**	51
Impairment losses recognised in the income statement	**(1)**	—
Depreciation	**(90)**	(77)
Foreign currency translation differences	**2**	—
Balance at end of year	**259**	249
2. Owner-occupied properties		
Balance at beginning of year	**492**	380
Transfer from investment properties	**67**	—
Additions and expenditure capitalised	**2**	27
Disposals	**(27)**	—
Acquired through business combinations	**2**	85
Impairment losses recognised in the income statement	**(10)**	—
Foreign currency translation differences	**4**	—
Balance at end of year	**530**	492

Register of owner-occupied properties

A register containing details of all owner-occupied properties is available for inspection at the registered office of Sanlam Limited.

	2006 R million	2005 R million
3. Goodwill		
Balance at beginning of year	**2 174**	2 186
Gross carrying amount	**2 244**	2 270
Accumulated impairment	**(70)**	(84)
Additions during the year	**276**	26
Net consideration paid	**704**	40
Fair value of net assets acquired	**(478)**	(19)
Minority shareholders' interest	**50**	5
Acquired through business combinations	**8**	21
Disposals during the year	**(300)**	(47)
Foreign currency translation differences	**5**	(1)
Impairments	**—**	(11)
Balance at end of year	**2 163**	2 174
Gross carrying amount	**2 191**	2 244
Accumulated impairment	**(28)**	(70)

	2006 R million	2005 R million
3. Goodwill *(continued)*		
Allocation of goodwill		
Life insurance	**470**	408
Merchant Investors	**356**	356
African Life	**20**	21
Channel Life	**70**	—
Other	**24**	31
Other Sanlam businesses	**1 693**	1 766
Sanlam Investment Management	**56**	30
International: Investment management	**11**	11
Glacier (formerly Innofin)	**91**	91
Punter Southall Group (formerly Sanlam Financial Services UK)	**—**	300
Sanlam Netherlands Holding	**49**	49
Santam	**281**	80
Other	**7**	7
Goodwill held on Group level	**1 198**	1 198
Balance at end of year	**2 163**	2 174

The additions to goodwill during 2006 arose primarily from the acquisition of Channel Life, Coris and an additional interest in Santam and during 2005 from Safrican Insurance Company and Total Care Strategies. The disposal of goodwill in 2006 relates to the reduction in the Group's interest in the Punter Southall Group to 27%.

	2006 R million	2005 R million
Impairments		
Impairment of investments	**30**	1
Impairment of goodwill	**—**	11
Total impairment of investments and goodwill for the year	**30**	12

Impairment of goodwill

For impairment testing purposes, goodwill is allocated to cash-generating units at the lowest level of operational activity (business) to which it relates. The recoverable amount of goodwill has been determined based on the embedded value of life insurance businesses and the fair value of other businesses, as applicable, less the consolidated net asset value of the respective businesses. Refer to page 293 for an analysis of the embedded value of the life insurance businesses and page 281 for the excess of fair value over net asset value of other Group businesses.

	2006 R million	2005 R million
4. Value of business acquired		
Balance at beginning of year	**982**	—
Additions during the year	**40**	982
Amortisation	**(45)**	—
Balance at end of year	**977**	982
Gross carrying amount	**1 022**	982
Accumulated amortisation and impairment	**(45)**	—

The additions to value of business acquired relate primarily to the acquisition of Channel Life in 2006 and African Life during 2005. The 2005 comparative figures have been restated (refer to note 37.2).

Amortisation and impairment of value of business acquired

Value of business acquired is amortised to the income statement on a straight-line basis over the expected life of the intangible asset, currently 25 years for African Life and 15 years for Channel Life. For impairment testing purposes, the value of business acquired is allocated to cash generating units at the lowest level of operational activity (business) to which it relates. The recoverable amount has been determined based on the embedded value less the consolidated net asset value of the respective life insurance businesses. Refer to page 293 for an analysis of the embedded value of the life insurance businesses.

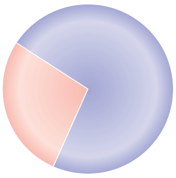
	2006 R million	2005 R million
5. Deferred acquisition costs		
Balance at beginning of year	**1 155**	994
Acquired through business combinations	**1**	—
Credited to income statement	**241**	161
Acquisition costs capitalised	**387**	332
Expensed for the year	**(146)**	(171)
Balance at end of year	**1 397**	1 155

	2006 R million	2005 R million
6. Long-term reinsurance assets		
Balance at beginning of year	**389**	318
Movement in reinsurers' share of insurance liabilities	**36**	32
Acquired through business combinations	**2**	39
Balance at end of year	**427**	389
Maturity analysis of long-term reinsurance assets		
Due within one year	**13**	10
Due within two to five years	**48**	40
Due after more than five years	**366**	339
Total long-term reinsurance assets	**427**	389

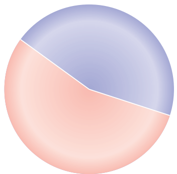
Amounts due from reinsurers in respect of claims incurred by the Group that are reinsured, are included in trade and other receivables (refer to note 10).

7. Investments

CONTRIBUTION TO NET RESULT FROM FINANCIAL SERVICES



CONTRIBUTION TO NEW BUSINESS VOLUMES



	2006 R million	2005 R million
7.1 Properties		
Properties comprise:		
Office buildings	**3 734**	3 714
Retail buildings	**3 982**	3 967
Industrial buildings	**518**	473
Undeveloped land	**83**	277
International properties (situated outside South Africa)	**3 044**	2 155
Listed property companies and property collective investment schemes	**2 762**	1 717
Other	**479**	445
Total properties	**14 602**	12 748
Less: Straight-line rental adjustment	**(943)**	(1 102)
Total investment properties	**13 659**	11 646
Reconciliation of carrying amount of properties		
Fixed properties – balance at beginning of year	**11 031**	10 484
Additions	**715**	589
Disposals	**(1 262)**	(1 344)
Acquired through business combinations	**45**	513
Foreign currency translation differences	**498**	8
Transfers to owner-occupied properties	**(67)**	—
Investment surpluses	**880**	781
Fixed properties – balance at end of year	**11 840**	11 031
Vukile Property Portfolio – balance at beginning of year	**—**	2 966
Properties contributed by Sanlam group	**—**	12
Disposals	**—**	(3 321)
Disposal of majority interest in fund	**—**	(2 764)
Remaining interest transferred to listed property companies and funds	**—**	(557)
Investment surpluses	**—**	343
Vukile Property Portfolio – balance at end of year	**—**	—
Listed property and property collective investment schemes	**2 762**	1 717
Total properties	**14 602**	12 748

	Note	2006 R million	2005 R million
7. Investments *(continued)*			
7.1 Properties *(continued)*			
Reconciliation of straight-line rental adjustment			
Straight-line rental adjustment – balance at beginning of year		**1 102**	1 145
Disposals		**(97)**	(56)
Investment surpluses		**(62)**	13
Straight-line rental adjustment – balance at end of year		**943**	1 102
Contractual future minimum lease payments receivable under non-cancellable operating leases:			
Within one year		**914**	1 032
Within two to five years		**2 288**	3 164
After more than five years		**2 765**	4 070
Future minimum lease payments		**5 967**	8 266
7.2 Equity-accounted investments			
Investments in associated companies	7.2.1	**2 926**	709
Peermont		**335**	316
Punter Southall Group[1]		**176**	—
Sanlam Absolute Return Income Fund		**485**	—
Sanlam Dividend Income Fund		**1 500**	—
Other associated companies		**430**	393
Investments in joint ventures	7.2.2	**491**	328
Safair Lease Finance		**125**	94
Sanlam Personal Loans (formerly Direct Axis)		**47**	32
Sanlam Home Loans		**168**	55
Shriram[2]		**116**	124
Other joint ventures		**35**	23
Total equity-accounted investments		**3 417**	1 037

[1] *Sanlam disposed of 56% of its controlling interest in the Punter Southall Group (formerly Sanlam Financial Services (UK)) during 2006, which resulted in a remaining interest of 27%.*

[2] *The Shriram life insurance joint venture based in India was formed during the latter part of the 2005 financial year. The Group's interest in the net assets of the company was not material at 31 December 2006 and 31 December 2005.*

7. Investments *(continued)*

7.2 Equity-accounted investments *(continued)*

7.2.1 Investments in associated companies

		Peermont 2006	Peermont 2005	Punter Southall Group 2006	Punter Southall Group 2005
Fair value of interest – based on stock exchange price and valuation respectively	R million	**1 073**	784	**209**	—
Number of shares held	000s	**86 527**	87 552	**8 605**	—
Interest in issued share capital	%				
Shareholders' fund		**26**	26	**27**	—
Policyholders' fund		**—**	—	**—**	—
Average interest in issued share capital	%				
Shareholders' fund		**26**	26	**43**	—
Policyholders' fund		**—**	—	**—**	—
Share of earnings after tax	R million				
Shareholders' fund		**64**	59	**25**	—
Policyholders' fund		**—**	—	**—**	—
Distributions received	R million				
Shareholders' fund		**32**	26	**—**	—
Policyholders' fund		**—**	—	**—**	—
Aggregate post-acquisition reserves attributable to shareholders' fund	R million	**335**	303	**25**	—
Financial information as at 31 December – total:					
Revenue	R million	**1 395**	1 121	**673**	—
Earnings attributable to shareholders	R million	**246**	226	**62**	—
Total assets	R million	**2 647**	2 604	**543**	—
Total liabilities	R million	**1 395**	1 436	**387**	—

		Sanlam Dividend Income Fund 2006	Sanlam Dividend Income Fund 2005	Sanlam Absolute Return Income Fund 2006	Sanlam Absolute Return Income Fund 2005
Fair value of interest – based on quoted unit prices	R million	**1 500**	—	**485**	—
Number of units held	000s	**1 500 000**	—	**430 163**	—
Interest in fund	%				
Shareholders' fund		**41**	—	**8**	—
Policyholders' fund		**—**	—	**21**	—
Average interest in fund	%				
Shareholders' fund		**33**	—	**7**	—
Policyholders' fund		**—**	—	**22**	—
Share of fund earnings after tax	R million				
Shareholders' fund		**71**	—	**12**	—
Policyholders' fund		**—**	—	**17**	—
Distributions received	R million				
Shareholders' fund		**71**	—	**8**	—
Policyholders' fund		**—**	—	**12**	—
Financial information as at 31 December – total:					
Revenue	R million	**194**	—	**138**	—
Funds attributable to unit holders	R million	**194**	—	**127**	—
Total assets	R million	**3 642**	—	**1 747**	—
Working capital liabilities	R million	**25**	—	**64**	—
Liabilities to unit holders	R million	**3 617**	—	**1 683**	—

The Group's share of losses incurred by associates, which have not been recognised due to the fact that the carrying values of the associates have already been reduced to zero, amounts to R69 million (2005: Rnil).

7. Investments *(continued)*

7.2 Equity-accounted investments *(continued)*

7.2.2 Investments in joint ventures

	Sanlam Personal Loans[1]		Safair Lease Finance[2]	
	2006 R million	2005 R million	2006 R million	2005 R million
Interest in issued share capital (%)	**70**	70	**50**	50
Carrying value of interest	**47**	32	**125**	94
Fair value of interest	**94**	147	**271**	271
Share of revenue	**101**	62	**111**	211
Share of earnings after tax	**24**	20	**31**	49
Share of expenses	**67**	40	**80**	162
Share of assets	**1 072**	806	**1 235**	1 361
Non-current	**714**	547	**1 170**	1 239
Current	**358**	259	**65**	122
Share of liabilities	**1 015**	785	**878**	1 267
Non-current	**244**	470	**835**	1 180
Interest bearing	**244**	462	**835**	1 180
Non-interest bearing	**—**	8	**—**	—
Current	**771**	315	**43**	87
Interest bearing	**742**	294	**41**	82
Non-interest bearing	**29**	21	**2**	5

	Sanlam Home Loans[3]	
	2006 R million	2005 R million
Interest in issued share capital (%)	**50**	50
Carrying value of interest	**168**	55
Fair value of interest	**168**	60
Share of revenue	**35**	8
Share of earnings after tax	**2**	(7)
Share of expenses	**33**	15
Share of assets	**2 156**	1 040
Non-current	**2 047**	1 013
Current	**109**	27
Share of liabilities	**2 147**	1 030
Non-current	**2 095**	1 016
Interest bearing	**1 929**	959
Non-interest bearing	**166**	57
Current non-interest bearing	**52**	14

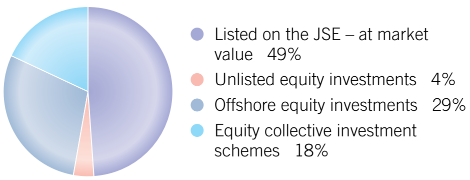
(1) *Sanlam Personal Loans conducts personal loan business in South Africa.*

(2) *Safair Lease Finance provides financing and aircraft leasing facilities to the aviation industry.*

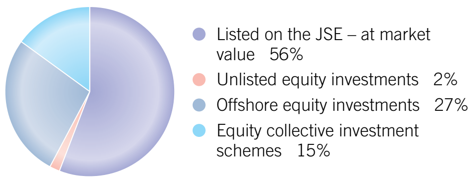
(3) *Sanlam Home Loans conducts the Group's mortgage lending business in South Africa. The carrying value in 2006 includes a shareholders' loan advanced to Sanlam Home Loans, which is considered to be an extension of capital.*

	2006 R million	2005 R million
7. Investments *(continued)*		
7.3 Equities		
Equities and similar securities comprise:		
Listed on the JSE – at market value	**69 592**	68 096
Unlisted – at directors' valuation	**4 597**	2 198
Derivative equity investments	**958**	21
Offshore equity investments	**41 168**	32 895
Listed	**40 669**	32 738
Unlisted	**499**	157
Equity collective investment schemes	**25 141**	17 553
Units held by the Group as minority unit holder	**15 450**	9 947
Equities held by consolidated schemes	**9 691**	7 606
Total equities and similar securities	**141 456**	120 763
Classification of equities and similar securities		
Designated as at fair value through profit or loss	**140 498**	120 705
Held for trading at fair value	**958**	58
Total equities and similar securities	**141 456**	120 763

TOTAL EQUITY INVESTMENTS MIX 2006



TOTAL EQUITY INVESTMENTS MIX 2005



	%	%
Spread of equities listed on the JSE by sector[1]		
Basic materials	**20,4**	22,5
Consumer goods	**10,5**	11,4
Consumer services	**6,4**	11,6
Financials	**22,5**	24,5
General industrials	**12,8**	7,1
Information technology	**1,0**	0,5
Healthcare	**1,6**	0,9
Telecommunications	**10,2**	6,9
Other	**14,6**	14,6
	100	100

[1] *Includes the appropriate underlying investments of listed subsidiaries.*

7. Investments *(continued)*

7.4 Total investments other than equities and similar securities, equity-accounted investments and properties

	Designated as at fair value through profit or loss	Held for trading at fair value	Amortised cost[1]	Total
R million				
31 December 2006				
Public sector stocks and loans	**53 807**	**114**	**—**	**53 921**
Debentures, insurance policies, preference shares and other loans	**28 692**	**944**	**2 107**	**31 743**
Cash, deposits and similar securities	**35 488**	**—**	**—**	**35 488**
	117 987	**1 058**	**2 107**	**121 152**
R million				
31 December 2005				
Public sector stocks and loans	47 998	—	—	47 998
Debentures, insurance policies, preference shares and other loans	18 859	952	1 362	21 173
Cash, deposits and similar securities	29 132	—	—	29 132
	95 989	952	1 362	98 303

[1] *The estimated fair value of investments valued at amortised cost amounts to R2 107 million (2005: R1 362 million).*

Maturity analysis:

	<1 year	1 – 5 years	>5 years	Open ended	Total
R million					
31 December 2006					
Public sector stocks and loans	**6 006**	**10 810**	**28 389**	**8 716**	**53 921**
Debentures, insurance policies, preference shares and other loans	**6 754**	**12 703**	**7 881**	**4 405**	**31 743**
Cash, deposits and similar securities	**27 946**	**2 023**	**1 722**	**3 797**	**35 488**
Total investments other than equities and similar securities, equity-accounted investments and properties	**40 706**	**25 536**	**37 992**	**16 918**	**121 152**
R million					
31 December 2005					
Public sector stocks and loans	6 579	10 081	25 497	5 841	47 998
Debentures, insurance policies, preference shares and other loans	2 619	9 434	6 603	2 517	21 173
Cash, deposits and similar securities	26 254	1 061	1 172	645	29 132
Total investments other than equities and similar securities, equity-accounted investments and properties	35 452	20 576	33 272	9 003	98 303

	2006 R million	2005 R million
7. Investments *(continued)*		
7.4 Total investments other than equities and similar securities, equity-accounted investments and properties *(continued)*		
Listed	**73 682**	57 373
Unlisted	**47 470**	40 930
Total investments other than equities and similar securities, equity-accounted investments and properties	**121 152**	98 303
7.5 Direct offshore investments		
Included in the totals above are the following direct offshore investments:		
Equities and collective investment schemes	**45 005**	35 588
Interest-bearing investments	**9 979**	13 896
Total offshore investments	**54 984**	49 484

Register of investments

A register containing details of all investments, including fixed property investments and the related lease agreements, is available for inspection at the registered office of Sanlam Limited.

Investments encumbered

Public sector stocks and loans of R687 million (2005: R363 million), equities of Rnil (2005: R508 million) and cash deposits of R70 million (2005: R63 million) have been pledged as collateral for the Group's obligations in terms of derivative transactions.

Investment properties of R1 483 million (2005: R371 million) have been pledged as security for the Group's liabilities.

8. Deferred tax

Reconciliation of the deferred tax balances:

	Income tax		Capital gains tax	
	Asset R million	Liability R million	Asset R million	Liability R million
Balance at 1 January 2005	440	(66)	—	(743)
Temporary differences credited/charged to income statement	(98)	(77)	—	(695)
Accruals and provisions	(84)	18	—	5
Tax losses and credits	(2)	—	—	—
Net unrealised investment surpluses on shareholders' fund	—	(99)	—	(498)
Net unrealised investment surpluses on policyholders' fund	—	—	—	(240)
Change in tax rate	(11)	4	—	36
Other temporary differences	(1)	—	—	2
Acquisition of subsidiaries	30	(35)	—	(7)
Balance at 31 December 2005	372	(178)	—	(1 445)
Temporary differences credited/charged to income statement	57	(34)	—	(203)
Accruals and provisions	(43)	10	—	3
Tax losses and credits	61	—	—	—
Net unrealised investment surpluses on shareholders' fund	19	(68)	—	6
Net unrealised investment surpluses on policyholders' fund	—	24	—	(213)
Secondary tax on companies	18	—	—	—
Other temporary differences	2	—	—	1
Acquisition of subsidiaries	119	(64)	1	(3)
Foreign currency translation differences	—	(2)	—	—
Balance at 31 December 2006	**548**	**(278)**	**1**	**(1 651)**

8. **Deferred tax** *(continued)*

	Income tax		Capital gains tax	
	Asset R million	Liability R million	Asset R million	Liability R million
Analysis of the deferred tax balances:				
2006				
Accruals and provisions	**49**	**99**	**—**	**—**
Tax losses and credits	**351**	**—**	**1**	**(3)**
Net unrealised investment surpluses on shareholders' fund	**138**	**(370)**	**—**	**(563)**
Net unrealised investment surpluses on policyholders' fund	**—**	**—**	**—**	**(1 089)**
Other temporary differences	**10**	**(7)**	**—**	**4**
Deferred tax balances at 31 December 2006	**548**	**(278)**	**1**	**(1 651)**
2005				
Accruals and provisions	93	89	—	—
Tax losses and credits	277	—	—	—
Net unrealised investment surpluses on shareholders' fund	—	(248)	—	(570)
Net unrealised investment surpluses on policyholders' fund	—	—	—	(880)
Other temporary differences	2	(19)	—	5
Deferred tax balances at 31 December 2005	372	(178)	—	(1 445)

	2006 R million	2005 R million
Total deferred tax asset	**549**	372
Total deferred tax liability	**(1 929)**	(1 623)
Total net deferred tax	**(1 380)**	(1 251)

The aggregate amount of temporary differences relating to investments in subsidiaries, associated companies and joint ventures, for which deferred tax liabilities have not been recognised, is approximately R7,3 billion (2005: R4 billion).

Deferred tax in respect of investment properties is provided for at capital gains tax rates, where applicable, as it is expected that capital gains tax will be payable on the recovery of the carrying value of the properties. Refer to note 31 for additional information.

9. **Short-term insurance technical provisions**

	2006	2005
Short-term insurance technical provisions	**7 752**	6 702
Outstanding claims	**4 952**	4 218
Provision for unearned premiums	**2 726**	2 375
Deferred reinsurance acquisition revenue	**74**	109
Less: Short-term insurance technical assets	**2 288**	2 372
Reinsurers' share of technical provisions		
Outstanding claims	**1 628**	1 609
Unearned premiums	**449**	583
Deferred acquisition cost	**211**	180
Net short-term insurance technical provisions	**5 464**	4 330

9. Short-term insurance technical provisions *(continued)*

Analysis of movement in short-term insurance technical provisions

R million	2006 Gross	2006 Reinsurance	2006 Net	2005 Gross	2005 Reinsurance	2005 Net
Outstanding claims						
Balance at beginning of year	**4 218**	**(1 609)**	**2 609**	3 174	(1 196)	1 978
Cash paid for claims settled in the year	**(7 211)**	**959**	**(6 252)**	(5 955)	769	(5 186)
Increase in liabilities	**7 736**	**(933)**	**6 803**	6 999	(1 182)	5 817
Foreign currency translation differences	**209**	**(45)**	**164**	—	—	—
Balance at end of year	**4 952**	**(1 628)**	**3 324**	4 218	(1 609)	2 609
Unearned premiums						
Balance at beginning of year	**2 375**	**(583)**	**1 792**	1 909	(637)	1 272
Net increase in the period	**366**	**123**	**489**	466	54	520
Foreign currency translation differences	**(15)**	**11**	**(4)**	—	—	—
Balance at end of year	**2 726**	**(449)**	**2 277**	2 375	(583)	1 792

10. Trade and other receivables

	2006 R million	2005 R million
Premiums receivable	**4 469**	4 506
Accrued investment income	**1 581**	1 136
Trading account and money market investments	**26 156**	17 686
Amounts due from reinsurers	**308**	198
Accounts receivable	**4 589**	3 901
Total trade and other receivables	**37 103**	27 427
Classification of trade and other receivables:		
Held for trading at fair value	**26 156**	17 686
Loans and receivables at amortised cost	**10 947**	9 741
	37 103	27 427

Trading account investments of R7 771 million (2005: R7 294 million) and cash, deposits and similar securities of R456 million (2005: R1 190 million) are pledged as collateral for liabilities of the Group at 31 December 2006.

		2006 R million	2005 R million
11. Share capital and premium			
Authorised share capital			
4 000 million ordinary shares of 1 cent each	R million	**40,0**	40,0
56,5 million 'A' deferred shares of 1 cent each	R million	**0,6**	0,6
56,5 million 'B' deferred shares of 1 cent each	R million	**0,6**	0,6
52 million 'A' preference shares of 1 cent each	R million	**0,5**	0,5
Balance at end of year	R million	**41,7**	41,7
Issued share capital: ordinary shares			
Total shares in issue at beginning of year	million	**2 408,6**	2 767,6
Shares cancelled during the year	million	**(105,0)**	(359,0)
Total shares in issue at end of year	million	**2 303,6**	2 408,6
Shares held by subsidiaries	million	**(120,4)**	(169,7)
Balance at end of year	million	**2 183,2**	2 238,9
% of ordinary shares held by subsidiaries		**5,2%**	7,0%
Issued share capital: 'A' deferred shares			
Total number of 'A' deferred shares in issue	million	**56,5**	56,5
Issued share capital: 'A' preference shares			
Total number of 'A' preference shares in issue	million	**52,0**	52,0
Shares held by subsidiaries	million	**(10,8)**	(5,0)
Balance at end of year	million	**41,2**	47,0
% of 'A' preference shares held by subsidiaries		**20,8%**	9,6%
Nominal value and share premium			
Ordinary shares		**954,1**	955,2
Nominal value of 1 cent per share	R million	**23,0**	24,1
Share premium	R million	**931,1**	931,1
'A' deferred shares	R million	**0,6**	0,6
'A' preference shares	R million	**0,5**	0,5
Total nominal value and share premium	R million	**955,2**	956,3

The 'A' deferred shares are held by Ubuntu-Botho and shall be converted to ordinary shares at nil rand value when the accrued value of R7,65 per share has been achieved, in accordance with the contractual new business volumes formula, within a ten-year period from 1 January 2004. The 'A' deferred shares which are not converted to ordinary shares in December 2013 shall be converted to redeemable preference shares which shall be redeemed at par value within 30 days of such conversion.

The 'B' deferred shares shall be allotted and issued to Ubuntu-Botho once all the 'A' deferred shares qualify for conversion to ordinary shares. The 'B' deferred shares shall be converted to ordinary shares on the same terms as the 'A' deferred shares.

The 'A' preference shares, which have been issued to the Demutualisation Trust, entitle the Demutualisation Trust to convert the 'A' preference shares at R7,65 per share to ordinary shares, if and to the extent that the Demutualisation Trust requires the delivery of such ordinary shares to enable it to comply with its obligations in terms of the Demutualisation Trust Deed. The conversion can be affected through the issuance of new ordinary shares by Sanlam Limited combined with the redemption of an equivalent number of 'A' preference shares, or the transfer of treasury shares to the Demutualisation Trust in exchange for the transfer of an equivalent number of 'A' preference shares. Should such a conversion occur, the Demutualisation Trust is also required to transfer an equivalent number of Ubuntu-Botho 'A' preference shares held by the Demutualisation Trust to Sanlam or its subsidiary. On termination of the Demutualisation Trust, all outstanding 'A' preference shares will be redeemed at par.

A register containing details of rights attached to the deferred and preference shares is available for inspection at the registered office of Sanlam Limited.

11. Share capital and premium *(continued)*

Sanlam Limited acquired and cancelled 105 million ordinary shares (2005: 359 million) as part of the capital management programme during the 2006 financial year. Share capital and reserves were reduced with the consideration paid for the cancelled shares.

Authorised and unissued shares

Subject to the restrictions imposed by the Companies Act, the authorised and unissued shares, to a maximum of 240 million shares, are under the control of the directors until the forthcoming annual general meeting.

	Shares 2006 000s	Options 2006 000s	Average option price 2006 R	Shares 2005 000s	Options 2005 000s	Average option price 2005 R
Executive share incentive scheme						
Total number of shares and options at beginning of year	**486**	**103 358**	**7,62**	1 420	137 581	7,64
Unrestricted shares at beginning of year	**(401)**	**(24 936)**	**7,94**	(520)	(31 232)	7,66
Restricted shares and share options at beginning of year	**85**	**78 422**	**7,53**	900	106 349	7,66
New options granted	**—**	**—**	**—**	—	626	8,94
Unconditional options and shares released, available for release, or taken up	**(51)**	**(20 678)**	**7,21**	(781)	(24 180)	8,02
Options and shares forfeited	**(19)**	**(1 476)**	**7,50**	(38)	(4 373)	7,75
Cash dividends received on restricted shares and converted into shares	**2**	**—**	**—**	4	—	—
Restricted shares and share options at end of year	**17**	**56 268**	**7,65**	85	78 422	7,53
Unrestricted shares and share options at end of year	**2**	**13 134**	**7,64**	401	24 936	7,94
Total number of shares and share options at end of year	**19**	**69 402**	**7,65**	486	103 358	7,62
Less: Shares issued	**(19)**	**(6 287)**		(486)	(13 770)	
Outstanding share options	**—**	**63 115**	**—**	—	89 588	—
Outstanding share options as a percentage of total issued ordinary shares		**2,7%**			3,7%	
Approved maximum level of outstanding share options as a percentage of total issued ordinary shares		**7,5%**			7,5%	

Details regarding the restricted shares and share options outstanding on 31 December 2006 and the financial years during which they become unconditional, are as follows:

Unconditional during year ending	Number of shares 000s	Number of options 000s	Average option price R
31 December 2007	12	26 055	7,63
31 December 2008	4	21 003	7,44
31 December 2009	1	9 210	8,19

	2006	2005
11. Share capital and premium *(continued)*		
No options were granted during the 2006 financial year. The fair value of options granted during 2005, based on a binomial valuation model, was R2 million. The significant inputs used in the model were as follows:		
Weighted average share price		R9,82
Weighted average exercise price		R8,94
Weighted average expected volatility		22,92%
Expected term		6,84 years
Weighted average expected dividend yield		4,37%
Weighted average fair value of options at measurement date		R3,01
Weighted average share price of options exercised during the current year	**R16,27**	R12,74

The risk-free yield curve used to calculate the fair value of the options granted was determined at grant date.

The expected volatility is based on the historic volatility of the Sanlam Limited share price over the previous seven years and the expected term of management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

The share incentive scheme was replaced with long-term incentive bonuses during the 2005 financial year, resulting in the reduction in the number and fair value of options granted.

	2006 R million	2005 R million
12. Other reserves		
Non-distributable reserves	**9 585**	9 539
Foreign currency translation reserve	**227**	(91)
Consolidation reserve	**(1 859)**	(1 931)
Policyholder fund investments in consolidated subsidiaries	**(109)**	(116)
Policyholder fund investment in Sanlam Limited shares	**(1 750)**	(1 815)
Total reserves other than retained earnings	**7 953**	7 517

The non-distributable reserve comprises the pre-acquisition reserve of R9 415 million (2005: R9 415 million) arising upon the demutualisation of Sanlam Life Insurance Limited and the regulatory non-distributable reserves of the Group's Botswana operations of R170 million (2005: R124 million).

