Integrated annual report **2011**
Volume 1: Integrated review

Sustainability through Responsibility

Sustainability through responsibility

...to our investors

Refer to page 8 for a review of our key performance indicators

clients and employees

Refer to page 12 for a review of our material sustainability pillars and performance

and the environment.

As a caring and responsible corporate citizen, Sanlam is acutely aware of the impact that climate change and the ongoing water crisis will have on our business, our people and the planet. **Refer to our web-based Sustainability Report (www.sanlam.co.za)**

Our ability to create value for our shareholders and other stakeholders over the short-, medium- and long-term is dependent upon our responsible actions and capacity to adapt to an increasingly challenging business environment.

While our 94-year history and our strong performance during the recent global financial crisis bear testimony to our resilience, we believe that we are likely to face continuing business turbulence given the context of current economic, social and environmental challenges. We recognise that we cannot rely on our past performance alone if we are to achieve our vision of being a leader in wealth creation and protection.

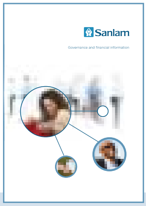
At Sanlam we therefore consider sustainability a strategic business component enabling us to remain responsive to the increasingly interconnected societal challenges and changing expectations of our stakeholders and the environment. With the aim of keeping our stakeholders informed of the key pillars that impact on our ability to create and sustain value, the Sanlam Group has embraced the concept of integrated reporting.

Contents

How to use this integrated report:

Volume 1

Volume 2



Volume 1 provides an overview of the Sanlam Group and its integrated performance. Detailed governance and financial information is included in Volume 2. In combination they comprise the Group's Integrated Annual Report, compliant with IFRS and the King III code on corporate governance.

Volume 1

Context

Our performance

Volume 2

Governance and risk

Additional financial information

References and notices

Navigation and content aids

Further reading boxes refer the reader to other parts of the report that contains relevant information to the current section.

Insight provides additional information on the topic.

Sustainability indicates that a sustainability topic has been covered in the text.

Scope and boundary of this report

Since our establishment in 1918, Sanlam has been a prominent part of the South African business landscape. We have always held a long-term view of how business adapts to the demands of the environment in which it operates. Today, we see in a dynamic world an evolving set of social, economic, political and environmental imperatives that require our skilful response. For us at Sanlam, sustainable business practice means recognising both our broader responsibilities as an organisation in society, and the new opportunities that arise with this thinking.

That is why we chose *Sustainability through Responsibility* as central theme for our reporting in the 2011 Sanlam Integrated Annual Report.

The Sanlam Group has four clusters, which are responsible for the management of its various operations. These clusters are managed independently and have delegated authority levels and governance principles and standards set by the Sanlam Board and the respective industries in which they operate. The clusters all have their own boards of directors governing the execution of these principles and standards.

This 2011 Sanlam Integrated Annual Report is produced in two volumes and covers the activities of all the clusters in the Sanlam Group for the 12 months to 31 December 2011.

The first volume reflects the Group's progress in meeting the recommendations of the King report of Corporate Governance in South Africa (King III), through further integrating the financial and non-financial aspects of our reporting that we initiated in our Integrated Annual Report for 2010. Reference to this is also included in the message from our Chairman and our Group Chief Executive's management review of our business and our non-financial operations. This volume also includes our Financial review for 2011 and Shareholders' information.

Our corporate governance, remuneration, and capital and risk management reports, additional financial information for 2011 and other shareholder and company information are contained in the second volume of this Integrated Annual Report.

The 2011 Sanlam Integrated Annual Report should be read in conjunction with the 2011 Sanlam Sustainability Report. Both the Integrated Annual Report and Sustainability Report are published on www.sanlam.co.za.

The Group believes that it has made significant progress during 2011 in further entrenching the principles of King III in the Group's internal controls, policies and procedures governing corporate conduct as well as with its progressive efforts to implement and improve its reporting on the material aspects of these principles.