13. Contingency reserves

Contingency reserves in respect of short-term insurance business of R543 million are included in shareholders' reserves (2005: R414 million) and R17 million (2005: R16 million) in the net assets underlying policy liabilities.

	2006 R million	2005 R million
14. Minority shareholders' interest		
Santam	**3 007**	2 828
African Life	**594**	367
Channel Life	**150**	—
Punter Southall Group	**—**	82
Consolidated Financial Services	**92**	78
Octane	**88**	76
Other	**3**	12
Total minority shareholders' interest	**3 934**	3 443

15. Long-term policy liabilities

15.1 Analysis of movement in policy liabilities

	2006 Total R million	2006 Insurance contracts R million	2006 Investment contracts R million	2005 Total R million	2005 Insurance contracts R million	2005 Investment contracts R million
Income	**68 067**	**34 251**	**33 816**	55 444	29 185	26 259
Premium income (note 15.2)	**28 499**	**13 297**	**15 202**	23 034	10 869	12 165
Investment return after tax (note 23)	**39 568**	**20 954**	**18 614**	32 410	18 316	14 094
Outflow	**(45 702)**	**(19 627)**	**(26 075)**	(32 392)	(16 081)	(16 311)
Policy benefits (note 15.3)	**(31 831)**	**(10 820)**	**(21 011)**	(20 165)	(10 285)	(9 880)
Retirement fund terminations	**(3 690)**	**—**	**(3 690)**	(4 714)	—	(4 714)
Fees, risk premiums and other payments to shareholders' fund	**(10 181)**	**(8 807)**	**(1 374)**	(7 513)	(5 796)	(1 717)
Movement in policy loans	**(68)**	**(4)**	**(64)**	(30)	—	(30)
Enhanced early termination benefits (note 23)	**—**	**—**	**—**	595	595	—
Net movement for the year	**22 297**	**14 620**	**7 677**	23 617	13 699	9 918
Liabilities acquired through business combinations	**12 257**	**363**	**11 894**	11 137	2 930	8 207
Foreign currency translation differences	**5 076**	**943**	**4 133**	(76)	1	(77)
Balance at beginning of year	**198 234**	**109 591**	**88 643**	163 556	92 961	70 595
Balance at end of year	**237 864**	**125 517**	**112 347**	198 234	109 591	88 643

15.2 Analysis of premium income

	2006 R million	2005 R million
Individual business	**22 094**	16 945
Recurring	**11 974**	9 501
Single	**8 446**	5 795
Continuations	**1 674**	1 649
Employee benefits business	**6 405**	6 089
Recurring	**3 567**	3 458
Single	**2 838**	2 631
Total premium income	**28 499**	23 034

	2006 R million	2005 R million
15. Long-term policy liabilities *(continued)*		
15.3 Analysis of long-term policy benefits		
Individual business	**18 936**	16 640
Maturity benefits	**8 835**	8 925
Surrenders	**6 060**	4 055
Life and term annuities	**3 276**	3 032
Death and disability benefits[1]	**763**	615
Cash bonuses[1]	**2**	13
Employee benefits business	**4 706**	3 525
Withdrawal benefits	**2 670**	1 602
Pensions	**1 162**	1 176
Lump-sum retirement benefits	**659**	555
Taxation paid on behalf of certain retirement funds	**62**	82
Death and disability benefits[1]	**121**	74
Cash bonuses[1]	**32**	36
White label business	**8 189**	—
Total long-term policy benefits	**31 831**	20 165

[1] *Excludes death and disability benefits and cash bonuses underwritten by the shareholders (refer to note 23).*

	2006 R million	2005 R million
15.4 Composition of policy liabilities		
Individual business	**193 122**	157 064
Linked and market-related liabilities	**101 122**	72 613
Stable bonus fund	**39 174**	33 710
Reversionary bonus policies	**11 882**	10 207
Non-participating annuities	**20 017**	19 559
Other non-participating liabilities	**20 927**	20 975
Employee benefits business	**44 742**	41 170
Linked and market-related liabilities	**19 015**	16 893
Stable bonus portfolios	**11 134**	10 171
Participating annuities	**9 054**	8 586
Non-participating annuities	**3 726**	3 442
Other non-participating liabilities	**1 813**	2 078
Total policy liabilities	**237 864**	198 234

15. Long-term policy liabilities *(continued)*

15.5 Maturity analysis of investment policy contracts

	< 1 year	1 – 5 years	> 5 years	Open ended	Total
2006: R million					
Linked and market-related	**3 084**	**12 001**	**32 563**	**39 770**	**87 418**
Stable bonus	**6**	**10**	**6**	**11 135**	**11 157**
Non-participating annuities	**114**	**648**	**195**	**457**	**1 414**
Other non-participating liabilities	**3 575**	**4 618**	**4 142**	**23**	**12 358**
Total investment policies	**6 779**	**17 277**	**36 906**	**51 385**	**112 347**
2005: R million					
Linked and market-related	1 547	6 115	23 743	32 043	63 448
Stable bonus	7	43	4	10 171	10 225
Non-participating annuities	120	948	247	279	1 594
Other non-participating liabilities	2 558	6 242	4 576	—	13 376
Total investment policies	4 232	13 348	28 570	42 493	88 643

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

15.6 Maturity analysis of insurance policy contracts

	< 1 year	1 – 5 years	> 5 years	Open ended	Total
2006: R million					
Linked and market-related	**1 555**	**6 360**	**21 427**	**3 377**	**32 719**
Stable bonus	**1 622**	**7 058**	**27 227**	**3 244**	**39 151**
Reversionary bonus policies	**509**	**2 248**	**6 659**	**2 466**	**11 882**
Non-participating annuities	**1**	**12**	**19**	**22 297**	**22 329**
Participating annuities	**—**	**—**	**—**	**9 054**	**9 054**
Other non-participating liabilities	**451**	**247**	**1 803**	**7 881**	**10 382**
Total insurance policies	**4 138**	**15 925**	**57 135**	**48 319**	**125 517**
2005: R million					
Linked and market-related	1 217	5 259	17 009	2 573	26 058
Stable bonus	1 463	6 079	23 565	2 549	33 656
Reversionary bonus policies	440	2 048	6 568	1 151	10 207
Non-participating annuities	1	10	17	21 379	21 407
Participating annuities	—	—	—	8 586	8 586
Other non-participating liabilities	504	292	1 540	7 341	9 677
Total insurance policies	3 625	13 688	48 699	43 579	109 591

15.7 Policy liabilities include the following:

	2006 R million	**2005 R million**
Provision for HIV/Aids and other pandemics	**2 945**	2 976
Reduction in earnings caused by using a retrospective HIV/Aids valuation basis instead of a prospective valuation basis	**—**	(43)
Asset mismatch reserve	**1 576**	813

	Note	2006 R million	2005 R million
16. Term finance			
Term finance comprises:			
Interest-bearing liabilities matched by assets	16.1	**3 689**	2 835
Other interest-bearing liabilities	16.2	**2 071**	44
		5 760	2 879
16.1 Interest-bearing liabilities matched by assets			
Redeemable cumulative non-voting preference shares issued by subsidiary companies, with dividend terms that range between 7,0% and 12,4% (2005: 7,2% and 10,8%) or linked to prime interest rates. The preference shares have different redemption dates up to 2014.		**2 757**	2 235
Mortgage bonds over properties held in unit-linked policyholder funds. The mortgage over each property is negotiated separately, varies in term from 5 to 20 years, with interest rates linked at a premium to the Bank of England base rate.		**761**	305
Obligations towards beneficiaries of companies limited by guarantee – matched by assets held in this regard.		**137**	238
Obligations for promissory notes, zero coupons, interest rate derivatives and fixed-interest derivatives.		**—**	45
Other		**34**	12
Interest-bearing liabilities matched by assets		**3 689**	2 835
Reconciliation with matching assets			
Interest-bearing liabilities matched by assets (refer above)		**3 689**	2 835
Add: Preference shares issued to subsidiaries and eliminated on consolidation		**328**	364
Total interest-bearing liabilities matched by assets		**4 017**	3 199
Assets held to match term finance liabilities			
Investment properties		**774**	317
Equities and similar securities		**615**	557
Public sector stocks and loans		**51**	44
Debentures, insurance policies, preference shares and other loans		**1 940**	1 377
Cash, deposits and similar securities		**659**	902
Working capital assets and liabilities		**(22)**	2
Total assets held in respect of term finance liabilities		**4 017**	3 199
16.2 Other interest-bearing liabilities			
Cumulative preference shares redeemable within 5 years, issued by a subsidiary company, with dividends linked to prime interest rates.		**—**	26
Unsecured subordinated bond, with interest payable at 9,54% and a final maturity date of 15 August 2018. The bond has a redemption call option, which can be exercised on 15 August 2013.		**1 202**	—
Unsecured subordinated bond, with interest payable at 9,64% and a final maturity date of 15 August 2021. The bond has a redemption call option, which can be exercised on 15 August 2016.		**869**	—
Other		**—**	18
		2 071	44

	Note	2006 R million	2005 R million
16. Term finance *(continued)*			
16.3 Maturity analysis of term finance			
Due within one year		**712**	1 361
Due within two to five years		**1 744**	975
Due after more than five years		**3 304**	543
Total term finance liabilities		**5 760**	2 879
16.4 Classification of term finance			
At fair value through profit or loss	16.4.1	**2 236**	306
Valued at stock exchange prices		**2 093**	—
Based on internal valuation		**143**	306
Other financial liabilities	16.4.2	**3 524**	2 573
Total term finance liabilities		**5 760**	2 879
16.4.1 Term finance classified as at fair value through profit or loss			
Total designated as at fair value through profit or loss		**2 236**	306
Amount contractually payable at maturity		**2 153**	306
16.4.2 Term finance classified as other financial liabilities			
Estimated fair value of term finance liabilities measured at amortised cost		**3 524**	2 573
17. Trade and other payables			
Trading account and money market liabilities		**24 854**	19 963
Accounts payable		**8 674**	6 744
Policy benefits payable		**3 111**	2 289
Amounts due to reinsurers		**344**	253
Bank overdrafts		**3**	13
Claims incurred but not reported		**815**	809
Total trade and other payables		**37 801**	30 071
Classification of trade and other payables:			
Held for trading at fair value		**24 854**	19 963
Other financial liabilities at amortised cost		**12 947**	10 108
Total trade and other payables		**37 801**	30 071

A portion of trade and other payables is secured by trading account and money market investments as detailed in note 10.

18. Provisions

Details of the different classes of provisions are as follows:

	Restructuring R million	Possible claims R million	Post-retirement medical aid R million	Onerous contracts R million	Other R million	Total R million
Balance at 1 January 2005	**8**	**270**	**44**	**31**	**112**	**465**
Charged to income statement	6	320	—	16	89	431
Additional provisions	9	360	—	17	63	449
Transfer to other provisions	—	(40)	—	—	40	—
Unused amounts reversed	(3)	—	—	(1)	(14)	(18)
Utilised during the year	(14)	(26)	(4)	(22)	(1)	(67)
Acquired through business combinations	—	31	—	—	23	54
Prior year adjustments	—	—	—	—	3	3
Balance at 31 December 2005	**—**	**595**	**40**	**25**	**226**	**886**
Charged to income statement	—	169	2	39	75	285
Additional provisions	—	174	2	41	84	301
Unused amounts reversed	—	(5)	—	(2)	(9)	(16)
Utilised during the year	—	(156)	(5)	(6)	(11)	(178)
Acquired through business combinations	—	—	—	—	3	3
Balance at 31 December 2006	**—**	**608**	**37**	**58**	**293**	**996**
Analysis of provisions						
Current	—	180	5	58	73	316
Non-current	—	428	32	—	220	680
Total provisions at 31 December 2006	**—**	**608**	**37**	**58**	**293**	**996**

Restructuring

Provision was made for employee termination costs in terms of an announced restructuring plan for Gensec Bank. The restructuring was substantially completed during 2005.

Possible claims

The Group provides for possible claims that may arise as a result of past events, transactions or investments. Due to the nature of the provision, the timing of the expected cash outflows is uncertain. Included in debtors is R100 million (2005: R78 million) that is recoverable from counterparties in respect of some of the possible claims. Estimates are reviewed annually and adjusted as appropriate for new circumstances. Additional information in respect of possible claims cannot be provided, due to the potential prejudice that such disclosure may confer on the Group.

Post-retirement medical aid

The Group provides for the future medical aid contributions for certain pensioners, disabled staff members and disabled advisers. The provision represents the present value of future contributions which is actuarially determined on an annual basis. Refer to note 32: Retirement benefits for employees.

18. Provisions *(continued)*

Onerous contracts

Provision is made for the full term of the contractual rental payable in respect of vacated offices where the lease term has not yet expired. A provision for related costs (e.g. electricity) is also included.

Other

Includes sundry provisions for probable outflows of resources from the Group arising from past events.

	2006 R million	2005 R million
19. Financial services income		
Analysis per revenue source		
Long-term insurance	**10 347**	7 560
Short-term insurance	**12 224**	10 985
Other financial services	**1 650**	1 848
Total financial services income	**24 221**	20 393
Analysis per revenue category		
Long-term insurance fee income	**10 347**	7 560
Administration services	**3 211**	2 164
Investment management fees	**735**	547
Risk benefit charges and other fee income	**6 401**	4 849
Short-term insurance premiums	**12 224**	10 985
Premiums receivable	**12 652**	11 357
Change in unearned premium provision	**(428)**	(372)
Other financial services fees and income	**1 278**	1 606
Trading profit	**371**	242
Foreign exchange gains	**1**	—
Total financial services income	**24 221**	20 393
20. Reinsurance premiums paid		
Long-term insurance	**396**	225
Short-term insurance	**2 036**	2 114
Premiums payable	**1 983**	2 012
Change in unearned premium provision	**53**	102
Total reinsurance premiums paid	**2 432**	2 339
21. Reinsurance income		
Reinsurance commission received		
Long-term insurance	**41**	41
Short-term insurance	**342**	404
Total reinsurance commission received	**383**	445
Reinsurance claims received		
Long-term insurance	**237**	136
Short-term insurance	**1 049**	1 112
Total reinsurance claims received	**1 286**	1 248

	2006 R million	2005 R million
22. Investment return		
Investment income		
Equities and similar securities	**4 111**	3 190
Interest-bearing, preference shares and similar securities	**6 246**	5 168
Properties	**1 046**	1 413
Rental income – excluding contingent rental	**1 135**	1 645
Contingent rental income	**57**	154
Rental related expenses	**(146)**	(386)
Income from margin business[1]	**619**	951
Dividend income	**54**	101
Interest received	**565**	850
Total investment income	**12 022**	10 722

[1] *Refer to note 26 for finance cost incurred in respect of margin business. Term finance cost relating to margin business is recognised in a separate line item on the face of the income statement. In 2005, it was included in net income from margin business. Comparative figures have been restated accordingly.*

	2006 R million	2005 R million
Listed investments	**7 500**	6 444
Unlisted investments	**4 522**	4 278
Total investment income	**12 022**	10 722

The interest income on financial assets not classified as at fair value through profit or loss is R257 million (2005: R178 million).

	2006 R million	2005 R million
Investment surpluses		
Investments designated as at fair value through profit or loss	**38 603**	31 031
Investments held for trading	**(1 657)**	(2 526)
Investment properties	**818**	1 137
Profit on disposal of associated companies and subsidiaries	**139**	5 640
Total investment surpluses	**37 903**	35 282
Investment return includes:		
Foreign exchange gains	**2 145**	886
23. Long-term insurance and investment contract benefits		
Insurance contracts		
Underwriting policy benefits	**3 704**	2 754
Investment return and tax attributable to insurance contract liabilities (note 15)	**20 954**	18 316
Total long-term insurance contract benefits	**24 658**	21 070
Investment contracts		
Investment return and tax attributable to investment contract liabilities (note 15)	**18 614**	14 094
Total long-term investment contract benefits	**18 614**	14 094
Analysis of underwriting policy benefits		
Individual insurance	**2 268**	1 264
Employee benefits	**1 436**	1 490
Total underwriting policy benefits	**3 704**	2 754

	2006 R million	2005 R million
23. Long-term insurance and investment contract benefits *(continued)*		
Enhanced early termination benefits		
Once-off expense relating to enhanced early termination benefits payable to current and former policyholders in terms of an agreement reached between the Life Offices' Association of South Africa and National Treasury:		
Enhanced benefit to policyholders (note 15.1)	—	595
Related administration and other costs	—	25
Enhanced early termination benefits before tax	—	620
Taxation (note 27)	—	(180)
Enhanced early termination benefits after tax	—	440
24. Administration costs include:		
Directors' remuneration		
Total remuneration paid by Sanlam Limited and its consolidated subsidiaries to present and previous directors of Sanlam Limited:		
Present		
Directors' fees	**7,5**	7,0
Other services (basic remuneration, pensions and bonuses)	**13,2**	15,0
Previous		
Directors' fees	**0,3**	0,9
Other services (basic remuneration, pensions and bonuses)	**3,0**	—
Total directors' remuneration	**24,0**	22,9
Analysis of directors' remuneration		
Executive directors	**16,2**	15,1
Non-executive directors	**7,8**	7,8
Total directors' remuneration	**24,0**	22,9
Directors' remuneration paid by subsidiaries	**17,3**	17,0

Refer to Corporate Governance Report on page 30 for additional information on directors' remuneration.

	2006 R million	2005 R million
24. Administration costs include: *(continued)*		
Auditors' remuneration[1]		
Audit fees: statutory audit	**48**	33
Other services provided by:	**32**	20
Subsidiaries' own auditors		
Due diligence services	**23**	—
Other services	**2**	18
Other Group auditors	**7**	2
Total auditors' remuneration	**80**	53
Depreciation	**90**	77
Operating leases	**253**	263
Properties	**130**	141
Equipment	**108**	110
Other	**15**	12
Consultancy fees[1]	**293**	143
Technical, administrative and secretarial fees[1]	**87**	35
Employee benefits	**2 844**	2 808
Salaries and other short-term benefits	**2 519**	2 575
Pension costs – defined-contribution plans	**166**	146
Pension costs – defined-benefit plans	**19**	14
Other post-employment benefits	**8**	—
Share-based payments	**91**	69
Other long-term incentive schemes	**41**	4
Office staff (number of persons)	**9 037**	8 945

[1] *Consultancy fees of R80 million, technical administrative and secretarial fees of R13 million and auditors' remuneration for other services of R2 million are recognised in 2005 against profit on disposal of associates or recognised in the value of business acquired intangible asset.*

	2006 R million	2005 R million
25. Equity-accounted earnings		
Absa[1]	**—**	667
Peermont	**64**	59
Punter Southall Group	**25**	—
Safair Lease Finance	**31**	49
Sanlam Home Loans	**2**	(7)
Sanlam Personal Loans	**24**	20
Shriram	**(8)**	—
Other associated companies	**285**	156
Equity-accounted earnings	**423**	944

[1] *The Group's investment in Absa was accounted for as an associated company up to 30 June 2005, as the Group disposed of the Sanlam shareholders' fund interest in Absa to Barclays PLC during July 2005. Before Barclays PLC acquired a majority interest in Absa, the financial year-end of Absa was 31 March. The equity-accounted earnings for Absa included in the Sanlam group results for 2005 are for the six months ended 31 March 2005, and were derived from Absa's published interim results.*

	2006 R million	2005 R million
26. Finance cost		
Interest paid and term finance cost in respect of interest margin business	**223**	293
Finance cost – margin business[(1)]	**223**	293
Interest-bearing liabilities designated as at fair value through profit or loss	**73**	—
Interest-bearing liabilities held at amortised cost	**41**	136
Finance cost – other	**114**	136

[(1)] *In 2006, term finance cost relating to margin business is recognised in a separate line item on the face of the income statement. In 2005, it was included in net income from margin business. Comparative figures have been restated accordingly.*

	2006 R million	2005 R million
27. Taxation		
Shareholders' fund		
Financial services	**850**	747
Current year	**1 005**	752
Prior year	**(155)**	(5)
Investment return	**1 044**	1 117
Investment income	**184**	150
Investment surpluses	**714**	330
Profit on disposal of subsidiaries	**3**	—
Profit on disposal of associated companies	**4**	534
Secondary tax on companies	**139**	103
Enhanced early termination benefits	**—**	(180)
Tax expense: shareholders' fund	**1 894**	1 684
Analysis of income tax per category		
Normal income tax	**1 859**	1 054
RSA – current year	**1 262**	609
RSA – prior year	**(155)**	(6)
Foreign	**85**	93
Capital gains tax	**510**	241
Secondary tax on companies	**157**	117
Deferred tax	**35**	630
Normal tax – current year	**62**	187
Normal tax – prior year	**6**	—
Normal tax – change in tax rate	**—**	7
Foreign	**(5)**	(5)
Capital gains tax – current year	**(10)**	491
Capital gains tax – change in tax rate	**—**	(36)
Secondary tax on companies	**(18)**	(14)
Tax expense: shareholders' fund	**1 894**	1 684

	2006 R million	2005 R million
27. Taxation *(continued)*		
In addition to income tax, the following indirect taxes and levies were paid, which are included in the appropriate items:		
Included in administration costs	**154**	170
Included elsewhere in the income statement	**56**	39
Total indirect taxes and levies	**210**	209
Indirect taxes and levies include value-added tax and statutory levies payable to the Regional Services Councils and the Financial Services Board.		
Policyholders' fund		
Income tax		
Normal income tax	**331**	369
RSA – current year	**265**	328
Deferred	**(68)**	—
Foreign	**134**	41
Capital gains tax	**735**	597
Normal	**522**	357
Deferred	**213**	240
Tax on retirement funds	**110**	153
Tax expense: policyholders' fund	**1 176**	1 119
	%	**%**
Standard rate of taxation	**29,0**	29,0
Adjusted for:		
Non-taxable income	**(2,3)**	(3,1)
Disallowable expenses	**0,3**	—
Share-based payments	**0,2**	0,1
Investment surpluses	**(5,1)**	(11,6)
Prior year adjustments	**(1,5)**	—
Foreign tax rate differential	**(0,8)**	(0,4)
STC	**0,8**	0,7
Fund transfers	**(0,5)**	(1,4)
Policyholders	**7,5**	5,3
Other	**(0,1)**	0,2
Effective tax rate	**27,5**	18,8

28. Earnings per share

For basic earnings per share the weighted average number of ordinary shares is adjusted for the treasury shares held by subsidiaries. Basic earnings per share is calculated by dividing earnings by the adjusted weighted average number of shares in issue.

For diluted earnings per share the weighted average number of ordinary shares is adjusted for the shares not yet issued under the Sanlam Share Incentive Scheme, treasury shares held by subsidiaries and the conversion of deferred shares. Diluted earnings per share is calculated by dividing earnings by the adjusted diluted weighted average number of shares in issue.

	2006 Cents	2005 Cents
Basic earnings per share:		
Net result from financial services	**118,7**	92,5
Core earnings	**154,4**	131,8
Headline earnings	**310,4**	233,7
Profit attributable to shareholders' fund	**315,2**	439,2
Diluted earnings per share:		
Net result from financial services	**116,6**	90,9
Core earnings	**151,7**	129,7
Headline earnings	**304,9**	229,8
Profit attributable to shareholders' fund	**309,6**	432,0
	R million	**R million**
Analysis of earnings (refer to shareholders' fund income statement on page 268):		
Net result from financial services	**2 616**	2 300
Core earnings	**3 402**	3 280
Headline earnings	**6 838**	5 813
Profit attributable to shareholders' fund	**6 945**	10 927
	million	**million**
Number of shares:		
Number of ordinary shares in issue at beginning of period	**2 408,6**	2 767,6
Less: Weighted number of shares cancelled	**(43,8)**	(76,4)
Less: Weighted Sanlam shares held by subsidiaries (including policyholders)	**(161,7)**	(203,5)
Adjusted weighted average number of shares for basic earnings per share	**2 203,1**	2 487,7
Add: Weighted conversion of deferred shares	**6,8**	6,2
Add: Total number of shares under option (refer to note 11)	**63,1**	89,6
Less: Number of shares (under option) that would have been issued at fair value	**(29,9)**	(54,1)
Adjusted weighted average number of shares for diluted earnings per share	**2 243,1**	2 529,4

29. Dividends

A dividend of 77 cents per share (2005: 65 cents per share) was declared in March 2007 in respect of the 2006 earnings. Based on the number of shares in issue on declaration date, the total dividend is expected to amount to R 1 779 million, but may vary depending on the number of shares in issue on the last day to register. The secondary tax on companies (STC) liability in respect of the dividend, as well as future distributions of retained earnings, is dependent on the STC credits that will be available at the end of the dividend cycles and is impracticable to determine.

30. Capital and risk management

The Group is exposed to various risks in connection with its current operating activities. These risks contribute to the key financial risk that the proceeds from the Group's financial assets are not sufficient to fund the obligations arising from insurance and investment policy contracts and the operating activities conducted by the Group businesses. The Group has an integrated approach towards the management of its capital base and risk exposures with the main objective to achieve a sustainable return on embedded value at least equal to the Group's cost of capital.

30.1 Capital management

Objective

The effective management of Sanlam's capital base is an essential component of meeting the Group's strategic objective of maximising return on embedded value. The capital value used by the Group as the primary performance measurement base is the shareholders' fund at fair value, as reported on page 270, which is also used for embedded value and return on embedded value purposes. The shareholders' fund at fair value comprises the following main components:

– Long-term solvency capital, which includes the balanced portfolios supporting the long-term insurance operations of the Group;
– Non-life operating businesses, which include the fair value of strategic non-life group operations; and
– Surplus capital.

The management of the Group's capital base requires a continuous review of optimal capital levels, including the use of alternative sources of funding, to maximise return on embedded value.

Long-term solvency capital

The level and nature of the life operations' supporting capital is determined by minimum regulatory capital requirements as well as economic, risk and growth considerations. Regulatory capital must comply with specific requirements. Stochastic modelling techniques are applied on an ongoing basis to determine and confirm the most appropriate and optimal capital levels for the life businesses.

Non-life operating businesses

The fair value of strategic non-life businesses includes the working capital provided to the respective operations. The Group's approach to ensure appropriate working capital levels is twofold:

– The Group dividend policy is based on the annual declaration of all surplus capital in non-life operations that is not required for normal operations or expansion; and
– Performance targets are set for non-life operations based on an expected return on the fair value of the businesses, equal to the business's internal cost of capital. This ensures that all non-productive working capital is declared as a dividend to the Group.

Certain of the Group's investments in non-life operations qualify, to a varying degree, to be utlised as regulatory capital for the life companies. Maximum capital efficiency can therefore be achieved by optimising the level of such investments held in the life companies' regulatory capital.

Surplus capital

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

Refer to the Financial Review on page 102 for additional information on the management of Group capital.

30.2 Risk management

The Group is exposed to various risks that have a direct impact on the Group's capital base and earnings, and as such return on embedded value. The management of these risks is therefore an integral part of the Group's strategy to maximise return on embedded value and supports the capital management actions as described above.

The Group's risk exposures can be classified into the the following broad categories:

– Financial risks affecting the net asset value of the shareholders' fund;
– General operational risks;
– Long-term insurance risks; and
– Short-term insurance risks.

30. Capital and risk management *(continued)*

30.2 Risk management *(continued)*

30.2.1 Financial risks

The main categories of financial risks associated with the financial instruments held by the Group's shareholders' fund are summarised in the following table:

Financial risk	Description
Market risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk (such as equity price risk).
Property risk	Property risk is the risk that the value of investment properties will fluctuate as a result of changes in the environment.
Credit risk	Credit risk arises from the inability or unwillingness of a counterparty to a financial instrument to discharge its contractual obligations.
Liquidity risk	Liquidity risk is the risk that the Group will encounter difficulty in raising cash to meet commitments associated with financial instruments. Liquidity risk arises when there is mismatching between the maturities of liabilities and assets.
Capital adequacy risk	Capital adequacy risk is the risk that the Group's shareholders' fund is insufficient to meet obligations in the event that actual future experience is worse than that assumed in the financial soundness valuation.

Market risk

The Sanlam shareholders' fund's investments are exposed to market risk. Market risk arises from the uncertain movement in the fair value of financial instruments that stems principally from potential changes in sentiment towards the instrument, the variability of future earnings that is reflected in the current perceived value of the instrument and the fluctuations in interest rates and foreign currency exchange rates.

Equity and interest rate risk

The shareholders' fund's investments in equities and interest-bearing instruments are valued at fair value and are therefore susceptible to market fluctuations. Investments in listed subsidiaries are reflected at net asset value based on the market value of the underlying investments. Investments subject to equity and interest rate risk are analysed in the shareholders' fund balance sheet on page 266.

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

Derivative financial instruments

For the management of the shareholders' fund's market risk, the Group uses derivative financial instruments as follows:

1. Sanlam Capital Markets, in its trading activities, acts as a dealer in derivative instruments to satisfy the risk management needs of its clients and assumes trading positions based on its market expectations, to benefit from price differentials between instruments and markets.
2. Long-term and short-term insurance businesses use derivatives for the preservation of their capital base.

30. Capital and risk management *(continued)*

30.2 Risk management *(continued)*

30.2.1 Financial risks *(continued)*

2006

R million	Residual term to contractual maturity < 1 year	1-5 years	> 5 years	Total notional amounts	Analysed by use Trading	Asset liability management	Total fair value of amounts
Interest rate products over-the-counter							
Swap contracts	50 189	29 691	23 955	103 835	103 835	—	(12 302)
Total interest rate products	50 189	29 691	23 955	103 835	103 835	—	(12 302)
Market risk products							
Cliquet structures	3 642	1 675	—	5 317	5 317	—	606
Collar structures	—	2 594	—	2 594	—	2 594	(628)
Fence structures							
Local	1 269	1 024	—	2 293	2 124	169	408
International	221	—	—	221	—	221	12
Total market risk products	5 132	5 293	—	10 425	7 441	2 984	398
Foreign exchange products over-the-counter							
Spot and forward contracts (purchases)	47	105	—	152	152	—	(17)
Spot and forward contracts (selling)	(47)	(105)	—	(152)	(152)	—	11
Total foreign exchange products	—	—	—	—	—	—	(6)
Other derivative products	853	512	5	1 370	617	753	69

30. Capital and risk management *(continued)*

30.2 Risk management *(continued)*

30.2.1 Financial risks *(continued)*

2005

R million	Residual term to contractual maturity < 1 year	1-5 years	> 5 years	Total notional amounts	Analysed by use Trading	Asset liability management	Total fair value of amounts
Interest rate products over-the-counter							
Swap contracts	30 507	21 948	21 200	73 655	73 655	—	3
Total interest rate products	30 507	21 948	21 200	73 655	73 655	—	3
Market risk products							
Cliquet structures	7 896	4 239	—	12 135	10 085	2 050	(374)
Fence structures							
Local	1 329	1 569	—	2 898	1 820	1 078	84
International	71	—	—	71	—	71	—
Total market risk products	9 296	5 808	—	15 104	11 905	3 199	(290)
Foreign exchange products over-the-counter							
Spot and forward contracts (purchases)	48	125	—	173	173	—	(53)
Spot and forward contracts (selling)	(42)	(125)	—	(167)	(167)	—	40
Total foreign exchange products	6	—	—	6	6	—	(13)
Other derivative products	830	165	—	995	795	200	18

Trading risk

Market risks arise from open positions in interest rate and equity products, both of which are exposed to general and specific market movements. Sanlam Capital Markets (SCM) applies a value at risk (VaR) methodology to estimate the market risk of positions held and the losses expected, based upon a number of assumptions for various changes in market conditions. The SCM board sets limits on amongst others market economic capital usage, which in turn is based on value at risk and which is monitored on a daily basis. The daily VaR measure is an estimate, with a confidence level set at 95%, of the potential loss that might arise if the current positions were to be held unchanged for one business day. The measurement is structured so that daily losses exceeding the VaR figure should occur, on average, not more than once every 20 days. Actual results compared to daily VaR are monitored daily to test the validity of the assumptions and parameters/ factors used in the VaR calculation. The market economic capital calculation is based on a confidence level of 99,5%, which is in line with SCM's long-term financial rating aspirations.

The risk that an expected correlation relationship (for example, between a pair of equities or a pair of interest rates) does not materialise is managed by ensuring comprehensive measures and limits are in place to control all of these types of market risks to which SCM is exposed.

30. Capital and risk management *(continued)*

30.2 Risk management *(continued)*

30.2.1 Financial risks *(continued)*

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate owing to changes in foreign exchange rates. The Group's exposure to currency risk is in respect of foreign investments made on behalf of shareholders for the purpose of seeking international diversification of investments. Exposure to different foreign currencies is benchmarked against the currency composition of the Morgan Stanley Capital International World Equity Index and the JP Morgan Government Bond Index. The following assets and liabilities included in the shareholders' fund balance sheet on page 266 are denominated in foreign currencies and therefore subject to currency risk:

31 December 2006 R million	Euro	United States dollar	British pound	Botswana pula	Other currencies	Total
Equities and similar securities	—	1 388	618	728	158	2 892
Public sector stocks and loans	—	512	12	60	28	612
Debentures, insurance policies, preference shares and other loans	—	670	515	65	—	1 250
Cash, deposits and similar securities	710	867	2 236	242	53	4 108
Trade and other receivables	10	72	229	—	—	311
Trade and other payables	(13)	(164)	(386)	—	—	(563)
Other net assets	(132)	—	(1 488)	91	23	(1 506)
Minorities	(101)	(184)	(324)	(306)	(18)	(933)
Foreign currency exposure	474	3 161	1 412	880	244	6 171
Exchange rates (rand):						
Closing rate	9,30	7,05	13,81	1,21		
Average rate	8,43	6,73	12,35	1,19		
31 December 2005 **R million**						
Equities and similar securities	—	1 566	325	145	—	2 036
Public sector stocks and loans	—	387	11	5	2	405
Debentures, insurance policies, preference shares and other loans	—	1 106	491	194	12	1 803
Cash, deposits and similar securities	145	368	518	202	6	1 239
Trade and other receivables	8	97	423	12	6	546
Trade and other payables	(5)	(172)	(278)	(46)	(3)	(504)
Other net assets	179	120	(447)	227	—	79
Minorities	(87)	(75)	(250)	(338)	(2)	(752)
Foreign currency exposure	240	3 397	793	401	21	4 852
Exchange rates (rand):						
Closing rate	7,48	6,35	10,89	1,16		
Average rate	7,91	6,36	11,56	—		

Property risk

The Sanlam shareholders' fund has limited exposure to investment properties and accordingly the related property risk. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

30. Capital and risk management *(continued)*

30.2 Risk management *(continued)*

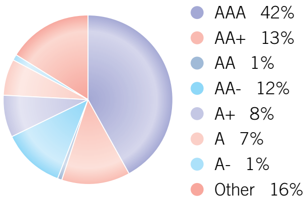
30.2.1 Financial risks *(continued)*

Credit risk

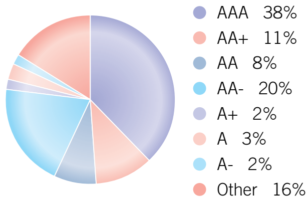
The interest-bearing investments held by the Group's shareholders' fund are subject to credit risk. The majority of the exposure relates to the Group's life insurance and capital market activites.

The graphs below provide an analysis of the credit risk exposure of these operations:

CREDIT EXPOSURE OF INTEREST-BEARING INVESTMENTS 2006



CREDIT EXPOSURE OF INTEREST-BEARING INVESTMENTS 2005



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

- Counterparty credit quality is determined by reference to ratings from independent rating agencies or, where such ratings are not available, by internal analysis.
- Unacceptable concentrations of credit risk to groups of counterparties, business sectors and product types are avoided by dealing with a variety of major banks and spreading debtors and loans among a number of major industries, customers and geographic areas.
- Long-term insurance business debtors are secured by the underlying value of the unpaid policy benefits in terms of the policy contract.
- General insurance premiums outstanding for more than 60 days are not accounted for in premiums, and an appropriate level of provision is maintained.
- Exposure to external financial institutions concerning deposits and similar transactions is monitored against approved limits.
- Collateral is received for transactions conducted by SCM, including (but not limited to) securities lending transactions.

Securities lending

The Sanlam group conducts securities lending activities as lender in respect of some of its listed equities and bonds. Collateral security and guarantees of between 105% and 150% of the value of the loaned securities are held.

	2006 R million	2005 R million
Fair value of collateral accepted as security for scrip lending arrangements	**18 914**	10 840
Fair value of collateral sold or repledged	**13 987**	8 484

As no transfer of ownership has taken place, any collateral accepted for securities lending arrangements may not be used for any purpose other than being held as security for the arrangements.

30. Capital and risk management *(continued)*

30.2 Risk management *(continued)*

30.2.1 Financial risks *(continued)*

Liquidity risk

The Group's shareholders' fund is not subject to excessive levels of liquidity risk. The majority of the Group's term finance liabilities are matched by appropriate assets with the same maturity profile (refer to note 16 on page 213). The shareholders' fund's balanced portfolio is managed to ensure that sufficient liquid investments are available to match the cash flow profile of the remaining term finance liabilities.

The Group has significant liquid resources and substantial unutilised banking facilities.

Capital adequacy risk

The Group must maintain shareholders' funds that will be sufficient to meet obligations in the event of substantial deviations from the main assumptions affecting the Group's business. A stochastic modelling process is used to simulate a number of investment scenarios. This is used to determine required capital levels that will ensure sustained solvency within an acceptable confidence level. Capital adequacy requirements for Sanlam Life Insurance Limited and African Life Assurance Company Limited were covered 4,4 times (2005: 4,0 times) and 6,1 times (2005: 7,6 times) respectively by the companies' shareholders' funds as at 31 December 2006 and are determined according to regulations and the guidelines issued by the Actuarial Society of South Africa.

30.2.2 General operational risks

Operational risk

Operational risk is the risk of loss due to factors such as inadequate systems, management failure, inadequate internal controls, fraud or human error. The Group mitigates these risks through its culture and values, a comprehensive system of internal controls, internal audit, forensic and compliance functions and other measures such as back-up facilities, contingency planning and insurance.

The initiation of transactions and their administration is conducted on the basis of the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions. Control is further strengthened by the settlement of transactions through custodians. The custodians are also responsible for the safe custody of the Group's securities. To ensure validity, all transactions are confirmed with counterparties independently from the initial executors.

Sanlam has a risk-based internal audit approach in terms of which priority is given to the audit of higher risk areas, as identified in the planning phase of the audit process. The internal control systems and procedures are subject to regular internal audit reviews.

Within SCM, the Asset Liability and Risk Management Committee (ALaRMCO) is responsible for the implementation and monitoring of risk management processes to ensure that the risks arising from trading positions are within the approved risk parameters. Risk measurements are calculated through the application of various statistical techniques, including value at risk (VaR) and position limits, supplemented with stress testing and scenario analysis. Sanlam believes that statistical models alone do not provide a reliable method of monitoring and controlling market risk. While VaR models are relatively sophisticated, the quantitative market risk information generated is limited by the assumptions and parameters established in creating the related models. Therefore, such models are tools and inputs in the decision-making process, but do not substitute for the experience or judgement of senior management.

An initial mandate development process is undertaken for each new business ventured into by SCM. Based on the business mandates, quantifiable risks are measured and reported on a daily basis. Firm-wide risk levels are reported to senior management, while desk risk levels are reported to the relevant trading managers and traders. Limit breaches are escalated for approval in terms of an Approval Framework. The risk information is summarised, reported to, and discussed by the ALaRMCO at weekly meetings. The mandates for existing businesses are reviewed and submitted for ALaRMCO approval and Risk Committee notification on at least an annual basis or more frequently if it was changed through the course of a financial year. Any new type of business or product is subjected to a comprehensive review process before initiation to ensure that all of the risks associated with new businesses or products have been identified and can be appropriately managed.

Legal risk

Legal risk is the risk that the Group will be exposed to contractual obligations that have not been provided for, particularly in respect of policy liabilities. The risk also arises from the uncertainty of the enforceability, through legal or judicial processes, of the obligations of Sanlam's counterparties, including contractual provisions intended to reduce credit exposure by providing for the netting of mutual obligations.

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

30. Capital and risk management *(continued)*

30.2 Risk management *(continued)*

30.2.3 Long-term insurance risks

The Group's long-term insurance operations are subject to the general operational risks described in section 30.2.2, but also to specific long-term insurance risks, which include the following:

Long-term insurance risk	Description
Investment return risk	The relative sensitivity of long-term policy liabilities and the supporting policyholder assets to market, credit, liquidity and derivative risks.
Underwriting risk	Underwriting risk is the risk that the actual mortality, morbidity and medical claims will exceed the expected claims.
Operational risk	
Lapse risk	Lapse risk relates to the risk of financial loss due to negative lapse experience.
Expense risk	Expense risk is the risk of loss due to actual expense experience being worse than that assumed in premium rates and policy liabilities.
Legislation	The risk that practices established in the past may not be acceptable in changing legislative and social environments.
Taxation	Changes in tax legislation may result in financial loss due to the fact that the actual tax expense relating to policyholder assets and activities may be worse than that assumed in the determination of premium rates and guaranteed policy benefits.
Reputational risk	The risk that the Group is prevented from applying mitigating risk management policies due to the potential reputational impact on the Group.

General

Asset liability committees, such as those within SCM, are also established within the long-term insurance businesses. The principle aim of these committees is to ensure that insurance and investment contract liabilities are matched with appropriate supporting assets based on the type of benefits payable to the contract holders. Separate asset portfolios are maintained for the different products and categories of long-term policy liabilities.

Risk management: per type of risk

Investment return risk

Investment return risk is the Group's most important insurance risk and is particularly relevant to products providing smoothed bonuses or guaranteed investment amounts. It is managed via the management of market, credit and liquidity risk as discussed below.

Market risk

The acquisition of policyholders' assets is based on the contract entered into and the preferences expressed by the policyholder. Within these parameters, investments are managed with the aim of maximising policyholder returns while limiting risk to acceptable levels within the framework of statutory requirements.

The focus of risk measurement and management is to ensure that the potential risks inherent in an investment are reasonable for the future potential reward, exposure to investment risk is limited to acceptable levels, premium rates are adequate to compensate for investment risk and an adequate reserving policy is applied for long-term policy liabilities.

Policyholder portfolios with exposure to foreign currencies are predominately in respect of linked, market-related and participating policy liabilities where the holder of the contract is, in the first instance, exposed to the currency risk. For other policies, the currency exposure is negligible.

Credit risk

Refer to 30.2.1 for information on credit risk mitigation. The same principles are applied for financial instruments held in policyholder portfolios.

Liquidity risk

Policyholder funds are invested in appropriate assets, taking into account expected cash outflows.

30 Capital and risk management *(continued)*

30.2 Risk management *(continued)*

30.2.3 Long-term insurance risks *(continued)*

Underwriting risk

Insurance events are random and the actual number and amount of claims will vary from estimates. The Group manages these risks through its product development process and underwriting policy to prevent anti-selection and ensure appropriate premium rates (loadings) for substandard risks, adequate reinsurance arrangements to limit exposure per individual and manage concentration of risks, claims handling policy and adequate pricing and reserving. Quarterly actuarial valuations are also performed to assist in the timely identification of experience variances.

Underwriting strategy

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

- All long-term insurance product additions and alterations are required to pass through the approval framework that forms part of the life insurance business's governance process. The statutory actuaries approve the policy conditions and premium rates of new and revised products;
- Specific testing for HIV/Aids is carried out in all cases where the applications for risk cover exceed a set limit. Product pricing and reserving policies also include specific allowance for the risk of HIV/Aids;
- Applications for risk cover are reviewed by experienced underwriters and evaluated against established standards. Retention limits are applied to limit the exposure per individual life;
- Reasonable income replacement levels apply to disability insurance;
- The experience of reinsurers is used where necessary for the rating of substandard risks;
- The right to rerate premiums is retained as far as possible. The risk premiums for Group risk business and most of the in-force individual risk business can be adjusted within 12 months should claims experience deteriorate to the extent that such an adjustment is considered necessary. Most of the individual new business is sold with a guarantee that risk premiums would not be increased for the first 5 to 15 years;
- Risk profits are determined monthly; and
- Regular investigations into mortality and morbidity experience are conducted to ensure that corrective action, for example rerating of premiums, is taken where necessary.

Reinsurance

The Group's reinsurance arrangements include proportionate, excess and catastrophe coverage. All risk exposures in excess of specified monetary limits are reinsured. Catastrophe insurance is in place for single-event disasters. Credit risk in respect of reinsurance is managed by limiting the Group's exposure to companies with high international or similar credit ratings.

Claims risk

The risk that Sanlam may pay fraudulent claims (claims risk) is mitigated by training client service staff to ensure that fraudulent claims are identified and investigated timeously. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks. The forensic investigation team also advises on improvements to internal control systems.

Operational risk

Lapse risk

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

Expense risk

Expenses are continuously monitored and managed through the Group's budgeting process.

Legislation

The risk is managed as far as possible through clear contracting. The Group monitors and influences events to the extent possible by participation in discussions with legislators, directly and through industry organisations.

30. Capital and risk management *(continued)*

30.2 Risk management *(continued)*

30.2.3 Long-term insurance risks *(continued)*

Operational risk *(continued)*

Taxation

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

Reputational risk

Actions with a potential reputational impact are escalated to the appropriate level of senior management. The audit committees and boards of directors are involved as required. Events with an industry-wide reputational impact are addressed through industry representative groups.

Risk management: per policyholder contract type

Linked and market-related liabilities

The Group is not exposed to market risk in respect of linked and market-related liabilities, as the benefits under the contracts are linked to the fair value of the supporting assets. Market risk is assumed by the contract holder. The Group is exposed to some market risk where the policy contract provides for guaranteed minimum benefits at death or maturity. The risk is managed by appropriate investment policies and by adjusting the level of guarantees for new policies to prevailing market conditions. The Asset Liability Committee determines appropriate investment policies where investment guarantees are provided. These policies are then reflected in the investment guidelines for the policyholder portfolios. The Group's long-term policy liabilities include a specific provision for investment guarantees. The current provision is sufficient to cover the expected additional benefits within a confidence level of at least 80% (2005: 77%).

Refer to the Policy Liabilities and Profit Entitlement section on page 184 for more information on the valuation methodology for these policies.

Stable and reversionary bonus business

The Group is exposed to market risk to the extent that declared bonuses have vested and other investment guarantees are provided. The risk is managed by appropriate investment policies for supporting investments. Negative bonus stabilisation reserves are allowed for in the valuation of these liabilities to the extent that the shortfall is expected to be recovered by declaring lower bonuses in the subsequent three years. The funding level of portfolios are bolstered in instances where negative stabilisation reserves will not be eliminated by these management actions. At 31 December 2006 and 31 December 2005, all portfolios had a funding level in excess of 92,5%.

Non-participating annuities

Interest rate risk is the principle financial risk in respect of non-participating annuities, given the long-term profile of these liabilities. Liabilities are matched as far as possible with assets, mostly interest-bearing, to ensure that the duration of assets and liabilities are closely matched. The impact of changes in interest rates are continuously tested, and for a 1% parallel movement in interest rates the impact on profit will be immaterial.

30. Capital and risk management *(continued)*

30.2 Risk management *(continued)*

30.2.3 Long-term insurance risks *(continued)*

	Group 2006 Years	Group 2005 Years
Mean duration of non-participating annuity liabilities between:	**7,6 to 12,3**	7,6 to 12,2
Mean duration of the supporting assets between:	**6,6 to 11,0**	6,0 to 12,0

Guarantee plans

These policies provide for guaranteed maturity amounts. Market risk is managed by matching the liabilities with assets that have similar maturity profiles as the liabilities.

Concentration of insurance risk

Benefits insured per individual life

R'000	Number of lives 2006	Number of lives 2005	Before reinsurance 2006 %	Before reinsurance 2005 %	After reinsurance 2006 %	After reinsurance 2005 %
0 – 500	**10 864 646**	7 586 515	**76**	60	**89**	66
500 – 1 000	**190 186**	62 538	**13**	17	**7**	17
1 000 – 5 000	**113 609**	27 967	**10**	19	**4**	16
5 000 – 8 000	**2 590**	815	**1**	2	**—**	1
>8 000	**1 275**	334	**—**	2	**—**	—
	11 172 306	7 678 169	**100**	100	**100**	100

Non-participating annuity payable per annum per life insured

R'000	Number of lives 2006	Number of lives 2005	Before reinsurance 2006 %	Before reinsurance 2005 %	After reinsurance 2006 %	After reinsurance 2005 %
0 – 20	**216 408**	217 518	**49**	48	**49**	48
20 – 40	**18 062**	18 526	**18**	18	**18**	18
40 – 60	**6 554**	5 897	**10**	10	**10**	10
60 – 80	**3 158**	2 512	**6**	6	**6**	6
80 – 100	**1 719**	1 206	**4**	4	**4**	4
>100	**2 467**	1 831	**13**	14	**13**	14
	248 368	247 490	**100**	100	**100**	100

30.2.4 Short-term insurance risks

The risks under any one insurance contract are the frequency with which the insured event occurs and the uncertainty of the amount of the resulting claims. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. By the very nature of an insurance contract, this risk is random and therefore unpredictable. Changing risk parameters and unforeseen factors, such as patterns of crime, and economical and geographical circumstances, may result in unexpectedly large claims. Insurance events are random and the actual number of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Risk management

Through the Strategic Enterprise Risk Management (SERM) process that is implemented in the Group's short-term insurance business, the Santam board of directors and executive committee manages the short-term insurance risk according to the Group's risk appetite. An advanced internal model is applied to ensure appropriate and accurate implementation of acceptable risk levels with regard to underwriting, reserving, credit risk and concentration risk within the Group.

30. Capital and risk management *(continued)*

30.2 Risk management *(continued)*

30.2.4 Short-term insurance risks *(continued)*

Risk diversification

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be, therefore a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted to achieve within each of these categories a sufficiently large population of risks to reduce the variability of the expected outcome. The concentration of insurance risk is limited to the occurrence of natural disasters in densely populated areas. The risk arising from this is mitigated by a specialised catastrophe reinsurance programme. The Group underwrites insurance contracts in southern Africa as well as Europe and the United Kingdom.

Repricing

The Group has the right to reprice and change the conditions for accepting risks on renewal. Its also has the ability to impose deductibles and reject fraudulent claims. Only extensive expertise, well-maintained data resources and selective underwriting based on this information can produce risk-adequate prices and conditions. The effects of the risk of change influence both the premium calculations and the reserves.

Claims analysis

Through selective underwriting, client-focused claims handling and state-of-the-art reserving methods, the Group endeavours to minimise risks resulting from the risk of change. Claims are analysed separately for long-tail and short-tail claims. The development of large losses and catastrophes is analysed separately. Short-tail claims can be estimated with greater reliability, and the Group estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allows the Group to achieve a higher degree of certainty about the estimated cost of claims, and relatively lower levels of IBNR are held at year-end. However, the longer time needed to assess the emergence of a long-tail claim makes the estimation process more uncertain for such claims. The uncertain nature of the costs of this type of claim causes greater uncertainty in the estimates, hence the higher level of IBNR. Where possible, the Group adopts multiple techniques to estimate the required level of reserving. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected, taking into account the characteristics of the business class and the extent of the development of each accident year. The Group's exposure is, however, predominantly short-tail as illustrated in the claims development table below. At year-end, the Group believes that its liabilities for long-tail and short-tail claims are adequate.

Reserving

An excellent tool for risk prevention, and thus for risk control, is careful reserving to cover future claims and losses which have been incurred but not yet reported or underreported. In calculating the estimated cost of unpaid claims, the Group estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience, using predetermined formula where greater weight is given to actual claims experience as time passes. The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The Group generally establishes provisions for uncertain liabilities using actuarial methods. Claim provisions for all classes of business are regularly checked by means of internal reviews and audits to make sure they are sufficient. These analyses draw on the expertise and experience of a wide range of specialists, such as actuaries, underwriting and accounting experts.

Reinsurance

A further risk control measure in the field of underwriting is that the Group obtains third party reinsurance cover to reduce risks from single events or accumulation of risk that could have a significant impact on the current year earnings or the company's capital. This cover is placed on the local and international reinsurance market. The core components comprise:

1. An individual excess-of-loss cover for property, liability and engineering risks, which provides protection to limit losses to R50 million or 1% of free assets in any one year;
2. Catastrophe cover to the extent of 1,9% of the total sum insured, amounting to protection up to R4 billion; and
3. Stop-loss cover of 2,5% of total net premium once the loss ratio of the Group exceeds 72,5%.

The relevant board approves the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is placed with external reinsurers that have a credit rating of not less than A- from S&P or AM Best.

30. Capital and risk management *(continued)*

Net claims ratio

The net claims ratio for the Group, which is important in monitoring insurance risk, has developed as follows over the past eight years:

Loss history	2006	2005	2004	2003	2002	2001	2000	1999
Claims paid and provided %	**69,0**	65,3	57,0	64,8	70,7	70,7	72,0	70,0

Claims development

Development of actual claims paid, based on the actual date of the event that caused the claim:

Conventional short-term insurance claims – gross (R million):

Reporting year	Total	2006	2005	2004	2003	2002	2001
2006	7 260	5 663	1 129	273	78	117	—
2005	5 955	—	4 711	966	107	106	65
2004	4 797	—	—	3 813	823	99	62
2003	5 076	—	—	—	3 648	1 083	345
2002	4 832	—	—	—	—	4 105	727
2001	4 169	—	—	—	—	—	4 169
Cumulative payments	32 089	5 663	5 840	5 052	4 656	5 510	5 368

Conventional short-term insurance claims – net (R million):

Reporting year	Total	2006	2005	2004	2003	2002	2001
2006	6 290	5 066	976	119	51	78	—
2005	5 185	—	4 223	820	33	79	30
2004	4 084	—	—	3 311	656	82	35
2003	4 194	—	—	—	3 120	892	182
2002	3 754	—	—	—	—	3 336	418
2001	3 374	—	—	—	—	—	3 374
Cumulative payments	26 881	5 066	5 199	4 250	3 860	4 467	4 039

31. Critical accounting estimates and judgements

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

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

An important indicator of the accuracy of assumptions used by a life insurance company is the experience variations reflected in the embedded value earnings during a period. The experience variations reported by the Group to date have been reasonable compared to the Group embedded value, confirming the accuracy of assumptions used by the Group. Refer to the Report on the Sanlam Group Embedded Value on page 288 for additional information.

31.1 Impairment of goodwill and value of business acquired

The recoverable amount of goodwill and value of business acquired for impairment testing purposes has been determined based on the embedded value of life insurance businesses and the fair value of other businesses, as applicable, less the consolidated net asset value of the respective businesses. The embedded value or fair value of a business therefore has a significant impact on whether an impairment of goodwill and/or value of business acquired is required. Refer to pages 288 and 283 respectively for the main assumptions applied in determining the embedded value of life insurance businesses and the fair value of other Group businesses. Embedded value and fair value sensitivity analyses are provided on pages 297 and 283 respectively.

31. Critical accounting estimates and judgements *(continued)*

31.2 Properties

The valuation of properties is based on estimates and assumptions that have a direct impact on the fair value of properties included in the Sanlam group balance sheet. The majority of the Group's properties are held by Sanlam Life Insurance Limited for which the main valuation assumptions used as at 31 December 2006 and the sensitivity of the valuations to changes in the assumptions are summarised below:

			Change in fair value of properties	
Assumption	**Base assumption**	**Change in assumption**	**Decrease in assumption R million**	**Increase in assumption R million**
2006				
Base discount rate	8,16% – 9,46%	1%	311	(300)
Capitalisation rate	9,5% – 12,0%	1%	543	(450)
2005				
Base discount rate	7,75% – 10,0%	1%	281	(280)
Capitalisation rate	9,5% – 12,25%	1%	456	(388)

31.3 Deferred tax on properties

In terms of the Group's accounting policies, deferred tax is recognised in respect of temporary differences between the carrying value and tax base of properties. IAS 12 *Income Taxes* requires that deferred tax be measured to reflect the tax consequences that would follow from the manner in which the entity expects, at the balance sheet date, to recover the carrying value of its assets.

Based on historic experience, the Group's investment strategy and the expected future growth in the fair value of properties, it is expected that mainly capital gains tax will be payable on the realisation of the carrying value of the properties. Deferred tax has accordingly been provided for at capital gains tax rates. Should income tax rates be applied, the deferred tax liability would have increased by R406 million on 31 December 2006 (2005: R331 million).

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

This disclosure should be read in conjunction with the valuation methodology as described on pages 184 to 188.

The following process is followed to determine the valuation assumptions:

- Determine the best estimate for a particular assumption;
- Prescribed margins are then applied as required by the Long-term Insurance Act in South Africa and Board Notice 72 issued in terms of the Act; and
- Discretionary margins may be applied as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

The best estimate of future experience is determined as follows:

Investment return

Future investment return assumptions are derived from market-related interest rates on fixed-interest securities with adjustments for the other asset classes. The appropriate asset composition of the various asset portfolios, investment management expenses, taxation at current tax rates and charges for investment guarantees are taken into account. Investment return information for the most important products are provided on page 257.

31. Critical accounting estimates and judgements *(continued)*

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

Future bonus rates for participating business

Assumed future bonus rates are determined to be consistent with the valuation implicit rate assumptions. Refer to page 257 for additional information.

Decrements

Assumptions with regard to future mortality, disability and disability payment termination rates and surrender and lapse rates are consistent with the experience for the five years up to 30 June 2006. Mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of Aids and for expected improvements in mortality rates in the case of annuity business.

Expenses

Unit expenses are based on the 2006 actual figures and escalated at estimated expense inflation rates per annum.

Sensitivity to changes in the valuation assumptions

The sensitivity of the policy liabilities to changes in the valuation assumptions are set out below, assuming a worsening of experience. For changes in the valuation rates of contracts, it was assumed that:

- For non-participating business where the policy liabilities are closely matched by appropriate fixed-interest securities, the change in the value of liabilities is offset by a commensurate movement in the value of assets. This assumption is confirmed by sensitivity analyses on the non-participating annuity portfolio where a parallel 1% increase in interest rates will have an immaterial impact on profit; and
- Bonus rates or investment return credited to market-related and smoothed-bonus contracts will be adjusted in line with the change in assumed future investment return, with accordingly no impact on profit.

		Assumption changes				
	Base value	Investment returns	Expenses	Expense inflation	Lapse and surrender rates	Mortality and morbidity rates
R million		-1%	+10%	+1%	+10%	+10%/ -10%*
2006						
Non-participating annuities						
Individual business	**20 017**	**20 095**	**20 024**	**20 026**	**20 018**	**20 054**
Employee benefits business	**3 726**	**4 196**	**3 727**	**3 727**	**3 726**	**3 838**
Non-participating annuities policy liability	**23 743**	**24 291**	**23 751**	**23 753**	**23 744**	**23 892**
Non-participating life business						
Individual business	**20 927**	**21 189**	**20 985**	**20 980**	**20 796**	**21 444**
Employee benefits business	**1 813**	**1 907**	**1 813**	**1 813**	**1 813**	**1 813**
Non-participating life business policy liability	**22 740**	**23 096**	**22 798**	**22 793**	**22 609**	**23 257**

**An assumption of +10% was used for insurance business and -10% for annuity business.*

31. Critical accounting estimates and judgements *(continued)*

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

Sensitivity to changes in the valuation assumptions *(continued)*

		Assumption changes				
	Base value	Investment returns	Expenses	Expense inflation	Lapse and surrender rates	Mortality and morbidity rates
R million		**-1%**	**+10%**	**+1%**	**+10%**	**+10%/ -10%***
2005						
Non-participating annuities						
Individual business	19 559	20 335	19 599	19 614	19 560	19 916
Employee benefits business	3 442	3 909	3 446	3 450	3 442	3 533
Non-participating annuities policy liability	23 001	24 244	23 045	23 064	23 002	23 449
Non-participating life business						
Individual business	20 975	21 487	21 016	21 034	20 655	21 538
Employee benefits business	2 078	2 159	2 078	2 078	2 078	2 078
Non-participating life business policy liability	23 053	23 646	23 094	23 112	22 733	23 616

**An assumption of +10% was used for insurance business and -10% for annuity business.*

The above sensitivities are after taking into account the rerating of premiums but before the impact of reinsurance. The impact of reinsurance is not material for the disclosed sensitivities.

31.5 Policy liabilities for investment contracts with investment management services

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

31.6 The ultimate liability arising from claims under short-term insurance contracts

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

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

Refer to note 30 for further information on the estimation of the claims liability.

31.7 Valuation of unlisted investments

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

32. Retirement benefits for employees

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

At 31 December 2006, 93% of employees were covered by defined-contribution funds and 7% by defined benefit funds (2005: 92% and 8% respectively).

32.1 Defined-contribution funds

There are separate defined-contribution funds for advisers, full-time and part-time office staff. The Sanlam group contributed R166 million to these funds during 2006 (2005: R146 million).

32.2 Defined-benefit funds

The Sanlam group has four defined-benefit funds. These funds relate to:

– Sanlam office personnel (that did not elect to transfer to the defined-contribution fund);
– Merchant Investors office personnel;
– African Life defined-benefit fund SA; and
– African Life defined-benefit fund Botswana.

All funds, except the African Life Botswana fund, are closed for new entrants. The Sanlam office personnel fund and African Life defined-benefit fund SA are governed by the Pension Funds Act in South Africa. All of the above funds are valued annually. According to the latest valuation in accordance with IAS 19, all of the above funds were in a materially sound financial position.

		Sanlam office personnel	Merchant Investors	African Life SA	African Life Botswana
Principal actuarial assumptions:					
Latest valuation date		31 Dec 2006	31 Dec 2006	1 Mar 2006	30 Nov 2006
Pre-retirement discount rate	% pa	8,6%	3,1%	10,0%	10,0%
Post-retirement discount rate	% pa	4,0%	5,2%	5,0%	10,0%
Future salary increases	% pa	6,7%	3,1%	7,0%	8,0%
Expected return on assets	% pa	8,6%	5,4%	10,0%	10,0%
Actual experience:					
Actual return on assets	% pa	20,5%	5,2%	23,0%	24,0%

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

	2006 R million	2005 R million	2004 R million	2003 R million	2002 R million
Net liability recognised in balance sheet:					
Present value of fund obligations	**1 293**	1 088	680	596	565
Actuarial value of fund assets	**(1 447)**	(1 251)	(951)	(688)	(613)
Net present value of funded obligations	**(154)**	(163)	(271)	(92)	(48)
Unrecognised actuarial gains	**154**	163	271	92	48
Net liability recognised in balance sheet	**—**	—	—	—	—
Experience adjustments on:					
Fund obligations	**(2,0%)**	4,1%	0,4%	(2,3%)	2,9%
Fund assets	**7,3%**	7,6%	6,3%	3,9%	(16,7%)

The actuarial surplus is currently not recognised as an asset by the Group, as the extent of the surplus available to the company cannot be determined with certainty.

	2006 R million	2005 R million
32. Retirement benefits for employees *(continued)*		
32.2 Defined-benefit funds *(continued)*		
Fund obligations		
Balance at beginning of year	**1 088**	680
Movement for the year	**205**	408
Current service cost	**25**	26
Interest	**81**	84
Actuarial gains and losses	**(10)**	96
Foreign exchange gains/losses	**65**	(2)
Benefits paid	**(57)**	(82)
Past service costs	**1**	—
Business combinations	**—**	334
Settlements and disposal of subisidiaries	**(50)**	—
Contingency reserves	**150**	(48)
Balance at end of year	**1 293**	1 088
Fund assets		
Balance at beginning of year	**1 251**	951
Movement for the year	**196**	300
Expected return on fund assets	**181**	173
Actuarial gains and losses	**37**	37
Foreign exchange gains/losses	**62**	—
Contributions by employer	**14**	12
Contributions by fund participant	**4**	4
Benefits paid	**(59)**	(85)
Business combinations	**—**	159
Settlements and disposal of subisidiaries	**(43)**	—
Balance at end of year	**1 447**	1 251
	%	**%**
Fund assets comprise:		
Properties	**2%**	2%
Equities and similar securities	**54%**	55%
Public sector stocks and loans	**17%**	16%
Debentures, insurance policies, preference shares and other loans	**15%**	16%
Cash, deposits and similar securities	**12%**	11%
	100%	100%

The above value of fund assets includes an investment of R7 million (2005: R13 million) in Sanlam shares.

	2006 R million	2005 R million
32. Retirement benefits for employees *(continued)*		
32.2 Defined-benefit funds *(continued)*		
Net expense recognised in the income statement (included in administration costs):		
Current service cost	**25**	26
Interest	**81**	84
Expected return on fund assets	**(181)**	(173)
Net actuarial (gains)/losses recognised during the year	**(57)**	125
Past service cost	**1**	—
Change in contingency reserves	**150**	(48)
Total included in staff costs	**19**	14

The best estimate of the expected contributions payable to the fund in 2007 is R20 million.

32.3 Medical aid funds

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

Principal actuarial assumptions at 31 December 2006 were as follows:

Pre-retirement discount rate	8,6%
Returns for All-bond index (ALBI)	8,3%
Expected increase in medical aid contributions	8,6%

	2006 R million	2005 R million
Net liability recognised in balance sheet		
Balance at beginning of year	**40**	44
Movement for the year	**(3)**	(4)
Interest	**3**	4
Actuarial gains and losses	**(1)**	(4)
Benefits paid	**(5)**	(4)
Balance at end of year	**37**	40

	2006 R million	2005 R million	2004 R million	2003 R million	2002 R million
Net liability recognised in balance sheet					
Present value of unfunded obligation	**37**	40	44	45	84
Experience adjustments on:					
Fund obligation	**(2,5%)**	(10,0%)	(14,4%)	(17,5%)	15,9%

	% increase in assumed medical aid contributions	
Sensitivity analysis	**-2%**	**+2%**
Effect of change in assumed medical aid contributions (R million):		
Aggregate of current service and interest costs	**3**	3
Total defined-benefit obligation for post-employment medical benefits	**32**	38

33. Borrowing powers

In terms of the articles of association of Sanlam Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation.

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

	2006 R million	2005 R million
34. Commitments and contingencies		
34.1 Private equity investments		
Commitment in respect of private equity investments	—	38
34.2 Operating leases		
Future operating lease commitments:		
Lease rentals due within one year	**237**	111
Lease rentals due within two to five years	**331**	161
Lease rentals due after more than five years	**45**	81
Total operating lease commitments	**613**	353

34.3 Services provided by JP Morgan

As part of the disposal of Tasc Administration to JP Morgan during 2004, Sanlam agreed to outsource investment administration services to JP Morgan for a period of 10 years. The fees payable under the agreement are based on the market value of the investments under administration.

34.4 Capital maintenance guarantee

In order to conduct and grow the business of Sanlam Capital Markets (SCM) in a competitive manner, an agreement was entered into in 2002 in terms of which the consolidated capital of Genbel Securities Limited (Gensec) (an amount of R2 billion) was guaranteed by Sanlam under the Capital Maintenance Guarantee. In addition, Sanlam Limited undertook in the Capital Maintenance Guarantee to top up Gensec's capital should it ever reduce to below R2 billion, provided that Sanlam would only provide support of a further R5 billion. Gensec in turn provided an unlimited suretyship in favour of the creditors of SCM, in order that SCM's creditors were also protected by the Capital Maintenance Guarantee.

Sanlam Limited has also guaranteed obligations that may arise under SCM's unlisted commercial paper programme and its BESA listed structured note programme on the basis that any creditor accepting that guarantee waives any rights under the abovementioned Capital Maintenance Guarantee. The total limit for the unlisted commercial paper programme is R10 billion and for the BESA listed structured note programme is R5 billion, but these are both subject to the overall R7 billion guarantee utilisation limit discussed below. SCM's utilisation of the BESA listed structured note programme is also expressly limited by Sanlam Limited, in terms of the Group governance processes, to R2 billion. At 31 December 2006 the value of unlisted commercial paper issued by SCM amounted to R4,4 billion and the value of BESA listed structured notes amounted to R321 million. Sanlam Limited has also issued guarantees amounting to R4,2 billion in favour of other subsidiaries in respect of SCM's inter-group obligations.

Notwithstanding the amounts contemplated in any of the guarantees individually, in terms of the Group governance processes, the total utilisation by SCM of all of the above guarantees is limited to a maximum of R7 billion at any one time.

The Capital Maintenance Guarantee is currently being replaced by specific guarantees to SCM's counter parties. This process was substantially completed after year-end and the Gensec Capital Maintenance Guarantee and the suretyship in favour of the creditors of SCM will therefore be withdrawn in due course.

34.5 Medical aid schemes

Two medical aid schemes formerly administered by Sanlam Health have instituted legal action against Sanlam Health, claiming that the court should issue orders that they are entitled to share in profits accumulated by Sanlam Health during the period May 1975 to December 1997 and accounting, debatement and payment in respect thereof. The claims are defended by Sanlam Health on the basis that the plaintiffs are not entitled to such orders and that accounting has been made in accordance with the obligations of Sanlam Health.

34.6 Subordination

Gensec has subordinated its shareholders' loan in Safair Lease Finance (Proprietary) Limited, of R98 million (2005: R98 million) to third-parties' liabilities.

34. Commitments and contingencies *(continued)*

34.7 Other

Financial claims are lodged against the Group from time to time. Provisions are recognised for these claims based on best estimates of the expected outcome of the claims (refer to note 18). Given the high degree of uncertainty involved in determining the expected outcome, it is reasonably possible that outcomes in future financial years will be different to the current estimates. There are no other material commitments or contingencies.

35. Related parties

35.1 Major shareholders

Sanlam Limited is the ultimate holding company in the Group.

By virtue of its shareholding in Sanlam Limited, Ubuntu-Botho Investments is considered to be a related party to the Group. Apart from Ubuntu-Botho Investments' role in obtaining new business for the Group, the Group does not enter into transactions with Ubuntu-Botho Investments in the normal course of business.

No other Sanlam shareholders have a significant influence and thus no other shareholder is a related party. The shares are widely held by public and non-public shareholders.

Details of transactions between the policyholders' and shareholders' funds of the Sanlam group are disclosed in note 15.

35.2 Transactions with post-employment benefit plans

Contributions to the post-employment benefit plans were R185 million in 2006 (2005: R160 million). There are no amounts outstanding at year-end.

35.3 Transactions with directors

Remuneration is paid to directors in the form of fees to non-executive directors and remuneration to executive directors of the company. All directors of Sanlam Limited have notified that they did not have a material interest in any contract of significance with the company or any of its subsidiaries, which could have given rise to a conflict of interest during the year. Details relating to directors' emoluments are included in note 24 and their shareholdings and share options granted in the company are disclosed as part of the Corporate Governance Report elsewhere in the annual report.

35.4 Transactions with entities in the Group

During the year, the company and its subsidiaries, in the ordinary course of business, entered into various transactions with other Group companies, associated companies, joint ventures and other stakeholders. These transactions occurred at arm's length.

The company advanced, repaid and received loans from two other entities in the Group during the current and previous years. These loans have been eliminated on consolidation.

Details of investments in associated companies and joint ventures are disclosed in note 7 and details of investments in subsidiaries are disclosed on page 264. The Group provides financing for a portion of the loans granted by Sanlam Home Loans and Sanlam Personal Loans. Most of these loans earn interest of JIBAR plus a premium of between 0,12% and 1,5%, and either have no fixed maturity date, or will mature in tranches up to 2012.

35.5 Policy administration

Certain companies in the Group carry out third-party policy and other administration activities for other related parties in the Group. These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

	2006 R million	2005 R million
35.6 Key management personnel compensation		
Compensation paid to the Group's key management personnel is as follows:		
Short-term employee benefits	**355**	298
Share-based payments	**22**	23
Termination benefits	**1**	5
Other long-term benefits and incentive schemes	**12**	1
Total key management personnel compensation	**390**	327

	2006 R million	2005 R million
36. Notes to the cash flow statement		
36.1 Cash utilised in operations		
Profit before tax per income statement	**11 166**	14 894
Net movement in policy liabilities	**27 373**	23 617
Non-cash flow items	**(37 932)**	(36 062)
Depreciation	**90**	77
Bad debts written off	**138**	6
Share-based payments	**91**	69
(Profit)/loss on disposal of subsidiaries	**(93)**	60
Fair value adjustments	**(37 810)**	(35 342)
Impairment of investments and goodwill	**30**	12
Amortisation of value of business acquired	**45**	—
Equity-accounted earnings	**(423)**	(944)
Items disclosed separately	**(11 277)**	(8 880)
Interest and preference share dividends received	**(7 335)**	(6 018)
Interest paid	**223**	429
Dividends received	**(4 165)**	(3 291)
Net purchase of fixed assets	**(99)**	(91)
Net disposal/(purchase) of owner-occupied properties	**25**	(27)
(Increase)/decrease in net working capital assets and liabilities	**(1 010)**	3 023
Cash utilised in operations	**(11 754)**	(3 526)
36.2 Acquisition of subsidiaries		
During the year, various subsidiaries were acquired within the Group. The fair value of assets acquired is as follows:		
Net assets acquired (note 37)	**428**	2 589
Goodwill (note 3)	**276**	26
Total purchase consideration	**704**	2 615
Less: Net asset value contributed	**(78)**	—
Cash, deposits and similar securities acquired	**(146)**	(368)
Cash component of acquisition of subsidiaries	**480**	2 247

	2006 R million	2005 R million
36. Notes to the cash flow statement *(continued)*		
36.3 Disposal of subsidiaries		
Disposal of subsidiaries relates mainly to the reduction in the Group's interest in the Punter Southall Group from 61% to 27% during the year. The fair value of assets disposed of was as follows:		
Property and equipment	**10**	—
Long-term reinsurance asset	**7**	—
Investments	**354**	2 764
Deferred tax asset	**2**	—
Short-term insurance technical assets	**124**	—
Trade and other receivables	**260**	242
Cash, deposits and similar securities	**239**	34
Goodwill	**307**	47
Term finance	**(7)**	(1 342)
Long-term policy liabilities	**(208)**	—
Deferred tax liability	**(3)**	(82)
Short-term insurance technical provisions	**(336)**	—
Working capital liabilities	**(186)**	(367)
Minorities	**(82)**	(750)
Profit/(loss) on disposal of subsidiaries	**93**	(60)
Total disposal price	**574**	486
Less: Investment in associate acquired	**(232)**	—
Cash, deposits and similar securities disposed of	**(239)**	(34)
Cash component of disposal of subsidiaries	**103**	452
36.4 Cash, deposits and similar securities		
Working capital: Cash, deposits and similar securities	**9 162**	8 289
Investment cash	**35 488**	29 132
Bank overdrafts	**(3)**	(13)
Total cash, deposits and similar securities	**44 647**	37 408

37. Business combinations

37.1 Material acquisitions of the Group consolidated in the 2006 financial year are as follows:

Channel Life Limited (Channel Life)

The Group acquired a controlling interest in Channel Life, a South African-based long-term insurance company, during February 2006. As part of the transaction, the Group's 55% interest in Safrican Insurance Company Limited (Safrican) was transferred to Channel Life. The Channel Life group contributed R762 million and R27 million to Group revenue and net profit respectively for the 12 months ended 31 December 2006.

Other

Other business combinations relate to the following:

– The acquisition of the Coris multi-manager business;
– The first-time consolidation of African Life's 50% interest in Pan African Insurance Holdings (PAIH) after the Group gained management control at the end of the 2006 financial year; and
– Increases in the shareholding of other subsidiaries, predominantly Santam.

Coris and PAIH's contribution to profit for 2006 is not material.

37. Business combinations *(continued)*

37.1 Material acquisitions of the Group consolidated in the 2006 financial year are as follows: *(continued)*

	Channel Life R million	Other R million
Details of the purchase consideration and goodwill acquired are as follows:		
Purchase consideration	133	569
Cash consideration	123	501
Fair value of net assets contributed	10	68
Fair value of net assets acquired	76	352
Goodwill	57	217

The goodwill acquired relates to the future new business potential of the Channel Life group and synergies between the other interests acquired and existing Sanlam group businesses.

	Channel Life		Other	
	Fair value R million	Carrying value[1] R million	Fair value R million	Carrying value[1] R million
Details of the assets and liabilities acquired are as follows:				
Property and equipment	5	5	6	6
Owner-occupied properties	—	—	2	2
Goodwill	14	14	—	—
Value of business acquired	27	—	—	—
Deferred acquisition costs	1	1	—	—
Investments	12 327	12 327	429	429
Deferred tax assets	119	119	3	3
Trade and other receivables	115	115	35	35
Cash, deposits and similar securities	134	134	12	12
Term finance	(12)	(12)	—	—
Long-term policy liabilities	(12 362)	(12 362)	(268)	(268)
Deferred tax liabilities	(64)	(64)	(4)	(4)
Working capital liabilities	(170)	(170)	(78)	(78)
Net assets	134	107	137	137
Minority shareholders' interest	(58)		215	
Net assets acquired	76		352	

[1] *Carrying value of assets and liabilities in acquiree's own financial statements on acquisition date.*

37.2 Material acquisitions of the Group consolidated in the 2005 financial year are as follows:

African Life Assurance Company (African Life)

The Group acquired 100% of the issued share capital of African Life, a long-term insurance company that operates in six African countries, during 2005. An interest of approximately 21% was acquired during March 2005 and the remainder was acquired during December 2005. Due to the fact that the acquisition date of the controlling interest was at the end of the Sanlam group's financial year, African Life did not contribute to revenues and net profit in 2005, apart from equity-accounted earnings of R45 million since March 2005. If the acquisition had occurred on 1 April 2005, the beginning of African Life's financial year, it would have contributed R219 million to profit for the 2005 year. Due to the difference in African Life's financial year, it is impracticable to provide earnings information for the 2005 financial period.

37. Business combinations *(continued)*

37.2 Material acquisitions of the Group consolidated in the 2005 financial year are as follows: *(continued)*

African Life Assurance Company (African Life) *(continued)*

The acquisition accounting for African Life has been finalised during the 2006 financial year. Prior to its acquisition becoming unconditional and Sanlam taking control of the business, African Life implemented a change in its main South African policy administration system. Major inefficiencies in this process gave cause to a number of administration and operational problems and control weaknesses. This had a negative impact on the recognition of earnings in its operating results and necessitated an increase of R40 million in the African Life working capital liabilities acquired and commensurately in the value of business acquired. The 2005 comparative figures have been restated accordingly.

Other

Other business combinations relate to the acquisition of Safrican Insurance Company, Nova Group Holdings, Total Care Strategies and increases in the shareholding of other subsidiaries. These companies' contribution to profit is not material.

	African Life R million	Other R million
Details of the purchase consideration and goodwill acquired are as follows:		
Purchase consideration	2 575	40
Cash consideration	2 557	40
Costs directly attributable to acquisition	18	—
Fair value of net assets acquired	2 575	14
Goodwill	—	26

The goodwill relates mainly to the value of anticipated synergies.

	African Life		Other	
	Fair value R million	Carrying value[1] R million	Fair value R million	Carrying value[1] R million
Details of the assets and liabilities acquired are as follows:				
Property and equipment	48	48	3	3
Owner-occupied properties	85	85	—	—
Goodwill	21	21	—	—
Value of business acquired	982	—	—	—
Long-term reinsurance assets	34	34	5	5
Investments	12 616	12 616	304	304
Deferred tax assets	30	30	6	6
Short-term insurance technical assets	—	—	102	102
Trade and other receivables	452	452	110	110
Cash, deposits and similar securities	64	64	304	304
Term finance	(26)	(26)	—	—
Cell owners' interest	—	—	(132)	(132)
Long-term policy liabilities	(10 787)	(10 787)	(350)	(350)
Deferred tax liabilities	(55)	(55)	—	—
Short-term insurance technical provisions	—	—	(207)	(207)
Working capital liabilities	(522)	(482)	(126)	(126)
Net assets	2 942	2 000	19	19
Minority shareholders' interest	(367)		(5)	
Net assets acquired	2 575		14	

[1] *Carrying value of assets and liabilities in acquiree's own financial statements on acquisition date.*

38. Segmental information

38.1 Primary reporting format: business segments

R million	Life Insurance 2006	Life Insurance 2005	Short-term Insurance 2006	Short-term Insurance 2005	Investment Management 2006	Investment Management 2005	Capital Mark 2006
Net income	**17 284**	13 532	**11 956**	10 371	**2 076**	1 388	**370**
Financial services income	**10 039**	7 509	**10 482**	9 112	**1 996**	1 425	**370**
Reinsurance premiums paid	**—**	—	**—**	—	**—**	—	**—**
Reinsurance commission received	**—**	—	**—**	—	**—**	—	**—**
Investment income	**1 638**	1 153	**208**	281	**23**	—	**—**
Investment surpluses	**5 607**	4 870	**1 266**	978	**57**	(37)	**—**
Finance cost-margin business	**—**	—	**—**	—	**—**	—	**—**
Change in fair value of external investors' liability	**—**	—	**—**	—	**—**	—	**—**
Net insurance and investment contract benefits and claims	**(3 467)**	(3 238)	**(7 037)**	(5 792)	**—**	—	**—**
Long-term insurance contract benefits	**(3 467)**	(2 618)	**—**	—	**—**	—	**—**
Long-term investment contract benefits	**—**	—	**—**	—	**—**	—	**—**
Enhanced early termination benefits	**—**	(620)	**—**	—	**—**	—	**—**
Short-term insurance claims	**—**	—	**(7 037)**	(5 792)	**—**	—	**—**
Reinsurance claims received	**—**	—	**—**	—	**—**	—	**—**
Expenses	**(4 384)**	(3 312)	**(2 539)**	(2 304)	**(919)**	(726)	**(219)**
Sales remuneration	**(1 523)**	(1 034)	**(1 422)**	(1 183)	**—**	—	**—**
Administration costs	**(2 861)**	(2 278)	**(1 117)**	(1 121)	**(919)**	(726)	**(219)**
Impairment of investments and goodwill	**—**	—	**—**	(2)	**—**	6	**—**
Amortisation of value of business acquired	**(43)**	—	**(2)**	—	**—**	—	**—**
Net operating result	**9 390**	6 982	**2 378**	2 273	**1 157**	668	**151**
Equity-accounted earnings	**64**	33	**105**	23	**29**	—	**—**
Finance cost – other	**—**	—	**—**	—	**—**	—	**—**
Profit before tax	**9 454**	7 015	**2 483**	2 296	**1 186**	668	**151**
Taxation	**(1 186)**	(651)	**(560)**	(493)	**(271)**	(150)	**(10)**
Shareholders' fund	**(1 186)**	(651)	**(560)**	(493)	**(271)**	(150)	**(10)**
Policyholders' fund	**—**	—	**—**	—	**—**	—	**—**
Profit for the year	**8 268**	6 364	**1 923**	1 803	**915**	518	**141**
Attributable to:							
Shareholders' fund	**8 055**	6 348	**981**	880	**820**	495	**141**
Minority shareholders' interest	**213**	16	**942**	923	**95**	23	**—**
	8 268	6 364	**1 923**	1 803	**915**	518	**141**
Segment revenue from other segments	**—**	—	**—**	—	**572**	506	**64**

Independent Financial Services		Corporate and other		Consolidation entries		Subtotal: Shareholder activities		IFRS adjustments		Policyholder activities		Total per Grou Income Stateme	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	200
143	572	205	5 813	(3 204)	(2 654)	28 830	29 353	433	491	40 697	33 463	69 960	63 30
28	569	(2)	1	—	—	22 913	18 947	1 308	1 446	—	—	24 221	20 39
—	—	—	—	—	—	—	—	(2 432)	(2 339)	—	—	(2 432)	(2 33
—	—	—	—	—	—	—	—	383	445	—	—	383	44
20	4	116	114	(911)	(283)	1 094	1 269	1 674	1 051	9 254	8 402	12 022	10 72
95	(1)	91	5 698	(2 293)	(2 371)	4 823	9 137	1 637	1 084	31 443	25 061	37 903	35 28
—	—	—	—	—	—	—	—	(223)	(293)	—	—	(223)	(29
—	—	—	—	—	—	—	—	(1 914)	(903)	—	—	(1 914)	(90
—	—	—	—	—	—	(10 504)	(9 030)	—	—	(39 568)	(32 410)	(50 072)	(41 44
—	—	—	—	—	—	(3 467)	(2 618)	(237)	(136)	(20 954)	(18 316)	(24 658)	(21 07
—	—	—	—	—	—	—	—	—	—	(18 614)	(14 094)	(18 614)	(14 09
—	—	—	—	—	—	—	(620)	—	—	—	—	—	(62
—	—	—	—	—	—	(7 037)	(5 792)	(1 049)	(1 112)	—	—	(8 086)	(6 90
—	—	—	—	—	—	—	—	1 286	1 248	—	—	1 286	1 24
(8)	(537)	(233)	(173)	—	—	(8 302)	(7 232)	(654)	(537)	—	—	(8 956)	(7 76
—	—	—	—	—	—	(2 945)	(2 217)	(355)	(415)	—	—	(3 300)	(2 63
(8)	(537)	(233)	(173)	—	—	(5 357)	(5 015)	(299)	(122)	—	—	(5 656)	(5 13
(30)	(7)	—	—	—	—	(30)	(3)	—	(9)	—	—	(30)	(1
—	—	—	—	—	—	(45)	—	—	—	—	—	(45)	–
105	28	(28)	5 640	(3 204)	(2 654)	9 949	13 088	(221)	(55)	1 129	1 053	10 857	14 08
5	—	31	425	—	—	234	481	189	463	—	—	423	94
—	—	—	—	—	—	—	—	(114)	(136)	—	—	(114)	(13
110	28	3	6 065	(3 204)	(2 654)	10 183	13 569	(146)	272	1 129	1 053	11 166	14 89
(6)	(5)	45	(372)	—	—	(1 988)	(1 674)	47	(76)	(1 129)	(1 053)	(3 070)	(2 80
(6)	(5)	45	(372)	—	—	(1 988)	(1 674)	94	(10)	—	—	(1 894)	(1 68
—	—	—	—	—	—	—	—	(47)	(66)	(1 129)	(1 053)	(1 176)	(1 11
104	23	48	5 693	(3 204)	(2 654)	8 195	11 895	(99)	196	—	—	8 096	12 09
104	17	48	5 693	(3 204)	(2 654)	6 945	10 927	—	—	—	—	6 945	10 92
—	6	—	—	—	—	1 250	968	(99)	196	—	—	1 151	1 16
104	23	48	5 693	(3 204)	(2 654)	8 195	11 895	(99)	196	—	—	8 096	12 09
—	—	—	—	—	—	636	586	—	—	—	—	636	58

38. Segmental information *(continued)*

38.1 Primary reporting format: business segments *(continued)*

R million	Life Insurance 2006	Life Insurance 2005	Short-term Insurance 2006	Short-term Insurance 2005	Investment Management 2006	Investment Management 2005	Capital Mark 2006	Capital Mark 2
Segment assets								
Total assets per shareholders' fund balance sheet (refer to page 266)	**47 725**	38 034	**16 660**	14 587	**2 886**	1 842	**30 221**	21
Add: Assets relating to policyholder activities	**—**	—	**—**	—	**—**	—	**—**	
Less: Income tax assets	**(117)**	(80)	**(27)**	(22)	**(6)**	(10)	**(74)**	
Total segment assets	**47 608**	37 954	**16 633**	14 565	**2 880**	1 832	**30 147**	21
Segment liabilities								
Total liabilities per shareholders' fund balance sheet (refer to page 266)	**12 331**	9 871	**9 738**	8 742	**1 641**	818	**29 680**	21
Add: Liabilities relating to policyholder activities	**—**	—	**—**	—	**—**	—	**—**	
Less: Income tax liabilities	**(1 576)**	(2 113)	**(297)**	(282)	**(198)**	(78)	**—**	
Total segment liabilities	**10 755**	7 758	**9 441**	8 460	**1 443**	740	**29 680**	21
Non-cash expenses/(income)	**(5 417)**	(4 808)	**(1 356)**	(988)	**(79)**	50	**5**	
Depreciation	**57**	43	**19**	22	**4**	3	**2**	
Bad debts	**155**	21	**(17)**	(21)	**—**	—	**—**	
Share-based payments	**42**	31	**13**	10	**3**	16	**3**	
Fair value adjustments	**(5 607)**	(4 870)	**(1 266)**	(978)	**(57)**	37	**—**	
Impairment of investments and goodwill	**—**	—	**—**	2	**—**	(6)	**—**	
Equity-accounted earnings	**(64)**	(33)	**(105)**	(23)	**(29)**	—	**—**	

38.2 Secondary reporting format: geographical segments

	2006 R million	2005 R million
Segment assets	**334 933**	276 380
South Africa	**265 085**	222 770
Africa	**12 304**	8 426
Other international[1]	**57 544**	45 184
Segment financial services income for the shareholders' fund	**22 913**	18 947
South Africa	**20 306**	16 773
Africa	**1 260**	456
Other international[1]	**1 347**	1 718
Segment net result from financial services for the shareholders' fund	**2 616**	2 300
South Africa	**2 088**	1 925
Africa	**209**	81
Other international[1]	**319**	294

[1] *Other international comprises business in the Netherlands, United Kingdom and India.*

Independent Financial Services		Corporate and other		Consolidation entries		Subtotal: Shareholder activities		IFRS adjustments		Policyholder activities		Total per Grou Income Stateme	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	200
540	651	5 562	6 675	(19 908)	(14 773)	83 686	68 679	—	—	—	—	83 686	68 67
—	—	—	—	—	—	—	—	—	—	251 796	208 073	251 796	208 07
—	(2)	(174)	(136)	—	—	(398)	(343)	—	—	(151)	(29)	(549)	(37
540	649	5 388	6 539	(19 908)	(14 773)	83 288	68 336	—	—	251 645	208 044	334 933	276 38
4	168	3 571	3 882	(6 450)	(4 490)	50 515	40 102	—	—	—	—	50 515	40 10
—	—	—	—	—	—	—	—	—	—	251 912	208 187	251 912	208 18
(2)	(1)	(25)	(11)	2	408	(2 096)	(2 077)	—	—	(1 819)	(1 142)	(3 915)	(3 21
2	167	3 546	3 871	(6 448)	(4 082)	48 419	38 025	—	—	250 093	207 045	298 512	245 07
(70)	25	(84)	(6 123)	2 293	2 371	(4 708)	(9 463)	(1 550)	(1 538)	(31 719)	(25 061)	(37 977)	(36 06
—	7	8	—	—	—	90	77	—	—	—	—	90	7
—	6	—	—	—	—	138	6	—	—	—	—	138	
—	4	30	—	—	—	91	69	—	—	—	—	91	6
(95)	1	(91)	(5 698)	2 293	2 371	(4 823)	(9 137)	(1 361)	(1 084)	(31 719)	(25 061)	(37 903)	(35 28
30	7	—	—	—	—	30	3	—	9	—	—	30	1
(5)	—	(31)	(425)	—	—	(234)	(481)	(189)	(463)	—	—	(423)	(94

Statement of Actuarial Values of Assets and Liabilities at 31 December 2006

R million	Note	Sanlam Life 2006	Sanlam Life 2005[1]
Assets			
Fair value of assets	2	**235 654**	200 877
Less: Liabilities		**201 457**	173 064
Actuarial value of policy liabilities	3	**189 865**	164 758
Investment contracts		**76 181**	64 556
Insurance contracts		**113 684**	100 202
Long-term and current liabilities		**11 592**	8 306
Excess of assets over liabilities for financial reporting		**34 197**	27 813
Adjustment for prudential regulatory purposes	4	**(10 806)**	(6 440)
Unsecured subordinated bond		**2 144**	—
Excess of assets over liabilities for prudential regulatory purposes		**25 535**	21 373
Analysis of movement in excess of assets over liabilities			
Result from financial services before tax		**1 661**	1 529
Investment return on excess of assets over liabilities		**7 144**	6 156
Investment income		**1 504**	1 166
Realised and unrealised investment surpluses		**5 640**	4 990
Agreement on early termination values		**—**	(440)
Cost incurred		**—**	(620)
Income tax		**—**	180
Other		**—**	(150)
Minority interest		**—**	—
Taxation		**(743)**	(1 443)
Income tax		**(379)**	(420)
Capital gains tax		**(368)**	(914)
Secondary tax on companies		**4**	(109)
Attributable earnings before dividends paid	5	**8 062**	5 652
Share capital raised		**—**	—
Movement in foreign currency translation reserve/prior year retained earnings adjustment		**—**	—
Repayment of shareholders' loan		**—**	—
Share-based payments		**34**	45
Dividends paid		**(1 712)**	(5 300)
Add back minority interest		**—**	—
Movement in excess of assets over liabilities for financial reporting		**6 384**	397
Capital adequacy requirements			
Capital adequacy requirements (CAR) before management actions		**8 775**	8 350
Management actions assumed	6	**(2 975)**	(2 975)
CAR after management actions assumed	6	**5 800**	5 375
Times CAR covered by excess of assets over liabilities for prudential regulatory purposes		**4,4**	4,0

[1] *The Sanlam Life 2005 figures have been restated as follows: Excess of assets over liabilities for prudential regulatory purposes increased by R499 million and attributable earnings before dividends paid decreased by R609 million for deferred tax no longer recognised in respect of the company's investments in equity-accounted associates.*

[2] *Includes Botswana Life Insurance Limited and Botswana Insurance Fund Management Limited.*

Merchant Investors		Sanlam Life Namibia		African Life		Botswana Insurance Holdings Limited[(2)]	
2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
24 862	17 576	**6 033**	5 176	**5 308**	5 900	**11 167**	8 751
24 541	17 393	**5 513**	4 787	**3 803**	3 989	**10 125**	7 942
23 183	17 156	**5 348**	4 663	**3 202**	3 590	**9 876**	7 758
19 142	13 951	**1 864**	1 569	**2 051**	2 665	**7 269**	5 704
4 041	3 205	**3 484**	3 094	**1 151**	925	**2 607**	2 054
1 358	237	**165**	124	**601**	399	**249**	184
321	183	**520**	389	**1 505**	1 911	**1 042**	809
(124)	(7)	**—**	—	**(36)**	(321)	**—**	—
—	—	**—**	—	**—**	—	**—**	—
197	176	**520**	389	**1 469**	1 590	**1 042**	809
55	(19)	**46**	30	**194**	—	**258**	—
84	4	**87**	73	**264**	—	**248**	—
4	4	**22**	18	**110**	—	**58**	—
80	—	**65**	55	**154**	—	**190**	—
—	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**(184)**	—
(1)	(1)	**(2)**	(1)	**(164)**	—	**(102)**	—
(1)	(1)	**(2)**	(1)	**(129)**	—	**(112)**	—
—	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**(35)**	—	**10**	—
138	(16)	**131**	102	**294**	—	**220**	—
—	98	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**(103)**	—
—	—	**—**	(125)	**(32)**	—	**—**	—
—	—	**—**	—	**11**	—	**2**	—
—	—	**—**	(50)	**(296)**	—	**(67)**	—
—	—	**—**	—	**—**	—	**184**	—
138	82	**131**	(73)	**(23)**	—	**236**	—
95	74	**240**	200	**242**	209	**82**	62
—	—	**(80)**	(70)	**—**	—	**—**	—
95	74	**160**	130	**242**	209	**82**	62
2,1	2,4	**3,3**	3,0	**6,1**	7,6	**12,7**	13,0

Notes to the Statement of Actuarial Values of Assets and Liabilities at 31 December 2006

	2006 R million	2005 R million

1. Introduction

Channel Life was acquired at the beginning of 2006 and African Life at the end of 2005. Consequently the 2005 earnings information excludes the African Life group.

2. Fair value of assets

Assets have been valued on the bases as set out before, apart from equity investments in treasury shares and Group subsidiaries, associated companies and joint ventures, which are valued at fair value.

3. Actuarial value of policy liabilities

The actuarial value of policy liabilities reconciles as follows with the long-term policy liabilities in the Group balance sheet:

	2006 R million	2005 R million
Long-term policy liabilities of the Sanlam group	**237 864**	198 234
Actuarial value of policy liabilities per Statement of Actuarial Values of Assets and Liabilities:		
Sanlam Life	**189 865**	164 758
Merchant Investors	**23 183**	17 156
Sanlam Life Namibia	**5 348**	4 663
African Life	**3 202**	3 590
Botswana Insurance Holdings Limited	**9 876**	7 758
Channel Life	**1 768**	—
Alternative Channel	**3 633**	—
Other	**989**	309

4. Adjustment for prudential regulatory purposes

R million	Sanlam Life 2006	Sanlam Life 2005	Merchant Investors 2006	Merchant Investors 2005	Sanlam Life Namibia 2006	Sanlam Life Namibia 2005	African Life 2006	African Life 2005	Botswana Insurance Holdings Limited 2006	Botswana Insurance Holdings Limited 2005
Total adjustment	**(10 806)**	(6 440)	**(124)**	(7)	**—**	—	**(36)**	(321)	**—**	—
Adjustment for Group undertakings										
Sanlam Investment Management	**(3 171)**	(1 853)	**—**	—	**—**	—	**—**	—	**—**	—
Santam	**(3 197)**	(2 143)	**—**	—	**—**	—	**—**	—	**—**	—
African Life	**(1 715)**	(1 503)	**—**	—	**—**	—	**—**	—	**—**	—
Other	**(501)**	(362)	**—**	—	**—**	—	**—**	—	**—**	—
Capital requirements of life insurance subsidiaries, adjusted for minority interests	**(720)**	(500)	**—**	—	**—**	—	**—**	(305)	**—**	—
Inadmissible assets	**(92)**	(79)	**(112)**	(16)	**—**	—	**(36)**	(16)	**—**	—
Other	**(1 410)**	—	**(12)**	9	**—**	—	**—**	—	**—**	—

	2006 R million	2005 R million
5. Attributable earnings		
Attributable earnings reconcile as follows with the Life Insurance cluster attributable earnings:		
Life insurance attributable earnings	**8 055**	6 348
Attributable earnings per Statement of Actuarial Values of Assets and Liabilities:		
Sanlam Life	**8 062**	5 652
Merchant Investors	**138**	(16)
Sanlam Life Namibia	**131**	102
African Life	**294**	—
Botswana Insurance Holdings Limited	**220**	—
Attributable earnings reported in other business clusters	**61**	38
Attributable earnings of other Group subsidiaries included in Life Insurance cluster attributable earnings	**61**	106
Consolidation adjustments and other	**(912)**	466

6. Management actions

R million	Sanlam Life 2006	Sanlam Life 2005	Merchant Investors 2006	Merchant Investors 2005	Sanlam Life Namibia 2006	Sanlam Life Namibia 2005	African Life 2006	African Life 2005	Botswana Insurance Holdings Limited 2006	Botswana Insurance Holdings Limited 2005
The following management actions were assumed in the calculation of the capital adequacy requirements:										
Reduction in non-vested bonuses	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Reduction in future bonus rates	**2 393**	2 097	**—**	—	**74**	57	**—**	—	**—**	—
Capitalisation of proportion of expected future profits held as second-tier margins	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Reduction in grossing up of the assets covering CAR	**592**	892	**—**	—	**4**	12	**—**	—	**—**	—
Independence credits	**(10)**	(14)	**—**	—	**2**	1	**—**	—	**—**	—
Total management actions	**2 975**	2 975	**—**	—	**80**	70	**—**	—	**—**	—
	%	%	**%**	%	**%**	%	**%**	%	**%**	%
The average change in non-vested bonuses for reversionary bonus type business	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
The average change in future bonus rates below expected long-term rates for three years	**(2)**	(2)	**—**	—	**(3)**	(2)	**—**	—	**—**	—

7. Asset composition

%	Sanlam Life 2006	Sanlam Life 2005	Merchant Investors 2006	Merchant Investors 2005	Sanlam Life Namibia 2006	Sanlam Life Namibia 2005	African Life 2006	African Life 2005	Botswana Insurance Holdings Limited 2006	Botswana Insurance Holdings Limited 2005
The assets backing the capital adequacy requirements after management actions were invested as follows:										
Cash	**35**	15	**100**	100	**100**	75	**50**	25	**—**	—
Fixed-interest securities	**65**	20	**—**	—	**—**	25	**—**	25	**24**	31
Hedged equities	**—**	35	**—**	—	**—**	—	**—**	—	**—**	—
Properties	**—**	5	**—**	—	**—**	—	**—**	—	**1**	4
Equities	**—**	25	**—**	—	**—**	—	**50**	50	**75**	65
	100	100	**100**	100	**100**	100	**100**	100	**100**	100

8. Future investment return and inflation assumptions

%	Sanlam Life 2006	Sanlam Life 2005	Merchant Investors 2006	Merchant Investors 2005	Sanlam Life Namibia 2006	Sanlam Life Namibia 2005	African Life 2006	African Life 2005	Botswana Insurance Holdings Limited 2006	Botswana Insurance Holdings Limited 2005
Pre-tax investment returns by major asset categories and inflation assumptions were as follows:										
Fixed-interest securities	**7,9**	7,5	**4,6**	4,1	**7,9**	7,5	**8,0**	7,4	**11,0**	10,0
Equities and offshore investments	**9,9**	9,5	**7,1**	6,6	**9,9**	9,5	**10,0**	9,4	**13,0**	12,0
Hedged equities	**7,9**	7,5	**7,1**	6,6	**7,9**	7,5	**n/a**	n/a	**n/a**	n/a
Properties	**8,9**	8,5	**7,1**	6,6	**8,9**	8,5	**9,0**	8,4	**13,0**	11,0
Cash	**5,9**	5,5	**4,6**	4,1	**5,9**	5,5	**6,0**	5,4	**9,0**	8,0
Future expense inflation (excluding margin)	**4,4**	4,0	**3,5**	3,0	**4,4**	4,0	**5,0**	4,4	**8,0**	7,0
Consumer price index inflation for premium indexation	**4,4**	3,0	**3,5**	3,0	**4,4**	3,0	**n/a**	n/a	**n/a**	n/a

9. Discount rates used in calculating prospective policy liabilities

%	Sanlam Life 2006	Sanlam Life 2005	Merchant Investors 2006	Merchant Investors 2005	Sanlam Life Namibia 2006	Sanlam Life Namibia 2005	African Life 2006	African Life 2005	Botswana Insurance Holdings Limited 2006	Botswana Insurance Holdings Limited 2005
Reversionary bonus business										
Retirement annuity business	**8,4**	7,8	**n/a**	n/a	**8,7**	8,3	**n/a**	n/a	**n/a**	n/a
Individual policyholder business	**7,5**	7,2	**n/a**	n/a	**8,3**	8,0	**n/a**	n/a	**11,8**	10,6
Individual stable bonus business										
Retirement annuity business	**8,1**	7,5	**n/a**	n/a	**8,4**	8,0	**n/a**	n/a	**n/a**	n/a
Individual policyholder business	**7,2**	6,9	**n/a**	n/a	**8,0**	7,7	**n/a**	n/a	**n/a**	n/a
Non-taxable business	**8,4**	8,0	**n/a**	n/a	**8,4**	8,0	**n/a**	n/a	**n/a**	n/a
Corporate policyholder business	**7,0**	6,7	**n/a**	n/a	**8,0**	7,7	**n/a**	n/a	**n/a**	n/a
Individual market-related business										
Retirement annuity business	**8,4**	7,8	**4,1**	3,9	**8,6**	8,2	**8,4**	8,8	**n/a**	n/a
Individual policyholder business	**7,5**	7,2	**3,3**	3,1	**8,3**	7,9	**7,4**	8,3	**11,8**	10,6
Non-taxable business	**8,6**	8,2	**3,3**	3,1	**8,6**	8,2	**n/a**	n/a	**n/a**	n/a
Corporate policyholder business	**7,2**	6,9	**n/a**	n/a	**8,3**	7,9	**n/a**	n/a	**n/a**	n/a
Participating annuity business	**7,2**	6,6	**n/a**	n/a	**7,2**	6,6	**n/a**	n/a	**n/a**	n/a
Non-participating annuity business*	**7,3**	7,1	**4,7**	4,4	**7,1**	7,1	**6,3**	8,0	**n/a***	9,7
Guarantee plans*	**7,9**	6,8	**n/a**	n/a	**n/a**	n/a	**6,2**	7,2	**n/a**	n/a

** The calculation of policy liabilities is based on discount rates derived from the zero-coupon yield curve. This is the average rate that produces the same result.*

10. Bonus stabilisation reserves

No portfolio had a negative bonus stabilisation reserve which exceeded 7,5% of the relevant investment accounts at 31 December 2006.

11. Result from financial services

R million	Sanlam Life 2006	Sanlam Life 2005	Merchant Investors 2006	Merchant Investors 2005	Sanlam Life Namibia 2006	Sanlam Life Namibia 2005	African Life 2006	African Life 2005	Botswana Insurance Holdings Limited 2006	Botswana Insurance Holdings Limited 2005
A number of changes were made to the valuation methodology and assumptions, with the following effect on the result from operations	**(73)**	(43)	**—**	1	**(6)**	(13)	**—**	—	**11**	—

Sanlam Limited Financial Statements

Balance Sheet at 31 December 2006

	Note	2006 R million	2005 R million
Assets			
Investments in Group companies	2	**15 053**	13 763
Associates		**3**	3
Subsidiaries		**15 050**	13 760
Deferred tax – STC		**2**	4
Working capital assets		**858**	921
Accounts receivable		**6**	6
Loans to Group companies	2	**852**	915
Total assets		**15 913**	14 688
Equity and liabilities			
Capital and reserves			
Share capital and premium	3	**955**	956
Non-distributable reserve		**9 342**	9 342
Retained earnings		**4 216**	3 905
Total equity		**14 513**	14 203
Working capital liabilities		**1 400**	485
Accounts payable		**189**	172
Loans from Group companies	2	**1 211**	313
Total equity and liabilities		**15 913**	14 688

Income Statement for the year ended 31 December 2006

	Note	2006 R million	2005 R million
Net income		**2 387**	5 469
Dividend income		**2 062**	5 464
Investment surpluses	4	**325**	—
Other income		**—**	5
Expenses			
Administration costs	5	**(23)**	(9)
Net impairment of loans	2	**(257)**	(147)
Net reversal of impairment of investments	2	**1 419**	635
Profit before tax		**3 526**	5 948
Taxation – STC		**(2)**	4
Profit for the year		**3 524**	5 952

Statement of Changes in Equity for the year ended 31 December 2006

R million	Share capital	Share premium	Non-distributable reserve[1]	Retained earnings	Total equity
Balance at 1 January 2005	29	4 331	9 342	382	14 084
Profit for the year	—	—	—	5 952	5 952
Dividends paid	—	—	—	(1 387)	(1 387)
Shares cancelled	(4)	(3 400)	—	(1 042)	(4 446)
Balance at 31 December 2005	25	931	9 342	3 905	14 203
Profit for the year	—	—	—	3 524	3 524
Dividends paid	—	—	—	(1 570)	(1 570)
Shares cancelled	(1)	—	—	(1 643)	(1 644)
Balance at 31 December 2006	24	931	9 342	4 216	14 513

[1] *Pre-acquisition reserve arising from the demutualisation of Sanlam Life Insurance Limited in 1998.*

Cash Flow Statement for the year ended 31 December 2006

	Note	2006 R million	2005 R million
Cash flow from operating activities		**229**	3 999
Cash utilised in operations	10	**(263)**	(78)
Dividends received		**2 062**	5 464
Dividends paid		**(1 570)**	(1 387)
Cash flow from investment activities			
Disposal of subsidiaries		**454**	—
Cash flow from financing activities			
Shares cancelled		**(1 644)**	(4 446)
Net decrease in loans to Group companies		**(961)**	(447)
Net loans to Group companies at beginning of year		**602**	1 049
Net loans to Group companies at end of year		**(359)**	602

Notes to the Financial Statements for the year ended 31 December 2006

1. Accounting policies

The accounting policies of the Sanlam Limited group as set out on pages 171 to 184 of the Sanlam Limited group financial statements are also applicable to Sanlam Limited except for investments in subsidiary companies which are reflected at cost or at a lower value if there is an impairment in value.

Additional accounting policy

Financial guarantee contracts

'Financial guarantees' are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially accounted for at fair value, and are not designated as at fair value through profit or loss. Subsequently, the amount is measured at the higher of the amount determined according to IAS 37 *Provisions*, or the initial fair value less cumulative amortisation in accordance with IAS 18 *Revenue*.

	2006 R million	2005 R million
2. Group companies		
Investments in Group companies – shares at lower of cost or market value	**15 053**	13 763
Current loans with Group companies	**(359)**	602
Loans to Group companies	**852**	915
Loans from Group companies	**(1 211)**	(313)
Book value of interest in Group companies	**14 694**	14 365
Net reversal of impairment of investments in Group companies		
Genbel Securities Limited	**222**	305
Sanlam Netherlands Holding BV	**1 197**	330
Total net reversal of impairment of investments in Group companies	**1 419**	635
Fair values of Group companies are determined on the following bases:		
– Listed Group companies at stock exchange prices		
– Unlisted Group companies at directors' valuation		
Fair value of net investment in Group companies		
Investments in subsidiaries	**38 751**	31 963
Investment in associated company	**36**	13
Total fair value of net investment in Group companies	**38 787**	31 976

Loans to Group companies

The loans to Group companies are unsecured and not subject to any fixed terms of repayment. No interest is charged but these arrangements are subject to revision from time to time. Details regarding the principal subsidiaries of Sanlam Limited are set out on page 264.

	2006 R million	2005 R million
Loans to Group companies		
Sanlam Spec (Pty) Limited	**812**	915
Sanlam Investment Holdings Limited	**40**	—
Loans from Group companies		
Sanlam Life Insurance Limited	**(1 211)**	(313)
Impairment of loan		
Sanlam Spec (Pty) Limited	**(257)**	(147)

Notes to the Financial Statements for the year ended 31 December 2006 continued

	2006 R million	2005 R million
3. Share capital and premium		
Details of the share capital and premium are reflected in note 11 on page 207 of the Sanlam Limited group financial statements.		
4. Investment surpluses		
Investment surpluses relate to the profit on sale of the interest in Santam Limited to Sanlam Life Insurance Limited.		
5. Administration costs include:		
Directors' remuneration		
Details of the directors' remuneration is reflected in note 24 on page 218 of the Sanlam Limited group financial statements.		
Auditors' remuneration		
Audit fees: statutory audit	**7,4**	3,4
Total auditors' remuneration	**7,4**	3,4
6. Dividends		
Details of the dividends declared are disclosed in note 29 on page 222 of the Sanlam Limited group financial statements.		
7. Borrowing powers		
In terms of the articles of association of Sanlam Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation.		

	2006 R million	2005 R million
8. Commitments and contingencies		
Details of commitments and contingencies are reflected in note 34 on page 242 of the Sanlam Limited group financial statements.		
9. Related parties		
Details of related parties are reflected in note 35 on page 243 of the Sanlam Limited group financial statements.		
10. Notes to the cash flow statement		
Cash utilised in operations		
Profit before tax	**3 526**	5 948
Non-cash flow items	**(1 744)**	(635)
Profit on disposal of subsidiaries	**(325)**	—
Net reversal of impairment of investments in Group companies	**(1 419)**	(635)
Items disclosed separately		
Dividends received	**(2 062)**	(5 464)
Increase in net working capital liabilities	**17**	73
Cash utilised in operations	**(263)**	(78)

Principal Subsidiaries as at 31 December 2006

	% interest	Issued ordinary capital 2006 R million	Fair value of interest in subsidiaries: Shares 2006 R million	Shares 2005 R million	Loans 2006 R million	Loans 2005 R million
Long-term insurance						
Sanlam Life Insurance Limited	100	**5 000**	**33 849**	27 318	**(1 211)**	(313)
Investment and capital markets						
Genbel Securities Limited	100	**253**	**2 002**	1 780	**—**	—
Investment management and consulting						
Sanlam Investment Management (Pty) Limited	100	(1)	(1)	(1)	**—**	—
Sanlam Independent Financial Services (Pty) Limited	100	(2)	(2)	(2)	**—**	—
Sanlam Investment Holdings Limited	100	(2)	**333**	44	**40**	—
Sanlam Netherlands Holding BV[3]	100	**2 309**	**2 867**	1 671	**—**	—
Short-term insurance						
Santam Limited (Listed)[4]	—	**—**	**—**	471	**—**	—
Investment companies						
Sanlam Spec (Pty) Limited[5]	100	(2)	**57**	58	**812**	915
Sanlam Investments (Pty) Limited	100	(2)	**2**	19	**—**	—
Sanlam Share Incentive Trust	100	(2)	(2)	(2)	**—**	—
Total		**7 562**	**39 110**	31 361	**(359)**	602
Aggregate profits from subsidiaries			**7 292**	11 880		
Aggregate losses from subsidiaries			**347**	953		

(1) *The interest is held indirectly by Sanlam Life Insurance Limited.*

(2) *Issued share capital is less than R1 000.*

(3) *Incorporated in the Netherlands.*

(4) *The interest of Sanlam Limited was sold to Sanlam Life Insurance Limited during the year.*

(5) *The loan to Sanlam Spec (Pty) Limited is subordinated in favour of other creditors.*

A register of all subsidiary companies is available for inspection at the registered office of Sanlam Limited.
All investments above are unlisted and incorporated in South Africa unless otherwise indicated.

Analysis of the Group's holding in Santam:	2006	2005
	%	**%**
Shareholders' funds		
• Sanlam Life Insurance Limited	**54,71**	45,71
• Sanlam Limited	**—**	5,03
Policyholders' funds		
• Sanlam Life Insurance Limited	**1,76**	1,93
Total	**56,47**	52,67

Sanlam Limited Group Shareholders' Fund Balance Sheet at Net Asset Value at 31 December 2006

R million	Note	Life Insurance[1] 2006	Life Insurance[1] 2005	Short-term Insurance 2006	Short-term Insurance 2005	Investment Management[2] 2006	Investment Management[2] 2005
Assets							
Property and equipment		**193**	139	**43**	45	**20**	52
Owner-occupied properties		**514**	480	**16**	12	**—**	—
Goodwill		**561**	498	**281**	80	**74**	49
Value of business acquired		**977**	982	**—**	—	**—**	—
Deferred acquisition costs		**974**	625	**—**	—	**—**	—
Investments	5	**37 403**	30 350	**8 495**	7 447	**470**	303
Properties		**716**	636	**—**	—	**159**	101
Associated companies		**2 058**	385	**215**	239	**50**	18
Joint ventures		**377**	256	**—**	—	**34**	23
Equities and similar securities		**22 006**	20 194	**5 433**	4 301	**60**	34
Public sector stocks and loans		**2 305**	1 842	**363**	663	**3**	5
Debentures, preference shares and other loans		**5 331**	2 958	**1 463**	582	**45**	23
Cash, deposits and similar securities		**4 610**	4 079	**1 021**	1 662	**119**	99
Deferred tax		**117**	80	**27**	22	**6**	10
Short-term insurance technical assets	6	**—**	—	**2 288**	2 372	**—**	—
Consolidation reserve		**(41)**	(41)	**—**	—	**—**	—
Working capital assets		**7 027**	4 921	**5 510**	4 609	**2 316**	1 428
Trade and other receivables	7	**3 776**	1 997	**1 403**	1 282	**1 409**	879
Cash, deposits and similar securities		**3 251**	2 924	**4 107**	3 327	**907**	549
Total assets		**47 725**	38 034	**16 660**	14 587	**2 886**	1 842
Equity and liabilities							
Shareholders' fund	8	**34 672**	27 731	**3 798**	2 903	**1 042**	924
Minority shareholders' interest		**722**	432	**3 124**	2 942	**203**	100
Term finance		**5 307**	2 877	**—**	—	**70**	66
External investors in consolidated funds		**68**	75	**—**	—	**—**	—
Cell owners' interest		**—**	—	**329**	268	**—**	—
Deferred tax		**483**	884	**297**	256	**(2)**	8
Short-term insurance technical provisions	6	**—**	—	**7 752**	6 702	**—**	—
Working capital liabilities	9	**6 473**	6 035	**1 360**	1 516	**1 573**	744
Trade and other payables		**4 604**	4 138	**1 263**	1 392	**1 373**	671
Provisions		**776**	668	**97**	98	**—**	3
Taxation		**1 093**	1 229	**—**	26	**200**	70
Total equity and liabilities		**47 725**	38 034	**16 660**	14 587	**2 886**	1 842
Net asset value per share (cents)	11						

Notes:

[1] *Included in the Life Insurance balance sheet, as part of equity investments, are the investments in Sanlam Investment Management, Santam and Sanlam, at fair values of R3 729 million (2005: R2 481 million), R5 628 million (2005: R4 278 million) and R314 million (2005: R504 million) respectively. The balance sheet also includes the consolidated information for Glacier, Merchant Investors Assurance and African Life Assurance (excluding Botswana Insurance Fund Management which is included in Investment Management), as these businesses form part of Life Insurance although Glacier and Merchant Investors Assurance are not part of the Sanlam Life Insurance group (statutory).*

[2] *Included in Investment Management are Sanlam Investment Management, Sanlam Collective Investments, Sanlam Private Investments, Sanlam Properties, Sanlam Asset Management Ireland, Octane Group and Botswana Insurance Fund Management.*

[3] *Independent Financial Services includes the Punter Southall Group (consolidated for 2005), as well as investments in Intrinsic, Nucleus, Gensec Property Services, Coris, Simeka Employee Benefits, SA Quantum, Bull and Bear Financial Services and Thebe Community Financial Services.*

[4] *Corporate and other includes the assets of Genbel Securities and Sanlam Limited Corporate on a consolidated basis.*

[5] *Within the consolidation column the investment in subsidiaries and treasury shares are reversed. Intercompany balances, other investments and term finance between companies within the Group are also consolidated.*

Capital Markets		Independent Financial Services[3]		Corporate and other[4]		Consolidation entries[5]		Total	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
3	3	—	9	—	1	—	—	259	249
—	—	—	—	—	—	—	—	530	492
—	—	—	300	1 247	1 247	—	—	2 163	2 174
—	—	—	—	—	—	—	—	977	982
—	—	—	—	—	—	—	—	974	625
1	42	515	130	1 887	3 066	(12 348)	(8 791)	36 423	32 547
—	—	—	—	—	—	—	—	875	737
1	—	252	61	—	—	—	—	2 576	703
—	—	—	—	125	94	(45)	(45)	491	328
—	6	—	—	237	380	(11 347)	(8 317)	16 389	16 598
—	—	—	—	114	174	—	—	2 785	2 684
—	36	263	58	98	1 411	(599)	(429)	6 601	4 639
—	—	—	11	1 313	1 007	(357)	—	6 706	6 858
74	93	—	2	174	136	—	—	398	343
—	—	—	—	—	—	—	—	2 288	2 372
—	—	—	—	—	—	(1 818)	(1 890)	(1 859)	(1 931)
30 143	21 525	25	210	2 254	2 225	(5 742)	(4 092)	41 533	30 826
29 252	20 066	25	180	2 248	2 225	(5 742)	(4 092)	32 371	22 537
891	1 459	—	30	6	—	—	—	9 162	8 289
30 221	21 663	540	651	5 562	6 675	(19 908)	(14 773)	83 686	68 679
541	552	536	401	1 990	2 792	(13 458)	(10 283)	29 121	25 020
—	—	—	82	1	1	—	—	4 050	3 557
201	—	—	7	92	61	(671)	(437)	4 999	2 574
—	—	—	—	—	—	—	(26)	68	49
—	—	—	—	—	—	—	—	329	268
—	—	—	—	19	5	(1)	(408)	796	745
—	—	—	—	—	—	—	—	7 752	6 702
29 479	21 111	4	161	3 460	3 816	(5 778)	(3 619)	36 571	29 764
29 479	21 111	2	160	3 331	3 693	(5 777)	(3 619)	34 275	27 546
—	—	—	—	123	117	—	—	996	886
—	—	2	1	6	6	(1)	—	1 300	1 332
30 221	21 663	540	651	5 562	6 675	(19 908)	(14 773)	83 686	68 679
								1 274	1 057

Sanlam Limited Group Shareholders' Fund Income Statement for the year ended 31 December 2006

R million	Note	Life Insurance 2006	Life Insurance 2005	Short-term Insurance 2006	Short-term Insurance 2005	Investment Management 2006	Investment Management 2005
Financial services income		**10 039**	7 509	**10 482**	9 112	**1 996**	1 425
Sales remuneration		**(1 523)**	(1 034)	**(1 422)**	(1 183)	**—**	—
Income after sales remuneration		**8 516**	6 475	**9 060**	7 929	**1 996**	1 425
Underwriting policy benefits		**(3 467)**	(2 618)	**(7 037)**	(5 792)	**—**	—
Administration costs		**(2 861)**	(2 128)	**(1 117)**	(1 121)	**(919)**	(726)
Result from financial services before tax		**2 188**	1 729	**906**	1 016	**1 077**	699
Tax on financial services income	13	**(520)**	(309)	**(255)**	(299)	**(263)**	(148)
Result from financial services after tax		**1 668**	1 420	**651**	717	**814**	551
Minority shareholders' interest		**(121)**	(7)	**(309)**	(368)	**(84)**	(23)
Net result from financial services		**1 547**	1 413	**342**	349	**730**	528
Net investment income		**1 467**	1 021	**106**	140	**10**	—
Dividends received – Group companies		**853**	265	**—**	—	**—**	—
Other investment income	12	**785**	888	**208**	281	**23**	—
Tax on investment income	13	**(153)**	(132)	**(5)**	(2)	**(4)**	—
Minority shareholders' interest		**(18)**	—	**(97)**	(139)	**(9)**	—
Core earnings		**3 014**	2 434	**448**	489	**740**	528
Net enhanced early termination benefits		**—**	(440)	**—**	—	**—**	—
Enhanced early termination benefits		**—**	(620)	**—**	—	**—**	—
Tax on enhanced early termination benefits		**—**	180	**—**	—	**—**	—
Provision for financial claims		**—**	(150)	**—**	—	**—**	—
Amortisation of VOBA		**(43)**	—	**(2)**	—	**—**	—
Broad-based employee share plan		**—**	—	**—**	—	**—**	—
Net equity-accounted headline earnings		**49**	33	**55**	12	**29**	—
Equity-accounted headline earnings		**64**	33	**105**	23	**29**	—
Minority shareholders' interest		**(15)**	—	**(50)**	(11)	**—**	—
Net investment surpluses		**5 046**	4 580	**516**	396	**47**	12
Investment surpluses – Group companies		**2 514**	2 987	**—**	—	**—**	—
Other investment surpluses		**3 074**	1 883	**1 244**	978	**57**	14
Tax on investment surpluses	13	**(483)**	(281)	**(242)**	(177)	**(8)**	(2)
Minority shareholders' interest		**(59)**	(9)	**(486)**	(405)	**(2)**	—
Fund transfers		**—**	—	**—**	—	**—**	—
Secondary tax on companies – after minorities		**(26)**	(109)	**(58)**	(15)	**4**	—
Headline earnings		**8 040**	6 348	**959**	882	**820**	540
Other equity-accounted earnings		**—**	—	**—**	—	**—**	—
Profit/(loss) on disposal of subsidiaries		**(1)**	—	**28**	—	**—**	(51)
Net profit on disposal of associated companies		**16**	—	**(6)**	—	**—**	—
Profit on disposal of associated companies		**20**	—	**(6)**	—	—	—
Tax on profit on disposal of associated companies		**(4)**	—	—	—	**—**	—
Impairment of investments and goodwill		**—**	—	—	(2)	**—**	6
Attributable earnings		**8 055**	6 348	**981**	880	**820**	495
Ratios							
Admin ratio[1]		**33,6%**	32,9%	**12,3%**	14,1%	**46,0%**	50,9%
Operating margin[2]		**25,7%**	26,7%	**10,0%**	12,8%	**54,0%**	49,1%
Diluted earnings per share							
Adjusted weighted average number of shares (million)							
Net result from financial services (cents)		**69,0**	55,9	**15,2**	13,8	**32,5**	20,9
Core earnings (cents)							

Notes:

[1] *Administration costs as a percentage of income earned by the shareholders' fund less sales remuneration.*

[2] *Result from financial services before tax as a percentage of income earned by the shareholders' fund less sales remuneration.*

Capital Markets		Independent Financial Services		Corporate and other		Consolidation entries		Total	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
370	331	28	569	(2)	1	—	—	22 913	18 947
—	—	—	—	—	—	—	—	(2 945)	(2 217)
370	331	28	569	(2)	1	—	—	19 968	16 730
—	—	—	—	—	—	—	—	(10 504)	(8 410)
(219)	(180)	(8)	(537)	(214)	(173)	—	—	(5 338)	(4 865)
151	151	20	32	(216)	(172)	—	—	4 126	3 455
(10)	(25)	(4)	(5)	56	34	—	—	(996)	(752)
141	126	16	27	(160)	(138)	—	—	3 130	2 703
—	—	—	(5)	—	—	—	—	(514)	(403)
141	126	16	22	(160)	(138)	—	—	2 616	2 300
—	—	18	4	96	98	(911)	(283)	786	980
—	—	—	—	58	18	(911)	(283)	—	—
—	—	20	4	58	96	—	—	1 094	1 269
—	—	(2)	—	(20)	(16)	—	—	(184)	(150)
—	—	—	—	—	—	—	—	(124)	(139)
141	126	34	26	(64)	(40)	(911)	(283)	3 402	3 280
—	—	—	—	—	—	—	—	—	(440)
—	—	—	—	—	—	—	—	—	(620)
—	—	—	—	—	—	—	—	—	180
—	—	—	—	—	—	—	—	—	(150)
—	—	—	—	—	—	—	—	(45)	—
—	—	—	—	(19)	—	—	—	(19)	—
—	—	—	—	31	433	—	—	164	478
—	—	—	—	31	433	—	—	229	489
—	—	—	—	—	—	—	—	(65)	(11)
—	—	—	(2)	104	118	(2 498)	(3 101)	3 215	2 003
—	—	—	—	(16)	114	(2 498)	(3 101)	—	—
—	—	—	(1)	107	(126)	—	—	4 482	2 748
—	—	—	—	13	130	—	—	(720)	(330)
—	—	—	(1)	—	—	—	—	(547)	(415)
—	—	—	—	—	—	205	730	205	730
—	22	—	—	(4)	14	—	—	(84)	(88)
141	148	34	24	48	525	(3 204)	(2 654)	6 838	5 813
—	—	5	—	—	(8)	—	—	5	(8)
—	—	95	—	—	—	—	—	122	(51)
—	—	—	—	—	5 176	—	—	10	5 176
—	—	—	—	—	5 710	—	—	14	5 710
—	—	—	—	—	(534)	—	—	(4)	(534)
—	—	(30)	(7)	—	—	—	—	(30)	(3)
141	148	104	17	48	5 693	(3 204)	(2 654)	6 945	10 927
59,2%	54,4%	28,6%	94,4%					26,7%	29,1%
40,8%	45,6%	71,4%	5,6%					20,7%	20,7%
								2 243,1	2 529,4
6,3	5,0	0,7	0,9	(7,1)	(5,5)	—	—	116,6	90,9
								151,7	129,7

Sanlam Limited Group Shareholders' Fund Balance Sheet at Fair Value at 31 December 2006

	Note	2006 R million	2005 R million
Assets			
Property and equipment		**195**	177
Owner-occupied properties		**514**	480
Goodwill(2)		**477**	419
Value of business acquired(2)		**977**	982
Deferred acquisition costs		**917**	582
Investments		**41 308**	35 307
Sanlam businesses	10	**13 210**	9 702
Sanlam Investments(3)		**5 358**	3 228
SIM Wholesale		**3 729**	2 481
International		**1 336**	522
Sanlam Collective Investments		**293**	225
Sanlam Personal Finance		**1 058**	668
Glacier		**527**	341
Sanlam Personal Loans(4)		**94**	71
Multi-Data		**110**	82
Sanlam Trust		**95**	84
Sanlam Home Loans		**168**	60
Other(5)		**64**	30
Independent Financial Services		**625**	505
Punter Southall Group		**209**	382
Gensec Properties		**36**	13
Other(6)		**380**	110
Sanlam Capital Markets		**541**	552
Santam		**5 628**	4 749
Associated companies		**2 806**	871
Peermont		**1 062**	779
Other		**1 744**	92
Joint ventures		**387**	395
Safair Lease Finance		**271**	271
Shriram		**116**	124
Other investments		**24 905**	24 339
Other equities and similar securities		**10 906**	12 267
Public sector stocks and loans		**2 419**	2 019
Investment properties		**800**	671
Other interest-bearing and preference share investments		**10 780**	9 382
Deferred tax		**287**	216
Working capital assets		**6 273**	4 486
Total assets		**50 948**	42 649

	Note	2006 R million	2005 R million
Equity and liabilities			
Shareholders’ fund		**37 491**	30 592
Minority shareholders’ interest		**818**	439
Term finance		**4 721**	2 834
External investors in consolidated funds		**68**	49
Deferred tax		**502**	1 031
Working capital liabilities		**7 348**	7 704
Total equity and liabilities		**50 948**	42 649
Net asset value per share (cents)	11	**1 640**	1 293

(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 African Life, Channel Life and Merchant Investors and are excluded in the build-up of the Group embedded value, as the current value of in-force business for these life insurance companies are included in the embedded value.*

(3) *Excludes the investment management operations of Botswana Insurance Fund Management (BIFM), as it is included in the current value of BIFM in-force life insurance business.*

(4) *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.*

(5) *Other Sanlam Personal Finance businesses comprise the non-life businesses in Namibia.*

(6) *Other Independent Financial Services investments include Intrinsic, Nucleus, Thebe Community Financial Services, SA Quantum, Coris, Simeka Employee Benefits and Bull and Bear Financial Services.*

Notes to the Shareholders' Fund Information for the year ended 31 December 2006

1. Basis of presentation and accounting policies

The basis of presentation and accounting policies in respect of the shareholders' fund information of the Sanlam Limited group are set out on pages 168 to 184. The 2005 comparative figures for fund flows have been restated for the exclusion of indexed growth premiums and Punter Southall flows.

2. Analysis of new business and total funds received

Analysed per business

	Total		Life insurance[1]		Life licence[1]		Other	
R million	2006	2005	2006	2005	2006	2005	2006	2005
Sanlam Personal Finance	**21 826**	17 879	**9 333**	8 245	—	3	**12 493**	9 631
South Africa	**15 645**	13 466	**8 231**	7 227	—	3	**7 414**	6 236
Recurring	**946**	832	**932**	832	—	—	**14**	—
Single	**13 031**	10 992	**5 631**	4 753	—	3	**7 400**	6 236
Continuations	**1 668**	1 642	**1 668**	1 642	—	—	—	—
Africa	**5 424**	3 742	**345**	347	—	—	**5 079**	3 395
Recurring	**36**	40	**36**	40	—	—	—	—
Single	**5 388**	3 702	**309**	307	—	—	**5 079**	3 395
Continuations	—	—	—	—	—	—	—	—
Other international	**757**	671	**757**	671	—	—	—	—
Recurring	**10**	7	**10**	7	—	—	—	—
Single	**747**	664	**747**	664	—	—	—	—
Continuations	—	—	—	—	—	—	—	—
Sanlam Developing Markets	**2 003**	152	**2 003**	152	—	—	—	—
South Africa	**1 366**	152	**1 366**	152	—	—	—	—
Recurring	**461**	72	**461**	72	—	—	—	—
Single	**905**	80	**905**	80	—	—	—	—
Continuations	—	—	—	—	—	—	—	—
Africa	**593**	—	**593**	—	—	—	—	—
Recurring	**219**	—	**219**	—	—	—	—	—
Single	**374**	—	**374**	—	—	—	—	—
Continuations	—	—	—	—	—	—	—	—
Other international	**44**	—	**44**	—	—	—	—	—
Recurring	**22**	—	**22**	—	—	—	—	—
Single	**22**	—	**22**	—	—	—	—	—
Continuations	—	—	—	—	—	—	—	—
Sanlam Employee Benefits	**2 180**	2 699	**2 180**	2 699	—	—	—	—
South Africa	**2 180**	2 699	**2 180**	2 699	—	—	—	—
Recurring	**192**	194	**192**	194	—	—	—	—
Single	**1 988**	2 505	**1 988**	2 505	—	—	—	—

R million	Total 2006	2005	Life insurance[1] 2006	2005	Life licence[1] 2006	2005	Other 2006	2005
2. Analysis of new business and total funds received *(continued)*								
Sanlam Investments	**36 498**	26 785	**205**	—	**212**	121	**36 081**	26 664
Employee benefits	**212**	121	**—**	—	**212**	121	**—**	—
Recurring	**—**	—	**—**	—	**—**	—	**—**	—
Single	**212**	121	**—**	—	**212**	121	**—**	—
Collective investment schemes	**14 074**	9 156	**—**	—	**—**	—	**14 074**	9 156
Cash funds	**9 397**	5 089	**—**	—	**—**	—	**9 397**	5 089
Equity funds	**2 023**	1 557	**—**	—	**—**	—	**2 023**	1 557
Wholesale business	**2 654**	2 510	**—**	—	**—**	—	**2 654**	2 510
Segregated funds	**17 790**	15 696	**—**	—	**—**	—	**17 790**	15 696
Non-SA	**4 422**	1 812	**205**	—	**—**	—	**4 217**	1 812
Santam	**10 203**	8 871	**—**	—	**—**	—	**10 203**	8 871
New business excluding white label	**72 710**	56 386	**13 721**	11 096	**212**	124	**58 777**	45 166
White label	**7 938**	5 838	**291**	—	**—**	—	**7 647**	5 838
Sanlam Collective Investments	**7 647**	5 838	**—**	—	**—**	—	**7 647**	5 838
Sanlam Developing Markets	**291**	—	**291**	—	**—**	—	**—**	—
Total new business	**80 648**	62 224	**14 012**	11 096	**212**	124	**66 424**	51 004
Recurring premiums on existing funds:								
Sanlam Personal Finance	**9 122**	8 713	**9 120**	8 713	**—**	—	**2**	—
Sanlam Developing Markets	**1 843**	255	**1 843**	255	**—**	—	**—**	—
Sanlam Employee Benefits	**2 664**	2 672	**2 664**	2 672	**—**	—	**—**	—
Sanlam Investment Management	**132**	175	**—**	—	**132**	175	**—**	—
Total funds received	**94 409**	74 039	**27 639**	22 736	**344**	299	**66 426**	51 004

[1] *Life licence business relates to investment products provided by Sanlam Investments and Glacier by means of a life insurance policy where there is very little or no insurance risk. Life insurance business excludes R404 million single premiums relating to a closed book of business that is being moved from the Channel Life licence in terms of the acquisition agreement.*

	2006 R million	2005 R million
2. Analysis of new business and total funds received *(continued)*		
Analysed per market		
Retail		
Life business	**9 597**	7 382
Sanlam Personal Finance	**8 231**	7 230
Sanlam Developing Markets	**1 366**	152
Non-life business	**29 091**	16 036
Sanlam Personal Finance	**7 414**	6 236
Sanlam Private Investments	**10 257**	3 154
Sanlam Collective Investments cash and equity	**11 420**	6 646
South African	**38 688**	23 418
Non-South African	**6 818**	4 413
Sanlam Developing Markets	**637**	—
Sanlam Personal Finance – Namibia	**5 424**	3 742
Sanlam Personal Finance – Merchant Investors	**757**	671
Total retail	**45 506**	27 831
Institutional		
Group life business	**2 392**	2 820
Sanlam Employee Benefits	**2 180**	2 699
Sanlam Investment Management	**212**	121
Non-life business	**10 187**	15 052
Segregated	**5 402**	9 448
Sanlam Multi-Manager	**2 131**	3 094
Sanlam Collective Investments wholesale	**2 654**	2 510
South African	**12 579**	17 872
Sanlam Investment Management (non-South African)	**4 422**	1 812
Total institutional	**17 001**	19 684
White label	**7 938**	5 838
Sanlam Collective Investments	**7 647**	5 838
Sanlam Developing Markets	**291**	—
Santam	**10 203**	8 871
Total new business	**80 648**	62 224

3. Analysis of payments to clients

R million	Total 2006	Total 2005	Life insurance[1] 2006	Life insurance[1] 2005	Life licence[1] 2006	Life licence[1] 2005	Other 2006	Other 2005
Sanlam Personal Finance	**27 270**	23 913	**18 698**	18 072	**12**	14	**8 560**	5 827
South Africa	**21 581**	19 941	**16 467**	16 404	**12**	14	**5 102**	3 523
Surrenders	**3 782**	3 203	**3 782**	3 203	**—**	—	**—**	—
Other	**17 799**	16 738	**12 685**	13 201	**12**	14	**5 102**	3 523
Africa	**4 116**	3 010	**658**	706	**—**	—	**3 458**	2 304
Surrenders	**78**	90	**78**	90	**—**	—	**—**	—
Other	**4 038**	2 920	**580**	616	**—**	—	**3 458**	2 304
Other international	**1 573**	962	**1 573**	962	**—**	—	**—**	—
Surrenders	**1 283**	759	**1 283**	759	**—**	—	**—**	—
Other	**290**	203	**290**	203	**—**	—	**—**	—
Sanlam Developing Markets	**2 177**	197	**2 177**	197	**—**	—	**—**	—
South Africa	**1 830**	197	**1 830**	197	**—**	—	**—**	—
Surrenders	**732**	—	**732**	—	**—**	—	**—**	—
Other	**1 098**	197	**1 098**	197	**—**	—	**—**	—
Africa	**347**	—	**347**	—	**—**	—	**—**	—
Surrenders	**—**	—	**—**	—	**—**	—	**—**	—
Other	**347**	—	**347**	—	**—**	—	**—**	—
Sanlam Employee Benefits	**7 679**	8 267	**7 679**	8 267	**—**	—	**—**	—
South Africa	**7 679**	8 267	**7 679**	8 267	**—**	—	**—**	—
Terminations[2]	**2 860**	4 018	**2 860**	4 018	**—**	—	**—**	—
Other benefits	**4 745**	4 249	**4 745**	4 249	**—**	—	**—**	—
Less: Intergroup switches[3]	**74**	—	**74**	—	**—**	—	**—**	—
Sanlam Investments	**51 459**	26 319	**145**	—	**893**	964	**50 421**	25 355
Employee benefits	**893**	964	**—**	—	**893**	964	**—**	—
Terminations[2]	**596**	656	**—**	—	**596**	656	**—**	—
Other benefits	**371**	308	**—**	—	**371**	308	**—**	—
Less: Intergroup switches[3]	**(74)**	—	**—**	—	**(74)**	—	**—**	—
Collective investment schemes	**13 153**	8 156	**—**	—	**—**	—	**13 153**	8 156
Cash funds	**8 320**	5 117	**—**	—	**—**	—	**8 320**	5 117
Equity funds	**2 352**	1 103	**—**	—	**—**	—	**2 352**	1 103
Wholesale business	**2 481**	1 936	**—**	—	**—**	—	**2 481**	1 936
Segregated funds	**35 775**	16 880	**—**	—	**—**	—	**35 775**	16 880
Non-South African	**1 638**	319	**145**	—	**—**	—	**1 493**	319
Santam	**7 037**	5 792	**—**	—	**—**	—	**7 037**	5 792
Payments to clients excluding white label	**95 622**	64 488	**28 699**	26 536	**905**	978	**66 018**	36 974
White label	**6 238**	3 266	**2 266**	—	**—**	—	**3 972**	3 266
Sanlam Collective Investments	**3 972**	3 266	**—**	—	**—**	—	**3 972**	3 266
Sanlam Developing Markets	**2 266**	—	**2 266**	—	**—**	—	**—**	—
Consolidation	**—**	(15)	**—**	(15)	**—**	—	**—**	—
Total payments to clients	**101 860**	67 739	**30 965**	26 521	**905**	978	**69 990**	40 240

[1] *Life licence business relates to investment products provided by Sanlam Investments and Glacier by means of a life insurance policy where there is very little or no insurance risk. Life insurance business excludes R5,9 billion of payments to clients relating to a closed book of business that is being moved from the Channel Life licence in terms of the acquisition agreement.*

[2] *Includes taxation paid on behalf of certain retirement funds.*

4. Analysis of net inflow/(outflow) of funds

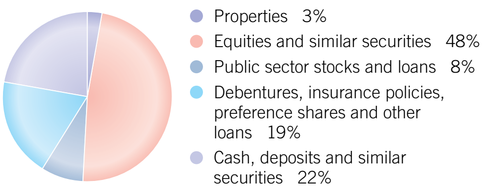
R million	Total 2006	Total 2005	Life insurance[1] 2006	Life insurance[1] 2005	Life licence[1] 2006	Life licence[1] 2005	Other 2006	Other 2005
Sanlam Personal Finance	**3 678**	2 679	**(245)**	(1 114)	**(12)**	(11)	**3 935**	3 804
South Africa	**2 417**	1 528	**115**	(1 174)	**(12)**	(11)	**2 314**	2 713
Africa	**1 651**	1 095	**30**	4	**—**	—	**1 621**	1 091
Other international	**(390)**	56	**(390)**	56	**—**	—	**—**	—
Sanlam Developing Markets	**1 669**	210	**1 669**	210	**—**	—	**—**	—
South Africa	**1 011**	210	**1 011**	210	**—**	—	**—**	—
Africa	**614**	—	**614**	—	**—**	—	**—**	—
Other international	**44**	—	**44**	—	**—**	—	**—**	—
Sanlam Employee Benefits	**(2 835)**	(2 896)	**(2 835)**	(2 896)	**—**	—	**—**	—
Sanlam Investments	**(14 829)**	641	**60**	—	**(549)**	(668)	**(14 340)**	1 309
Employee benefits	**(549)**	(668)	**—**	—	**(549)**	(668)	**—**	—
Total	**(623)**	(668)	**—**	—	**(623)**	(668)	**—**	—
Less: Intergroup switches	**74**	—	**—**	—	**74**	—	**—**	—
Collective investment schemes	**921**	1 000	**—**	—	**—**	—	**921**	1 000
Cash funds	**1 077**	(28)	**—**	—	**—**	—	**1 077**	(28)
Equity funds	**(329)**	454	**—**	—	**—**	—	**(329)**	454
Wholesale business	**173**	574	**—**	—	**—**	—	**173**	574
Segregated funds	**(17 985)**	(1 184)	**—**	—	**—**	—	**(17 985)**	(1 184)
Non-South African	**2 784**	1 493	**60**	—	**—**	—	**2 724**	1 493
Santam	**3 166**	3 079	**—**	—	**—**	—	**3 166**	3 079
Net (outflow)/inflow excluding white label	**(9 151)**	3 713	**(1 351)**	(3 800)	**(561)**	(679)	**(7 239)**	8 192
White label	**1 700**	2 572	**(1 975)**	—	**—**	—	**3 675**	2 572
Sanlam Collective Investments	**3 675**	2 572	**—**	—	**—**	—	**3 675**	2 572
Sanlam Developing Markets	**(1 975)**	—	**(1 975)**	—	**—**	—	**—**	—
Consolidation	**—**	15	**—**	15	**—**	—	**—**	—
Total net (outflow)/inflow	**(7 451)**	6 300	**(3 326)**	(3 785)	**(561)**	(679)	**(3 564)**	10 764

[1] *Life licence business relates to investment products provided by Sanlam Investments and Glacier by means of a life insurance policy where there is very little or no insurance risk.*

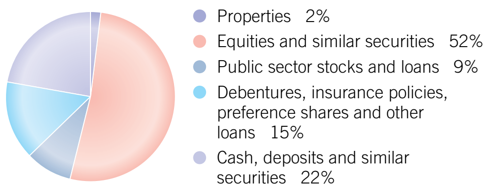
	2006 R million	2005 R million
4. Analysis of net inflow/(outflow) of funds *(continued)*		
Analysed per market		
Retail		
Life business	**1 114**	(975)
Sanlam Personal Finance	**103**	(1 185)
Sanlam Developing Markets	**1 011**	210
Non-life business	**7 982**	3 281
Sanlam Personal Finance	**2 314**	2 713
Sanlam Private Investments	**4 920**	142
Sanlam Collective Investments cash and equity	**748**	426
South African	**9 096**	2 306
Non-South African	**1 919**	1 151
Sanlam Developing Markets	**658**	—
Sanlam Personal Finance – Namibia	**1 651**	1 095
Sanlam Personal Finance – Merchant Investors	**(390)**	56
Total retail	**11 015**	3 457
Institutional		
Group life business	**(3 384)**	(3 549)
Sanlam Employee Benefits	**(2 835)**	(2 881)
Sanlam Investment Management	**(549)**	(668)
Non-life business	**(22 732)**	(752)
Segregated	**(23 105)**	(3 069)
Sanlam Multi-Manager	**200**	1 743
Sanlam Collective Investments wholesale	**173**	574
South African	**(26 116)**	(4 301)
Sanlam Investment Management (non-South African)	**2 784**	1 493
Total institutional	**(23 332)**	(2 808)
White label	**1 700**	2 572
Sanlam Collective Investments	**3 675**	2 572
Sanlam Developing Markets	**(1 975)**	—
Santam	**3 166**	3 079
Total net (outflow)/inflow	**(7 451)**	6 300

5. Investments

TOTAL SHAREHOLDERS' FUND INVESTMENT MIX 2006



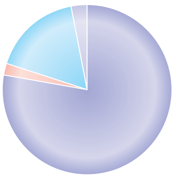
TOTAL SHAREHOLDERS' FUND INVESTMENT MIX 2005



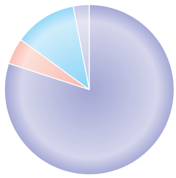
		2006 R million	2005 R million
5.1	**Investment in associated companies**		
	Peermont	**335**	310
	Sanlam Absolute Return Income Fund	**135**	—
	Sanlam Dividend Income Fund	**1 500**	—
	Punter Southall Group	**176**	—
	Other associated companies	**430**	393
	Total investment in associated companies	**2 576**	703
	Details of the investments in material associated companies are reflected in note 7 on page 198 of the Sanlam Limited group financial statements.		
5.2	**Investment in joint ventures**		
	Safair Lease Finance	**125**	94
	Sanlam Personal Loans	**47**	32
	Sanlam Home Loans	**168**	55
	Shriram	**116**	124
	Other joint ventures	**35**	23
	Total investment in joint ventures	**491**	328
	Details of the investments in material joint ventures are reflected in note 7 on page 198 of the Sanlam Limited group financial statements.		

	2006 R million	2005 R million
5. Investments *(continued)*		
5.3 Equities and similar securities		
Listed on the JSE – at market value	**12 838**	13 354
Unlisted – at directors' valuation	**273**	766
Derivative equity investments	**—**	4
Offshore equity investments	**2 834**	2 036
Collective investment schemes	**444**	438
Total equity investments	**16 389**	16 598

TOTAL SHAREHOLDERS' FUND EQUITY INVESTMENTS MIX 2006



TOTAL SHAREHOLDERS' FUND EQUITY INVESTMENTS MIX 2005



	2006 %	2005 %
Spread of investments in equities listed on JSE by sector:[1]		
Basic industries	**22,6**	27,5
Consumer goods	**11,6**	12,8
Consumer services	**7,0**	12,6
Financials	**27,2**	33,0
General industrials	**12,6**	6,0
Information technology	**0,5**	0,3
Healthcare	**0,8**	0,5
Telecommunications	**6,7**	4,8
Other	**11,0**	2,5
	100,0	100,0

[1] *Excludes offshore equities, derivatives, collective investment schemes and unlisted investments and includes the appropriate underlying investments of Santam.*

	2006 R million	2005 R million
5.4 Offshore investments		
Equities	**2 834**	2 036
Interest-bearing investments	**2 658**	3 435
Investment properties	**114**	—
Total offshore investments	**5 606**	5 471

Register of investments

A register containing details of all investments, including fixed property investments, is available for inspection at the registered office of Sanlam Limited.

		2006 R million	2005 R million
6.	**Short-term insurance technical assets and provisions**		
	Details of short-term insurance technical assets and provisions are reflected in note 9 on page 205 of the Sanlam Limited group financial statements.		
7.	**Trade and other receivables**		
	Premiums receivable	**1 245**	1 138
	Accrued investment income	**404**	283
	Trading account and money market investments	**26 156**	17 686
	Amounts due from reinsurers	**308**	198
	Accounts receivable	**4 258**	3 232
	Total trade and other receivables	**32 371**	22 537
8.	**Shareholders' fund**		
	Details of the shareholders' fund are provided in the Group balance sheet on page 190.		
9.	**Working capital liabilities**		
	Trading account and money market liabilities	**24 854**	19 963
	Accounts payable	**7 635**	6 085
	Provisions	**996**	886
	Policy benefits payable	**1 439**	1 232
	Amounts due to reinsurers	**344**	253
	Bank overdrafts	**3**	13
	Taxation	**1 300**	1 332
	Total working capital liabilities	**36 571**	29 764

	2006 R million	2005 R million
10. Excess of fair value over net asset value of Sanlam businesses and investments		
The shareholders' fund balance sheet at fair value includes the value of the companies below based on directors' valuation, apart from Santam and Peermont, which are valued according to ruling share prices. No deferred capital gains tax is provided in respect of Santam from 2006.		
Net fair value of businesses and investments	**16 403**	10 422
Fair value of businesses and investments	**16 403**	10 968
Deferred capital gains tax on businesses and investments at fair value	**—**	(546)
Less: Net asset value of businesses and investments	**8 643**	5 538
Sanlam Investments	**938**	752
SIM Wholesale	**622**	437
International	**283**	231
Sanlam Collective Investments	**33**	84
Sanlam Personal Finance	**510**	305
Glacier	**217**	177
Sanlam Personal Loans	**47**	32
Multi-Data	**40**	18
Sanlam Trust	**13**	4
Sanlam Home Loans	**168**	55
Other	**25**	19
Independent Financial Services	**536**	405
Punter Southall Group and other international	**189**	295
Gensec Properties	**25**	11
Other	**322**	99
Sanlam Capital Markets	**541**	552
Santam	**3 798**	2 903
Associated companies	**2 079**	403
Peermont	**335**	310
Other	**1 744**	93
Joint ventures	**241**	218
Safair Lease Finance	**125**	94
Shriram	**116**	124
Less: Goodwill in respect of above businesses	**1 247**	1 247
Revaluation adjustment of interest in businesses and investments to fair value	**6 513**	3 637
Analysis of fair value		
Sanlam businesses	**13 210**	9 702
Associated companies	**2 806**	871
Joint ventures	**387**	395
Fair value of businesses and investments	**16 403**	10 968

	2006 R million	2005 R million
10. Excess of fair value over net asset value of Sanlam businesses and investments *(continued)*		
Goodwill attributable to the above businesses		
Goodwill included in the net asset value of the respective businesses	**439**	512
SIM Wholesale	**56**	30
International	**11**	11
Glacier	**91**	91
Punter Southall Group	**—**	300
Santam	**281**	80
Goodwill held on Group level in respect of the above businesses	**1 247**	1 247
Total goodwill attributable to the above businesses	**1 686**	1 759
Goodwill attributable to other non-life insurance businesses	**7**	7
Total goodwill attributable to non-life insurance businesses	**1 693**	1 766

Valuation methodology

The fair value of the Sanlam businesses has been determined by the application of stock exchange prices for listed subsidiaries and the following valuation methodologies for unlisted businesses:

Valuation method	Fair value 2006 R million	Fair value 2005 R million
Ratio of price to assets under management	**5 358**	3 228
SIM Wholesale	**3 729**	2 481
International	**1 336**	522
Sanlam Collective Investments	**293**	225
Discounted cash flows	**1 451**	1 083
Glacier	**527**	341
Sanlam Personal Loans	**94**	71
Multi-Data	**110**	82
Sanlam Trust	**95**	84
Gensec Properties	**36**	13
Punter Southall Group	**209**	382
Other	**380**	110
Earnings multiple – Other	**64**	30
Net asset value	**709**	612
Sanlam Home Loans	**168**	60
Sanlam Capital Markets	**541**	552
Fair value of unlisted businesses	**7 582**	4 953

10. Excess of fair value over net asset value of Sanlam businesses and investments *(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:

Assumption	Change in assumption
Ratio of price to assets under management (P/AuM)	0,1%
Risk discount rate (RDR)	1,0%
Perpetuity growth rate (PGR)	1,0%
Earnings multiple (PE)	1,0%

R million	Weighted average assumption	Fair value of Sanlam businesses Base value	Decrease in assumption	Increase in assumption
Ratio of price to assets under management	P/AuM = 1,24% (2005: 0,99%)	5 358	4 875	5 849
Discounted cash flows	RDR = 17,2% (2005: 17,3%)	1 451	1 554	1 363
	PGR = 2,5% – 5% (2005: 2,5% – 5%)	1 451	1 413	1 497
Earnings multiple	PE = 7,5 times (2005: 7,5 times)	64	57	72

	2006 million	2005 million
11. Net asset value per share		
Net asset value per share at fair value is calculated on the Group shareholders' fund at fair value of R37 491 million (2005: R30 592 million), divided by 2 286,7 million (2005: 2 366,5 million) shares.		
Net asset value per share is calculated on the Group shareholders' fund at net asset value of R29 121 million (2005: R25 020 million), divided by 2 286,7 million (2005: 2 366,5 million) shares.		
Number of shares for value per share:		
Number of ordinary shares in issue (refer to note 11 of Sanlam Limited group financial statements)	**2 303,6**	2 408,6
Shares held by subsidiaries in shareholders' fund	**(24,1)**	(48,6)
Convertible deferred shares held by Ubuntu-Botho	**7,2**	6,5
Adjusted number of shares for value per share	**2 286,7**	2 366,5

	2006 R million	2005 R million
12. Investment income		
Equities and similar securities	**581**	756
Interest-bearing, preference shares and similar securities	**459**	460
Properties	**54**	53
Rental income	**67**	83
Rental-related expenses	**(13)**	(30)
Total investment income	**1 094**	1 269

	2006 R million	2005 R million
13. Taxation		
Result from financial services	**4 126**	3 455
Tax on result from financial services	**(996)**	(752)
Investment return	**5 781**	4 747
Investment income	**1 094**	1 269
Investment surpluses – fund transfers	**205**	730
Investment surpluses – other	**4 482**	2 748
Tax on investment return	**(904)**	(480)
Investment income	**(184)**	(150)
Investment surpluses	**(720)**	(330)

Reconciliation of tax rate on result from financial services	%	%
Standard rate of taxation	**29,0**	29,0
Adjust for:		
Non-taxable income	**(2,2)**	(5,6)
Disallowable expenses	**0,6**	—
Share-based payments	**0,4**	0,5
Prior year adjustments	**(4,1)**	0,1
Foreign tax rate differential	**(1,6)**	(1,9)
Other	**2,0**	(0,3)
Effective tax rate on result from financial services	**24,1**	21,8

Reconciliation of tax rate on investment return	%	%
Standard rate of taxation	**29,0**	29,0
Adjust for:		
Non-taxable income	**(2,4)**	(5,5)
Disallowable expenses	**0,2**	0,1
Foreign tax rate differential	**(0,4)**	0,1
Investment surpluses	**(9,9)**	(9,6)
Fund transfers	**(1,0)**	(4,5)
Other	**0,1**	0,5
Effective tax rate on investment return	**15,6**	10,1

	2006 R million	2005 R million
14. Assets under management and administration		
Total assets per Group balance sheet (page 190)	**335 482**	276 752
Segregated funds not included in Group balance sheet	**188 257**	148 839
Sanlam Investments	**162 089**	129 281
Botswana Insurance Fund Management	**5 398**	4 173
Glacier	**20 098**	15 013
Sanlam Trust	**672**	372
Total assets under management and administration	**523 739**	425 591

15. Share repurchases

The Sanlam shareholders granted general authorities to the Group at the 2005 and 2006 annual general meetings to repurchase Sanlam shares in the market. The Group acquired 103,6 million shares from 9 March 2006 to 31 December 2006 in terms of the general authorities. The lowest and highest prices paid were R14,07 and R18,06 per share respectively. The total consideration paid of R1,6 billion was funded from existing cash resources. All repurchases were effected through the JSE trading system without any prior understanding or arrangement between the Group and the counterparties. Authority to repurchase 227 million shares, or 8,6% of Sanlam's issued share capital at the time, remain outstanding in terms of the general authority granted at the annual general meeting held on 7 June 2006.

The financial effects of the share repurchases during 2006 are illustrated in the table below:

		Before repurchases	After repurchases
Basic earnings per share:			
Profit attributable to shareholders' fund	Cents	308,8	315,2
Headline earnings	Cents	304,1	310,4
Diluted earnings per share:			
Profit attributable to shareholders' fund	Cents	303,5	309,6
Headline earnings per share	Cents	298,8	304,9
Value per share:			
Embedded value	Cents	2 030	2 047
Net asset value	Cents	1 290	1 274
Tangible net asset value	Cents	1 100	1 075

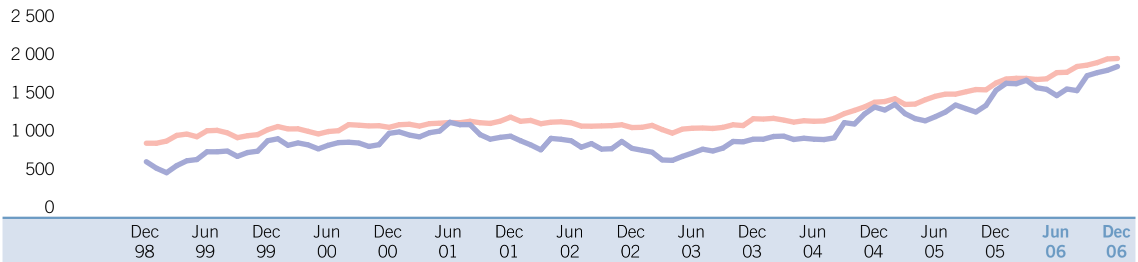
Stock Exchange Performance

	2006	2005	2004	2003	2002	2001	2000	1999
Number of shares traded (million)	**1 523**	2 142	1 716	1 709	1 531	1 118	1 030	1 463
Value of shares traded (R million)	**24 444**	26 762	16 661	12 550	12 807	10 780	8 578	9 451
Percentage of issued shares traded (%)	**66**	89	62	64	58	42	39	55
Price/earnings ratio (times)[2]	**6,0**	6,6	11,3	9,9	9,4	9,3	10,6	11,7
Return on Sanlam share price since listing (%)[3]	**17**	16	16	11	9	17	27	41
Market price per share (cents)								
• Year-end closing price	**1 830**	1 519	1 300	880	760	919	956	860
• Highest closing price	**1 860**	1 540	1 300	880	1 000	1 145	1 000	890
• Lowest closing price	**1 380**	1 080	830	585	700	830	675	440
Net asset value per share (cents)[2]	**1 640**	1 293	1 093	883	798	927	831	810
Embedded value per share (cents)[2]	**2 047**	1 615	1 344	1 131	1 021	1 167	1 067	1 004
Market capitalisation at year-end (R million)	**42 156**	36 587	35 979	23 360	20 175	24 192	25 381	22 833

[1] *Sanlam Limited was listed on 30 November 1998.*

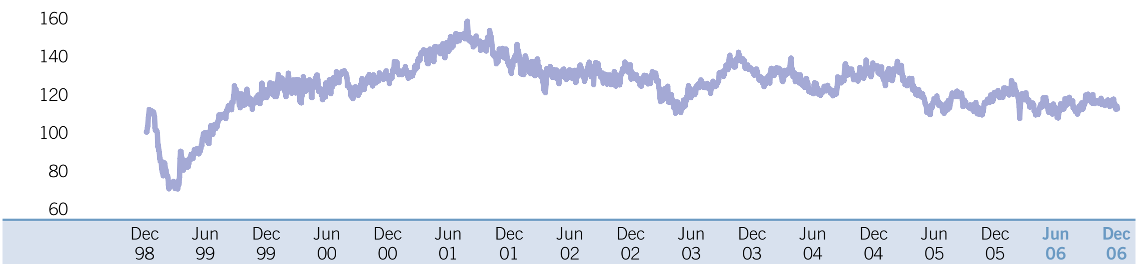
[2] *2004 figures restated for IFRS implementation in 2005. Prior year figures are reported on the previous SA GAAP basis. Net asset value per share based on shareholders' fund at fair value.*

[3] *Annualised growth in the Sanlam share price since listing plus dividends paid.*



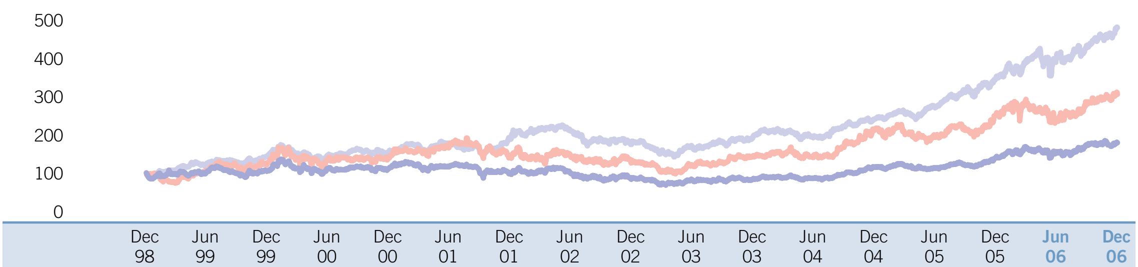
SHARE PRICE vs EMBEDDED VALUE

EV MV



SANLAM SHARE PRICE RELATIVE TO FINI

Sanlam share price relative to FINI



SANLAM vs ALSI vs LIFE ASSURANCE INDEX

ALSI SLM LA

Assurance Report of the Independent Auditors on the Sanlam Group Embedded Value Results

To the directors of Sanlam Limited

We have carried out an assurance engagement on the Report on the Sanlam Group Embedded Value Results for the year ended 31 December 2006 on pages 288 to 299, which has been prepared in accordance with the applicable guidelines of the Actuarial Society of South Africa (PGN 107) and the policies of the Group set out on pages 168 to 184. This report should be read in conjunction with the audited annual financial statements where the policy liabilities, calculated on the financial soundness valuation basis, and the profit entitlement rules are set out on pages 184 to 189.

Respective responsibilities of directors and independent auditors

The directors are responsible for the annual financial statements, as described on page 164, as well as the Report on the Sanlam Group Embedded Value Results. Our responsibilities in relation to the annual financial statements are set out on page 166.

Our responsibilities, as independent auditors, in relation to the Report on the Sanlam Group Embedded Value Results are to express a conclusion to the board of directors as to whether the Sanlam group embedded value as at 31 December 2006 and the value of new life insurance business and embedded value earnings for the year then ended were calculated in accordance with the applicable guidelines of the Actuarial Society of South Africa and the policies of the Group as set out in the Report on the Sanlam Group Embedded Value Results.

Scope of engagement

We conducted our assurance engagement in accordance with the International Standards on Assurance Engagements: ISAE 3000. This standard requires that we plan and perform the engagement to obtain reasonable assurance that the Report on the Sanlam Group Embedded Value Results is free of material misstatement.

Our engagement included:

- an examination, on a test basis, of evidence supporting the amounts and disclosures in the Report on the Sanlam Group Embedded Value Results;
- an assessment of the significant assumptions, estimates and judgements made by the management in the preparation of the Report on the Sanlam Group Embedded Value Results, and of whether the guidelines of the Actuarial Society of South Africa, the methodologies and the policies of the Group, were consistently applied and adequately disclosed; and
- an evaluation of the overall adequacy of the presentation of information in the Report on the Sanlam Group Embedded Value Results in accordance with the guidelines of the Actuarial Society of South Africa.

We believe our engagement provided a reasonable basis for our conclusion.

Assurance conclusion

In our opinion the Sanlam Group embedded value as at 31 December 2006 and the value of new life insurance business and embedded value earnings for the year then ended fairly presents, in all material respects, these values in accordance with the guidelines of the Actuarial Society of South Africa for the preparation and presentation of such a report and the policies and assumptions of the Group as set out in pages 288 to 299 of the Report on the Sanlam Group Embedded Value Results.

Ernst + Young Registered Auditors Inc.

Ernst & Young Registered Auditors Inc.
Registered Auditor

Cape Town
7 March 2007

Report on the Sanlam Group Embedded Value Results for the year ended 31 December 2006

Introduction

An embedded value is an actuarially determined estimate of the value of a company, excluding any value attributable to future new business, and consists of:

- The shareholders' adjusted net assets;
- *Plus* the value of the in-force life business;
- *Less* the cost of capital at risk.

A distinction is made between life and non-life businesses for embedded value purposes. The fair value of non-life businesses is included in the shareholders' adjusted net assets at fair value. Refer to note 10 on page 281 for information on the valuation methodology applied to determine the fair value of non-life businesses.

The long-term policy liabilities in the financial statements are valued based on the statutory valuation method for insurance contracts and fair value for investment contracts. The valuation includes profit margins, which can be expected to emerge as profits in the future. The value placed on these expected future profits, after taxation, is the value of the in-force life business.

The economic value of the company may be derived by adding to the embedded value an estimate of the value of the future sales of new life insurance business, often calculated as a multiple of the value of new life business written during the past year.

Presentation

This report presents the embedded value, and value of new life business, of the Sanlam group.

Channel Life was acquired at the beginning of the 2006 financial year and is included in the 2006 embedded value results. African Life was acquired at the end of the 2005 financial year and is included in the embedded value results with effect from 31 December 2005.

Basis of preparation

The embedded value and value of new life business have been prepared in accordance with PGN 107 (version 3), the guidance note on embedded value and value of new life business issued by the Actuarial Society of South Africa (ASSA).

The value of in-force business and value of new life business relate only to the value of life insurance business of the Group.

The embedded value is net of company taxation and does not allow for the tax position of an investor in Sanlam Limited.

Value of in-force life business

The value of in-force life business is calculated as the discounted value, using a risk-adjusted discount rate, of the projected stream of future after-tax profits distributable to shareholders from life business in force at the valuation date. This value excludes the cost of capital at risk and any value attributable to future new business.

Cost of capital at risk

In addition to assets backing policy liabilities, an amount of regulatory required capital is necessary to support the life businesses. The cost of capital at risk is calculated as the statutory capital adequacy requirement at the valuation date less the discounted value, using a risk-adjusted discount rate, of the expected annual release of this amount and the after-tax investment return on the assets assumed to back the capital at risk over the life of the in-force business.

Shareholders' adjusted net assets

The shareholders' adjusted net assets are equal to the Group shareholders' fund at fair value (refer to shareholders' fund balance sheet at fair value on page 270), adjusted for the following:

- Goodwill and value of insurance and investment contract business acquired (VOBA) relating to life insurance businesses are reversed, as the value of in-force business of life insurance businesses is included in the Group value of in-force business;
- The deferred tax asset recognised for unused Secondary Tax on Companies (STC) credits in respect of life insurance businesses is reversed, as the value of in-force business already includes an allowance for STC credits;
- Discounting of the capital gains tax liability recognised in respect of the shareholders' fund's assets, to allow for the delay before incurring the cash outflow associated with the capital gains tax liability;
- A reduction for the present value of corporate expenses, by applying a multiple to the after-tax corporate expenses. From 2006, corporate expenses include allowance for interest earned on the cash held in respect of the annual dividend, between year-end and actual payment date; and
- The fair value of the Sanlam staff share incentive schemes at the valuation date.

Value of new life business

The value of new life 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 life business issued during the financial year under review. The value of new life business is also reduced by the cost of capital at risk for new life business.

In determining the value of new life 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 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 life 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;
- 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 the exits 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
- Life licence business, where there is very little or no insurance risk, is excluded.

Profitability of new life business is measured by the ratio of the net value of new life business to the present value of new business premiums (PVNBP). The PVNBP is defined as new single premiums plus the discounted value of expected future premiums on new recurring premium business. The premiums used for the calculation of PVNBP are equal to the life insurance new business premiums disclosed in note 2 on page 272, excluding white label new business.

Embedded value earnings

Embedded value earnings for the period are equal to the change in embedded value, after adjustment for any capital movements such as dividends, capital raised or reduced and cost of treasury shares acquired. The growth from life business is expressed as a percentage of the value of in-force business.

The expected return on value of in-force business includes the expected return on both the starting value of in-force business and the accumulation of value of new life business from point of sale to the valuation date. The expected after-tax profit or loss transferred to net assets in respect of value of new life business is included in the point-of-sale value.

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 Group's life insurance 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. Relative to the increase for assurances, the mortality assumption relating to annuities is decreased, because a decrease in mortality increases the mortality risk in respect of annuities.

Long-term equity compensation and incentive schemes

The embedded value is adjusted for the fair value of shares in the Sanlam staff share incentive schemes outstanding at the valuation date. This fair value is calculated using option-pricing models making allowance for:

- Actual vesting dates;
- The Sanlam share price at valuation date; and
- Forfeiture rates, dividend yield and volatility consistent with the IFRS 2 *Share-based Payment* valuation principles.

From 2005, no share options are issued, but retention bonuses are paid to key employees. The embedded value assumes the payment of long-term incentives in the future and acknowledges the cost as outlined below:

In relation to:

- Life operations, within the value of in-force life business;
- The corporate function, within the adjustment for strategic corporate expenses; and
- Other operations, within the valuations of the respective businesses.

Assumptions

The embedded value calculation is based on best estimate assumptions (refer to note 8 on page 256). These assumptions are 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.

Investment return and inflation

The assumed investment return on assets supporting the policy liabilities and capital at risk are based on the 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.

Assets backing capital at risk

The assumed composition of the assets backing the capital at risk is consistent with Sanlam's practice and with the long-term asset distribution used to calculate the statutory capital requirements of the Group's life businesses.

Decrements, expenses and bonuses

Future mortality, morbidity and discontinuance rates and future expense levels are based on recent experience where appropriate.

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 the respective valuation dates.

The surrender and paid-up bases of the South African life companies in the Group have been adjusted, where applicable, to reflect the minimum standards for early termination values agreed between the Life Offices Association and National Treasury. In all other respects, future benefits have been determined on current surrender and paid-up bases.

HIV/Aids

Allowance is made, where appropriate, for the impact of expected HIV/Aids-related claims, using models developed by the Actuarial Society of South Africa, 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.

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 Investment Management, these margins are not included in the value of in-force and new business.

Project costs

In determining the value of in-force business, the value of expenses for certain planned projects focusing on both administration and distribution aspects of the life insurance business is deducted. These projects are of a short-term nature, although similar projects may be undertaken from time-to-time. No allowance is made for the expected positive impact these projects may have on the future operating experience of the Group.

Taxation

Projected tax is allowed for at rates and on bases in accordance with the tax regimes applicable for each of the life businesses.

Allowance has been made for the impact of capital gains tax on investments in South Africa, excluding investments in Group subsidiaries. The assumed rollover period for realisation of these investments is five years.

Allowance is made for STC by placing a present value on the tax liability generated by the net cash dividends paid that are attributable to life insurance business. It is assumed that all future dividends will be paid in cash.

No allowance was made for tax changes announced by the Minister of Finance in his budget speech in February 2007.

Embedded value methodology

The methodology applied in preparing the embedded value report is consistent with the methodology used in the 2005 annual report, apart from the following:

- Improved modelling of Sanlam Life's future paid-up policies;
- Allowance for the impact of the joint venture agreement with Coris in the modelling of Sanlam Employee Benefits administration business;
- An increased allowance for planned project costs;
- Explicit allowance for the expected increase in maintenance unit cost associated with the decline in the Sanlam Life in-force book; and
- Other modelling changes.

The net impact of the above changes is as follows:

- The embedded value increased by R184 million at 31 December 2006.
- Operating assumptions changes (included in embedded value earnings) for the 2006 financial year increased by R184 million.

In addition to the above, the shareholders' adjusted net assets and the investment return thereon were increased with R576 million by the following:

- No deferred capital gains tax is provided in respect of the shareholders' fund investment in Santam from 2006, with a consequential reduction in the discounting adjustment for capital gains tax; and
- Allowance has been made in the calculation of the adjustment for corporate expenses for interest earned on cash held in respect of the annual dividend, between year-end and actual payment date.

Sanlam Group Embedded Value at 31 December 2006

	Note	2006 R million	2005 R million
Sanlam group shareholders' fund at fair value		**37 491**	30 592
Reverse goodwill and value of life business acquired		**(1 425)**	(1 328)
Merchant Investors		**(356)**	(356)
African Life		**(955)**	(955)
Channel Life		**(91)**	—
Other		**(23)**	(17)
Shareholders' fund adjustments		**(1 518)**	(1 634)
Present value of strategic corporate expenses	1	**(667)**	(947)
Fair value of share incentive schemes		**(772)**	(793)
Adjustment for discounting capital gains tax		**64**	245
Adjustment for delayed tax relief on enhanced early termination benefits	2	**(60)**	(60)
STC deferred tax asset written down		**(83)**	(79)
Sanlam group shareholders' adjusted net assets		**34 548**	27 630
Net value of life insurance business in-force	3	**12 263**	10 574
Value of life insurance business in-force		**14 746**	12 542
Sanlam Personal Finance		**12 010**	10 049
Sanlam Developing Markets		**1 762**	1 436
Sanlam Employee Benefits		**974**	1 057
Cost of capital at risk		**(2 115)**	(1 707)
Sanlam Personal Finance		**(1 582)**	(1 290)
Sanlam Developing Markets		**(142)**	(103)
Sanlam Employee Benefits		**(391)**	(314)
Minority shareholders' interest in value of in-force		**(368)**	(261)
Sanlam Personal Finance		**(51)**	(54)
Sanlam Developing Markets		**(317)**	(207)
Sanlam Employee Benefits		**—**	—
Sanlam group embedded value		**46 811**	38 204
Embedded value per share (cents)		**2 047**	1 615
Number of shares (million)		**2 287**	2 366

Sanlam Group
Return on Embedded Value for the year ended 31 December 2006

R million	Note	2006 Total	2006 Value of in-force	2006 Adjusted net assets	2005 Total	2005 Value of in-force	2005 Adjusted net assets
Embedded value from new life business		**434**	**1 106**	**(672)**	291	709	(418)
Earnings from existing life business		**1 717**	**(507)**	**2 224**	1 351	(450)	1 801
Expected return on value of in-force business		**1 256**	**1 256**	**—**	1 193	1 193	—
Expected transfer of profit to adjusted net assets		**—**	**(1 783)**	**1 783**	—	(1 348)	1 348
Operating experience variations	4	**277**	**(113)**	**390**	138	(314)	452
Operating assumption changes		**184**	**133**	**51**	20	19	1
Embedded value earnings from life operations		**2 151**	**599**	**1 552**	1 642	259	1 383
Economic assumption changes	5	**(5)**	**(8)**	**3**	(316)	(287)	(29)
Tax changes	6	**47**	**47**	**—**	(179)	(144)	(35)
Investment variances		**1 015**	**972**	**43**	845	785	60
Exchange rate movements		**119**	**119**	**—**	4	4	—
Change in minority shareholders' interest in value of in-force		**(76)**	**(76)**	**—**	(20)	(20)	—
Growth from life business		**3 251**	**1 653**	**1 598**	1 976	597	1 379
Investment return on shareholders' adjusted net assets		**8 461**	**—**	**8 461**	5 557	—	5 557
Non-life operations		**4 359**	**—**	**4 359**	2 610	—	2 610
Balanced portfolio		**3 986**	**—**	**3 986**	2 937	—	2 937
Change in shareholders' fund adjustments		**116**	**—**	**116**	10	—	10
Total embedded value earnings before dividends paid, capital movements and cost of treasury shares acquired	7	**11 712**	**1 653**	**10 059**	7 533	597	6 936
Acquired value of in-force		**—**	**38**	**(38)**	—	1 126	(1 126)
Dividends paid		**(1 535)**	**—**	**(1 535)**	(1 363)	—	(1 363)
Shares cancelled		**(1 644)**	**—**	**(1 644)**	(4 446)	—	(4 446)
Cost of treasury shares acquired		**74**	**—**	**74**	(153)	—	(153)
Change in Sanlam group embedded value		**8 607**	**1 691**	**6 916**	1 571	1 723	(152)
Growth from life insurance business as a % of beginning value of in-force		**30,7%**			22,3%		
Return on embedded value		**30,7%**			20,6%		
Return on embedded value per share		**31,0%**			24,4%		

	2006 EV earnings R million	2006 ROEV %	2005 EV earnings R million	2005 ROEV %
Non-life operations	**4 359**	**44,9**	2 610	33,7
Sanlam Personal Finance	**303**	**45,4**	190	38,3
Santam	**1 043**	**22,0**	1 198	29,7
Investment management	**2 711**	**84,0**	1 011	42,4
Sanlam Capital Markets	**141**	**35,3**	152	34,5
Independent Financial Services	**161**	**31,9**	59	15,0
Balanced portfolio	**3 986**	**20,4**	2 937	13,5
Change in shareholders' fund adjustments	**116**		10	
Shareholders' adjusted net assets	**8 461**	**30,6**	5 557	20,0
Growth from life insurance business	**3 251**	**30,7**	1 976	22,3
Value of new life business	**434**	**4,1**	291	3,3
Existing life business	**1 717**	**16,2**	1 351	15,3
Expected return	**1 256**	**11,9**	1 193	13,5
Operating experience variations	**277**	**2,6**	138	1,6
Operating assumption changes	**184**	**1,7**	20	0,2
Adjustments	**1 176**	**11,1**	354	3,9
Investment variances and exchange rate movements	**1 134**	**10,7**	849	9,5
Economic assumption changes	**(5)**	**0**	(316)	(3,6)
Tax changes	**47**	**0,4**	(179)	(2,0)
Minority interest in value of in-force	**(76)**	**(0,7)**	(20)	(0,2)
Return on embedded value (ROEV)	**11 712**	**30,7**	7 533	20,6

Sanlam Group
Value of New Life Business for the year ended 31 December 2006

	Note	2006 R million	2005 R million
Value of new life business (at point of sale)			
Gross value of new life business		**472**	318
Sanlam Personal Finance		**276**	279
Sanlam Developing Markets		**149**	(17)
Sanlam Employee Benefits		**47**	56
Cost of capital at risk		**(38)**	(27)
Sanlam Personal Finance		**(15)**	(17)
Sanlam Developing Markets		**(15)**	—
Sanlam Employee Benefits		**(8)**	(10)
Net value of new life business		**434**	291
Sanlam Personal Finance		**261**	262
Sanlam Developing Markets		**134**	(17)
Sanlam Employee Benefits		**39**	46
Net value of new life business attributable to:			
Shareholders' fund	3	**379**	291
Sanlam Personal Finance		**259**	262
Sanlam Developing Markets		**81**	(17)
Sanlam Employee Benefits		**39**	46
Minority shareholders' interest		**55**	—
Sanlam Personal Finance		**2**	—
Sanlam Developing Markets		**53**	—
Sanlam Employee Benefits		**—**	—
Net value of new life business		**434**	291
Geographical analysis:			
South Africa		**346**	287
Africa		**84**	3
Other international		**4**	1
Net value of new life business		**434**	291
New business profitability			
Before minorities			
Present value of new business premiums		**20 308**	16 533
Sanlam Personal Finance		**13 735**	12 297
Sanlam Developing Markets		**3 107**	125
Sanlam Employee Benefits		**3 466**	4 111
Life new business margin		**2,1%**	1,8%
Sanlam Personal Finance		**1,9%**	2,1%
Sanlam Developing Markets		**4,3%**	(13,6%)
Sanlam Employee Benefits		**1,1%**	1,1%
After minorities			
Present value of new business premiums		**19 426**	16 402
Sanlam Personal Finance		**13 663**	12 166
Sanlam Developing Markets		**2 297**	125
Sanlam Employee Benefits		**3 466**	4 111
Life new business margin		**2,0%**	1,8%
Sanlam Personal Finance		**1,9%**	2,2%
Sanlam Developing Markets		**3,5%**	(13,6%)
Sanlam Employee Benefits		**1,1%**	1,1%

Notes to the Sanlam Group Embedded Value Results for the year ended 31 December 2006

1. Strategic corporate expenses

The present value of strategic corporate expenses has been calculated by applying a multiple of 7,2 (2005: 8,2) to the after-tax recurring corporate expenses. From 2006, corporate expenses includes allowance for interest earned on cash held in respect of the annual dividend between year-end and actual payment date.

2. Tax relief on enhanced early termination benefits

The 2005 financial statements allowed for the full tax relief of R180 million on the enhanced early termination benefit cost of R620 million. This adjustment allows for the time value effect of not realising the tax relief immediately.

3. Value of in-force and value of new business sensitivity analysis at 31 December 2006

	Gross value of in-force business R million	Cost of capital at risk R million	Net value of in-force business R million	Change from base value %
Value of in-force business				
Base value	**14 338**	**(2 075)**	**12 263**	
• Increase risk discount rate by 1,0%	13 479	(2 352)	11 127	(9)
• Decrease risk discount rate by 1,0%	15 309	(1 762)	13 547	10
• Investment return (and inflation) decrease by 1,0%, coupled with a 1,0% decrease in risk discount rate, and with bonus rates changing commensurately	14 546	(2 006)	12 540	2
• Investment return (and inflation) decrease by 1,0% and with bonus rates changing commensurately	13 646	(2 292)	11 354	(7)
• Non-commission maintenance expenses (excluding investment expenses) increase by 10%	13 901	(2 069)	11 832	(4)
• Discontinuance rates increase by 10%	14 051	(2 006)	12 045	(2)
• Mortality and morbidity increase by 10% for assurances, coupled with a 10% decrease in mortality for annuities	13 512	(2 054)	11 458	(7)
• Assets fall by 10%	13 744	(2 042)	11 702	(5)

	Gross value of new business R million	Cost of capital at risk R million	Net value of new business R million	Change from base value %
Value of new life business				
Base value	**409**	**(30)**	**379**	
• Increase risk discount rate by 1,0%	347	(35)	312	(17)
• Decrease risk discount rate by 1,0%	483	(27)	456	21
• Investment return (and inflation) decrease by 1,0%, coupled with a 1,0% decrease in risk discount rate, and with bonus rates changing commensurately	435	(30)	405	7
• Investment return (and inflation) decrease by 1,0% and with bonus rates changing commensurately	369	(35)	334	(12)
• Non-commission maintenance expenses (excluding investment expenses) increase by 10%	371	(31)	340	(10)
• Discontinuance rates increase by 10%	356	(31)	325	(14)
• Mortality and morbidity increase by 10% for assurances, coupled with a 10% decrease in mortality for annuities	365	(29)	336	(11)

		2006 R million	2005 R million
4.	**Operating experience variations**		
	Risk experience	**280**	221
	Group stabilised business outflows	**(108)**	(96)
	Working capital and other	**105**	13
	Total operating experience variations	**277**	138
5.	**Economic assumption changes**		
	Investment yields and inflation gap	**(51)**	15
	Long-term asset mix assumptions	**46**	(331)
	Total economic assumption changes	**(5)**	(316)
6.	**Tax changes**		
	Change in corporate tax rate	—	167
	Change in policyholders' fund tax rate	**117**	—
	STC modelling changes	**(70)**	(273)
	Strengthening of tax provisions	—	(73)
	Total tax changes	**47**	(179)
7.	**Reconciliation of embedded value earnings**		
	The embedded value earnings reconcile as follows to attributable earnings for the year:		
	Attributable earnings per income statement (refer to page 191)	**6 945**	10 927
	Earnings recognised directly in equity (refer to page 192)	**392**	145
	Equity-accounted movement in associated companies' reserves	**—**	15
	Net foreign currency translation gains	**318**	66
	Share-based payments	**74**	64
	Reverse fund transfers recognised in income statement	**(205)**	(730)
	Movement in fair value adjustment – non-life operations	**2 876**	(3 631)
	Other	**32**	61
	Earnings: shareholders' fund at fair value	**10 040**	6 772
	Movement in adjustments to shareholders' fund	**19**	164
	Present value of strategic corporate expenses	**280**	(64)
	Fair value of share incentive scheme	**21**	6
	Adjustment for discounting capital gains tax	**(181)**	107
	Adjustment for delayed tax relief on enhanced early termination benefits	**—**	(60)
	STC deferred tax asset written down	**(4)**	21
	Change in goodwill and VOBA adjustments less VIF acquired	**(97)**	154
	Earnings: shareholders' adjusted net assets	**10 059**	6 936
	Growth from life business	**1 653**	597
	Total embedded value earnings	**11 712**	7 533

8. Assumptions

%	Sanlam Life and Sanlam Namibia 2006	Sanlam Life and Sanlam Namibia 2005	Merchant Investors 2006	Merchant Investors 2005	African Life 2006	African Life 2005	Botswana Life Insurance 2006	Botswana Life Insurance 2005
Gross investment return, risk discount rate and inflation								
Fixed-interest securities	**7,9**	7,5	**4,6**	4,1	**8,0**	7,4	**11,0**	10,0
Equities and offshore investments	**9,9**	9,5	**7,1**	6,6	**10,0**	9,4	**13,0**	12,0
Hedged equities	**7,9**	7,5	**7,1**	6,6	**n/a**	n/a	**13,0**	n/a
Property	**8,9**	8,5	**7,1**	6,6	**9,0**	8,4	**12,0**	11,0
Cash	**5,9**	5,5	**4,6**	4,1	**6,0**	5,4	**9,0**	8,0
Risk discount rate	**10,4**	10,0	**8,3**	7,8	**10,5**	10,9	**14,5**	13,5
Return on capital at risk	**5,3**	7,8	**4,6**	4,1	**6,6**	6,5	**8,9**	11,0
Unit cost and salary inflation	**4,4**	4,0	**3,5**	3,0	**5,0**	4,4	**8,0**	7,0
Consumer price index inflation	**4,4**	3,0	**3,5**	3,0	**n/a**	n/a	**n/a**	n/a

%	Sanlam Life and Sanlam Namibia 2006	Sanlam Life and Sanlam Namibia 2005	Merchant Investors 2006	Merchant Investors 2005	African Life 2006	African Life 2005	Botswana Life Insurance 2006	Botswana Life Insurance 2005
Long-term asset mix for assets supporting the capital at risk								
Equities	**—**	25	**—**	—	**50**	50	**75**	65
Hedged equities	**20**	35	**—**	—	**—**	—	**—**	—
Property	**—**	5	**—**	—	**—**	—	**1**	4
Fixed-interest securities	**50**	20	**—**	—	**—**	25	**24**	31
Cash	**30**	15	**100**	100	**50**	25	**—**	—
	100	100	**100**	100	**100**	100	**100**	100

Glossary of Terms, Definitions and Major Businesses

Technical terms and definitions

"Africa"	–	the rest of Africa, excluding South Africa;
"billion"	–	one thousand million;
"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 at risk"	–	the statutory capital adequacy requirement that is required to support the life insurance businesses over the life of the in-force book;
"core earnings"	–	a Sanlam core earnings figure is presented to provide an indication of 'normalised' earnings. Core earnings comprise the net result from financial services and net investment income earned on the shareholders' fund, but exclude abnormal and non-recurring items as well as investment surpluses. Net investment income includes dividends received from non-operating associated companies and joint ventures, but excludes the equity-accounted retained earnings;
"cost of capital at risk"	–	cost of capital at risk is calculated as the capital at risk at the valuation date less the discounted value, using a risk-adjusted discount rate, of the expected annual release of the capital at risk over the life of the in-force business, allowing for the after-tax investment return on the expected level of capital at risk held in each year;
"embedded value " or "EV"	–	embedded value is an actuarially determined estimate of the value of a company, excluding any value attributable to future new business. Embedded value consists of shareholders' adjusted net assets at fair value, together with the value of the in-force life insurance business less the cost of capital at risk;
"FSB"	–	the Financial Services Board, the regulator of insurance companies in South Africa;
"headline earnings"	–	headline earnings measure the Group's earnings, exclusive of earnings of a capital nature. For the Sanlam group, the only differences between attributable earnings and headline earnings are: • Profits and losses on the disposal of subsidiaries, associated companies and joint ventures; • Impairment of investments and goodwill; and • The Group's share of associates' and joint ventures' non-headline earnings. Headline earnings exclude the above items that are of a capital nature. Given that the Group's operations are of a financial nature, headline earnings include investment surpluses earned on the investments held by the shareholders' fund, resulting in volatility in headline earnings;

"life insurance business" or "life business"	–	products provided by the Group's long-term insurance businesses in terms of insurance and investment contracts included in the Group financial statements, but excluding life licence business;
"life licence business"	–	investment products provided by Sanlam Investments and Glacier by means of a life insurance policy where there is very little or no insurance risk;
"life new business margin"	–	Life VNB as a percentage of PVNBP;
"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;
"long-term solvency capital"	–	a required capital level that will ensure sustained statutory solvency of the life insurance businesses within an acceptable confidence level, based on a stochastic modelling process that simulates a vast number of investment and new business scenarios;
"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 loan business margin"	–	value of new loan business as a percentage of loans granted;
"non-life business"	–	financial services and products provided by the Group, excluding life insurance business;
"non-life linked business"	–	non-life linked business comprise investment products provided by Sanlam Personal Finance's Glacier business, which are not written under a life licence;
"non-life linked new business margin"	–	Non-life linked business VNB as a percentage of PVNBC;
"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, eg a linked or fixed-benefit policy;
"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;

"PVNBC"	–	present value of new business contributions from non-life linked products;
"PVNBP"	–	present value of new business premiums from life insurance business;
"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;
"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 Financial Services Authority in the United Kingdom as applicable to Merchant Investors;
"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;
"value of in-force business" or "VIF"	–	the value of in-force 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 on the in-force life insurance book;
"value of new life business" or "Life VNB"	–	the value of new life 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 life business issued, net of the cost of capital at risk over the life of this business;
"value of new loan business" or "Loan business VNB"	–	loan business comprises mortgage loans provided by Sanlam Home Loans and personal loans offered by Sanlam Personal Loans. The value of new loan business is based on methodologies and assumptions similar to the calculation of Life VNB;
"value of new non-life linked business" or "Non-life linked business VNB"	–	the value of new non-life linked business, based on methodologies and assumptions similar to the calculation of Life VNB;
"white label"	–	white label products relate to business where the Group is principally providing administrative or life licence services to third-party institutions.

Major businesses of the group

"African Life"	–	African Life Assurance Company Limited, a wholly owned subsidiary of Sanlam Life conducting mainly life insurance business in South Africa and through its subsidiaries in Africa;
"BIHL"	–	Botswana Insurance Holdings Limited, a subsidiary of African Life conducting life insurance and investment management business in Botswana;
"Channel Life"	–	Channel Life Limited, a subsidiary of Sanlam Life conducting mainly life insurance business in South Africa;
"Merchant Investors"	–	Merchant Investors Assurance Company Limited, a wholly owned subsidiary of Sanlam 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 in South Africa and Namibia;
"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, associates and joint ventures;
"Sanlam Namibia"	–	Sanlam Life Namibia, a wholly owned subsidiary of Sanlam Life conducting mainly life insurance business in Namibia.

Notice of Annual General Meeting

Sanlam Limited

(Incorporated in the Republic of South Africa)

(Registration No 1959/001562/06)

Notice is hereby given that the ninth Annual General Meeting of the Members of Sanlam Limited ("the Company") will be held on Wednesday 6 June 2007 at 14:00 in the CR Louw Auditorium, Sanlam Head Office, 2 Strand Road, Bellville ("the Meeting") for the following purposes:

1. To consider and adopt the annual financial statements of the Group and the Company for the year ended 31 December 2006.

2. To appoint a firm of external auditors for the Company. The Board recommends the re-appointment of Ernst & Young Registered Auditors Inc.

3. To re-elect Mr JP Möller, appointed by the board of directors of the Company ("the Board") in a casual vacancy in terms of articles 13.2 and 14.2 of the Company's articles of association ("the Articles"), and who is eligible and offer himself for re-election.

   Mr Möller was appointed in the vacancy created by the retirement of Mr P de V Rademeyer during 2006. Mr Möller is also a director of Santam Limited, African Life Assurance Limited, Genbel Securities Limited, Sanlam Capital Markets Limited, Sanlam Life Insurance Limited as well as of other companies in the Sanlam Group.

4. To re-elect the following directors(*) of the Company, retiring by rotation in terms of article 14 of the Articles, and who are eligible and offer themselves for re-election:

   MM Bakane-Tuoane
   FA du Plessis
   WG James
   PT Motsepe
   RV Simelane

   Mr JJM van Zyl is also retiring by rotation in terms of article 14 of the Articles, but although he is eligible, he indicated that he is not available for re-election, having completed nine years as a director.

   Mr E van As, although not scheduled to do so, has indicated his intention to stand down as a director at the Meeting, due to other commitments.

   The Board has decided to close the two vacancies created by the retirement of Mr van Zyl and Mr van As and to reduce the total number of directors to eighteen.

   *Brief curricula vitae appear on page 16.

5. To authorise the Board to determine the remuneration of the external auditors.

6. To consider and approve the total amount of directors' remuneration for the year ended 31 December 2006.

7. To consider and approve, with or without modification, an 8% increase in the

remuneration of the non-executive directors for the period 1 July 2007 up to 30 June 2008. This includes the all inclusive remuneration package of the chairman as well as the fixed annual board fees and attendence fees for board meetings payable to the deputy chairman, as well as other non-executive directors and members of board committees, where applicable.

8. To consider and, if approved, to pass, with or without modification, the following ordinary resolution number 1:

   "Resolved that the authorised but unissued ordinary shares in the share capital of the Company, subject to a maximum of 230 million shares, be and are hereby placed at the disposal and under the control of the Board, and such directors are hereby authorised and empowered to allot, issue or otherwise dispose thereof to such person or persons and on such terms and conditions as the directors may from time to time determine, but subject to the provisions of the Companies Act, No 61 of 1973, as amended ("the Companies Act"), the requirements of the JSE Limited ("the JSE") and any other stock exchange upon which the shares of the Company may be quoted or listed from time to time, provided that the general authority shall only be valid up to and including the date of the Company's next annual general meeting, on condition that it does not extend beyond 15 months from the date of this resolution".

9. To consider and, if approved, to pass, with or without modification, the following special resolution number 1:

   "Resolved that the Company approves, by way of general authority, and the board of directors of the Company be authorised pursuant hereto to effect, whether by way of a single transaction or a series of transactions:

   (a) the purchase of any of its securities by the Company or its subsidiaries, including ordinary shares of R0,01 each in the capital of the Company

   (b) the purchase of such securities by the Company in any holding company of the Company, if any, and any subsidiary of any such holding company

   (c) the purchase by and/or transfer to the Company of any of its securities purchased pursuant to (a) above

   (d) the purchase by and/or transfer to any holding company of the Company and/or any subsidiary of any such holding company of any securities purchased pursuant to (b) above

   subject to the provisions of the Companies Act and the requirements of the JSE and any other stock exchange upon which the securities of the Company may be quoted or listed from time to time, and subject to such other conditions as may be imposed by any other relevant authority, provided that:

- the general authority shall only be valid up to and including the date of the Company's next annual general meeting, on condition that it does not extend beyond 15 months from the date of this resolution
- the general authority to purchase be limited to a maximum of 10% of the relevant company's issued share capital of that class at the time the authority is granted
- purchases must not be made at a price more than 5% above the weighted average of the market value of the securities for the five business days immediately preceding the date of the purchases."

The reason for and effect of special resolution number 1 is to grant a general authority to enable the Company to acquire securities which have been issued by it, or its holding company, if any, and any subsidiary of any such holding company, and any subsidiary of the Company to acquire securities in the Company.

Statement of intent:

The Board shall implement a general purchase of the Company's securities, only if prevailing circumstances (including the tax dispensation and market conditions) warrant same, and should the Board be of the opinion, after considering the effect of such purchase of securities, that the following requirements have been and will be met:

- the Company will be able to pay its debts in the ordinary course of business
- the consolidated assets of the Company, fairly valued in accordance with generally accepted accounting practice, are in excess of the consolidated liabilities of the Company
- the Company will have adequate capital
- the working capital of the Company will be sufficient for the Company's requirements for the year ahead.

10. To consider and, if approved, to pass, with or without modification, the following special resolution number 2:

"Resolved that, subject to approval by the Registrar of Companies, the Articles of the Company be amended by replacing Article 34 with the following:

"34 Indemnity

34.1 The directors may, wholly or partly:

34.1.1 indemnify a director or officer of the company against liability to third parties

34.1.2 compensate a director or officer of the company for damages, losses or expenses

34.1.3 indemnify a director or officer of a subsidiary of the company ("subsidiary") against liability to the subsidiary or to third parties

34.1.4 compensate a director or officer of a subsidiary for damages, losses or expenses

34.1.5 in the case of a person ("representative") who, at the specific written request of the company or a subsidiary, represents the company or subsidiary in an entity which is not a subsidiary ("external entity") as a director, officer, trustee, governor or similar functionary:

(a) indemnify the representative against liability to the external entity or to third parties

(b) compensate the representative for damages, losses or expenses

where the liability, or the damages, losses or expenses, were incurred by the director, officer or representative in the execution of his duties as director or officer of the company or subsidiary or as functionary of the external entity, or where the liability, or the damages, losses or expenses, arose solely by reason of the director, officer or representative being a director or officer of the company or subsidiary or being a functionary of the external entity.

However, such indemnity or compensation may not be provided where the liability, or the damages, losses or expenses, resulted from the wilfulness or gross negligence of the director, officer or representative.

34.2 If the person to whom such indemnity or compensation is to be provided is a director of the company, it may be provided to him only on approval by a disinterested quorum of directors of the company - being a quorum of directors excluding him. If there is not a disinterested quorum of directors, it may be provided to him only on approval by the shareholders in general meeting.

34.3 For the avoidance of doubt: In adherence to applicable law, notably section 247(1) of the Companies Act, and notwithstanding anything to the contrary in this Article 34, such indemnity or compensation may not be provided to a director or officer of the company:

34.3.1 where the liability, or the damages, losses or expenses, arose from his wilful or negligent default, breach of duty or breach of trust in relation to the company

34.3.2 where the liability (including a liability for damages, losses or expenses) is a liability to a third party, but amounts also to a liability to the company

34.3.3 where the liability (including a liability for damages, losses or expenses) is a liability to a third party and it arose from a breach of the Companies Act or related legislation by which personal liability is imposed on him.

34.4 The directors may, wholly or partly:

34.4.1 indemnify an employee of the company or a subsidiary (who is not a director or officer of the company or subsidiary) against liability to the company or subsidiary or to third parties

34.4.2 compensate the employee for damages, losses or expenses

where the liability, or the damages, losses or expenses, were incurred by the employee in the course and scope of his employment with the company or subsidiary.

However, such indemnity or compensation may not be provided where the liability, or the damages, losses or expenses, resulted from his wilfulness or gross negligence.

Such indemnity or compensation may also be provided to a person who, at the specific written request of the company or a subsidiary, serves as an employee in an external entity, in a position which is not that of a director, officer, trustee, governor or similar functionary.

34.5 The company may take out insurance against liability of directors, officers or employees to the company, subsidiaries, external entities and third parties for negligent default, breach of duty or breach of trust.

34.6 This Article 34 is subject to Article 13.6, which is to prevail in case of conflict.""

The reasons for and effect of special resolution number 2 are as follows

- To enlarge the ambit and application of Article 34

  Article 34 presently provides for the indemnification of only directors, officers and employees of the Company.

  The revised Article 34 will also provide for the indemnification of directors, officers and employees of subsidiaries of the Company, as well as persons who, at the specific written request of the Company or a subsidiary, represents the Company or subsidiary in an entity which is not a subsidiary, as a director, officer, trustee, governor or employee.

- To make certain aspects and wording of Article 34 more clear

  Certain aspects and wording of Article 34 have been found to be not sufficiently clear. In the new wording it is made clearer. Among other things, it is made clearer that directors and officers cannot be indemnified against a liability to the Company itself, as such an indemnification is prohibited by section 247(1) of the Companies Act.

- To align the Articles of the Company with current corprate governance practices.

11. To consider and, if approved, to pass, with or without modification, the following special resolution number 3:

    "Resolved that, subject to approval by the Registrar of Companies, the following new Article 41 be inserted in the Articles of the Company:

"41 Third parties

These Articles, or any part of these Articles, do not constitute a stipulation in favour of a third party, including a director, officer or employee, conferring benefits upon the third party.""

The reason for and effect of special resolution number 3 is to prevent third parties from arguing, among others, that Article 34 of the Articles of the Company, in terms of which an indemnification may be provided to employees, in effect also constitutes a stipulation in favour of third parties, conferring on them a benefit, which benefit they then can claim directly from the Company. The need for this provision arose from such an effort having been made in the past.

General notes:

1. A member entitled to attend, speak and vote at the Meeting may appoint a proxy to attend, speak and vote in his or her stead.

2. Sanlam shareholders who hold share certificates for their Sanlam ordinary or Sanlam 'A' deferred shares or have dematerialised their Sanlam ordinary shares and have them registered in their own name or in the name of Sanlam Share Account (Proprietary) Limited or Sanlam Fundshares Nominee (Proprietary) Limited, but who are unable to attend the Meeting and wish to be represented thereat, should complete and return the enclosed form of proxy, in accordance with the instructions contained therein, to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (Private Bag X105, Marshalltown, 2107). The form of proxy must be received by not later than 14:00 on Monday 4 June 2007.

3. Sanlam ordinary shareholders who hold their dematerialised Sanlam ordinary shares through a bank or broker nominee and wish to cast their votes at this Meeting or wish to attend the Meeting in person, must contact their bank or broker.

4. A person representing a corporation/company is not deemed to be a proxy as such corporation/ company can only attend a meeting through a person, duly authorised by way of a resolution to act as representative. A notarially certified copy of such power of attorney or other documentary evidence establishing the authority of the person signing the proxy in a representative capacity must be attached to the proxy form. Such person enjoys the same rights at the Meeting as the shareholding corporation/company.

5. A member whose shares are held by Sanlam Share Account (Proprietary) Limited or Sanlam Fundshares Nominee (Proprietary) Limited is empowered by such relevant nominee company to act and vote at the Meeting.

6. On a show of hands, every shareholder present in person or every proxy or duly authorised representative representing shareholders shall have only one vote, irrespective of the number of shareholders or shares he/she represents or holds.

7. On a poll, every shareholder present in person or represented by proxy or duly authorised representative shall have one vote for every Sanlam share held by such shareholder.

8. A resolution put to the vote shall be decided on a show of hands unless, before or on the declaration of the results of the show of hands, a poll shall be demanded by any person entitled to vote at the Meeting. If a poll is so demanded, the resolution put to the vote shall be decided on a poll.

By order of the Board

JP Bester, *Company Secretary*

Bellville

12 March 2007

Analysis of Shareholders at 31 December 2006

	Total shareholders		Total shares held	
	Number	%	Number	%
Distribution of shareholding				
1 – 1 000	504 555	85,55	191 995 938	8,33
1 001 – 5 000	75 879	12,87	148 490 886	6,45
5 001 – 10 000	6 157	1,04	42 123 011	1,83
10 001 – 50 000	2 444	0,41	42 227 918	1,83
50 001 – 100 000	171	0,03	12 463 375	0,54
100 001 – 1 000 000	388	0,07	144 932 332	6,29
1 000 001 and over	185	0,03	1 721 374 844	74,73
Total	589 779	100,00	2 303 608 304	100,00

	% shareholding
Public and non-public shareholders	
Public shareholders (589 753)	99,50
Non-public shareholders	
Directors' interest	0,10
Employee pension funds	0,13
Sanlam Limited Share Incentive Trust	0,27
Total	100,00

	% shareholding
Shareholder structure	
Institutional and other shareholding	
Offshore	19,80
South Africa	63,28
Individuals	16,90
Demutualisation Trust	0,02
Total	100,00

Beneficial shareholding of 5% or more:

• Public Investment Commissioner (SA)	14,5
• Ubuntu-Botho Investments (Pty) Limited	9,8

Shareholders' Diary and Administration

Shareholders' diary

Financial year-end	31 December
Annual general meeting	6 June 2007

Reports

• Interim report for 30 June 2007	September 2007
• Announcement of the results for the year ended 31 December 2007	March 2008
• Annual report for the year ended 31 December 2007	April 2008

Dividends

• Dividend for 2006 declared	7 March 2007
• Last date to trade for 2006 dividend	19 April 2007
• Shares will trade ex-dividend from	20 April 2007
• Record date for 2006 dividend	26 April 2007
• Payment of dividend for 2006	9 May 2007
• Declaration of dividend for 2007	March 2008
• Payment of dividend for 2007	May 2008

To allow for the dividend calculation, Sanlam's share register (including Sanlam's two nominee companies, namely Sanlam Share Account (Pty) Ltd and Sanlam Fundshares Nominee (Pty) Ltd), will be closed for all transfers, off-market transactions and dematerialisations or rematerialisations between 20 April 2007 and 26 April 2007, both dates included.

Transactions on the JSE via STRATE are not affected by this arrangement.

Administration

Sanlam Limited

Registration No 1959/001562/06
Incorporated in South Africa

Sanlam Life Insurance Limited

Registration No 1998/021121/06

Group Secretary

JP Bester

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Transfer Secretaries

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