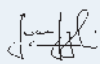
In compiling these reports we have drawn on the recommendations provided in the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI). We believe the online Sustainability Report to be in accordance with a GRI G3 B+ Application Level. Ernst & Young performed limited independent assurance on key elements of the performance information in the online Sustainability Report.

Board responsibility statement

The Board of directors acknowledges its responsibility to ensure the integrity of its Integrated Annual Report and has evaluated the contents of this 2011 Sanlam Integrated Annual Report accordingly.

In the opinion of the Board, this integrated report addresses the material pillars and presents fairly the integrated performance of the Sanlam Group and the impacts thereof. The 2011 Sanlam Integrated Annual Report has been prepared in line with best practice pursuant to the recommendations of King III and the Board authorised the public release of the 2011 Sanlam Integrated Annual Report.

Desmond Smith
Chairman



Johan van Zyl
Group Chief Executive

Visit www.sanlam.co.za for more information on Sanlam.

Sanlam at a glance

Our vision

Our vision is to be the leader in wealth creation and protection in South Africa, leading that process in the emerging markets and playing a niche role in the developed markets.

What we do

We provide financial solutions to individual and institutional clients.

These solutions include individual, group and short-term insurance, personal financial services such as estate planning, trusts, wills, personal loans, health management, savings and linked products, business fitness assessment and insurance investment management, asset management, stockbroking, employee benefits, risk management and capital market activities.

This is Sanlam

We are a leading financial services group, originally established as a life insurance company in 1918. We demutualised and listed on the JSE Limited and Namibian Stock Exchange in 1998.

Our head office is in Bellville near Cape Town in **South Africa** and we have offices throughout South Africa and business interests elsewhere in **Africa, Europe, India, the USA and Australia.**

Our values

Our core values are:

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

Our strategy

By focusing on five pillars for the past number of years, we have achieved market-leading growth and have transformed Sanlam into an efficient and profitable company, with a healthy capital position, that is well placed to withstanding market volatility and sustain its performance over the long term.

The five pillars that make up our strategy are:

1 Optimal capital utilisation

We focus on allocating appropriate capital to business operations, while remaining financially conservative, to ensure that all discretionary capital is identified and redistributed into profitable and sustainable growth opportunities.

Additional information pages 40 and 77

2 Earnings growth

We aim to grow our earnings through our ability to adapt effectively to the continuing changing business environment and investments in growth markets.

Additional information page 41

3 Costs and efficiencies

We strive to control costs and maximise efficiencies through effective risk management and governance practices, and by attracting, retaining and developing talent.

Additional information page 42

4 Diversification

We promote strategic diversification and grow our client base by developing new products and services, and by expanding into new markets in South Africa and globally.

Additional information page 42

5 Transformation

We are committed to promoting transformation and diversity both within our operations and more broadly through our contribution to socio-economic development.

Additional information pages 12 – 21 and 43

Group structure

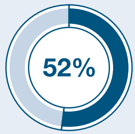
The **Corporate Office** of the Sanlam Group is responsible for centralised functions that include strategic direction, Group financial and risk management, Group marketing and communications, Group human resources and information technology, Group sustainability management, corporate social investment and general Group services.

The Sanlam Group consists of the following four operating clusters:

Cluster	Cluster profile and shareholding structure (100% unless indicated otherwise)
Sanlam Personal Finance The Sanlam Personal Finance (SPF) cluster is responsible for Sanlam's retail business in South Africa. It provides clients across all market segments (entry-level, middle and affluent) with a comprehensive range of appropriate and competitive financial solutions. Designed to facilitate long-term wealth creation, protection and niche financing, these solutions are engineered around client needs.	▪ *Sanlam Sky Solutions* – risk products for the entry-level market ▪ *Sanlam Individual Life and Segment Solutions* – financial services to the middle, professional and small/medium enterprises markets (includes *Multi-Data* electronic money transfer activities) ▪ *Glacier* – financial services for the affluent market
Sanlam Emerging Markets The Sanlam Emerging Markets (SEM) cluster is responsible for Sanlam's financial business services in emerging markets outside South Africa with the aim of ensuring sustainable delivery and growth across the various businesses that make up this cluster.	**Retail and group business (financial solutions to all market segments)** ▪ *Botswana Life*, Botswana – 54% via Botswana Insurance Holdings Limited (BIHL) ▪ *Sanlam Life*, Namibia ▪ *Sanlam Namibia Holdings*, Namibia – 54% ▪ *NICO Life*, Malawi – 49% ▪ *Pan Africa Life*, Kenya – 50% ▪ *African Life*, Tanzania – 64% ▪ *African Life*, Zambia – 70% ▪ *Enterprise Life Assurance*, Ghana – 49% ▪ *Sanlam Life*, Uganda ▪ *FBN Life*, Nigeria – 35% ▪ *Shriram Life*, India – 26%
Sanlam Investments The Sanlam Investments cluster provides individual and institutional clients in South Africa, the UK and elsewhere in Europe, the United States and Australia access to a comprehensive range of specialised investment and risk management expertise through six sub-clusters and their businesses as outlined alongside.	**Asset Management** ▪ *Sanlam Investment Management* – manages institutional portfolios and retail collective investment (unit trust) funds **Wealth Management** ▪ *Sanlam Private Investments* – private client wealth management and stockbroking business ▪ *Calibre Investments* – 40% – Australian investment business ▪ *Merchant Securities Group plc* – 75% – UK stockbroking firm ▪ *Summit Trust* – 65% – international independent trust services group in Switzerland ▪ *Investment Advisory Service and Fiduciary and Tax Services* **Capital Management** – manages portions of Sanlam's third party and policyholders' funds ▪ *Sanlam Capital Markets* ▪ *Sanlam Private Equity* ▪ *Sanlam Structured Solutions – Derivatives* ▪ *Sanlam Properties* **Sanlam Employee Benefits** – provides risk and investment solutions and administration services to institutions and retirement funds ▪ *Sanlam Group Risk* ▪ *Sanlam Structured Solutions*
Santam	Sanlam has an effective 60% interest in Santam, which is the leading short-term insurer in South Africa with a market share of 23%. Santam specialises in short-term insurance products for a diversified market in South Africa and, in collaboration with Sanlam Emerging Markets, elsewhere in Africa and India. These products are offered through broker networks and direct sales channels and include personal, commercial, agricultural and specialised insurance products.

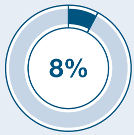
Contribution to net result from financial services

- *Strategic business development* – consists of the following diversified financial services:
  - *Sanlam Trust* – estate and trust services
  - *Sanlam Liquid* – debit card and saving facilities
  - *Sanlam Healthcare Management* – 85% – medical scheme administration services
  - *Sanlam Linked Investments* – linked product provider
  - *Sanlam Personal Loans* – 70% – personal loans joint venture
  - *Reality* – loyalty programme
  - *Anglo African Finance* – 65% – trade and bridging finance.



Investment Management
SIM Kenya – 72%
SIM Capital Alliance, Nigeria – 50%
SIM Namibia – 86%
Botswana Insurance Fund Management – 54% via BIHL
SIM Swaziland – 65%

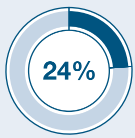
General insurance
- Jointly responsible in partnership with Santam for managing general insurance business through NICO in some of the aforementioned African countries as well as through *Shriram General Insurance* in India

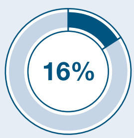


- *Sanlam Umbrella Solutions*
- *Sanlam Retirement Fund Administration;* and
- *Simeka Consultants and Actuaries*.

International Investments
- *Sanlam International Investment Partners* – manages established partnerships with specialist investment management firms abroad
- *SIM Global* – manages long-only specialist international funds
- *Sanlam Asset Management Ireland* – Sanlam's international investment management platform in Dublin managing funds domiciled in Ireland
- *Sanlam UK* – wealth management player in retail financial services in the United Kingdom comprising Sanlam Investments and Pensions, Sanlam Distribution, Sanlam Private Wealth and Investment Management (Principal, Border Asset Management and Sanlam Fund Solutions).

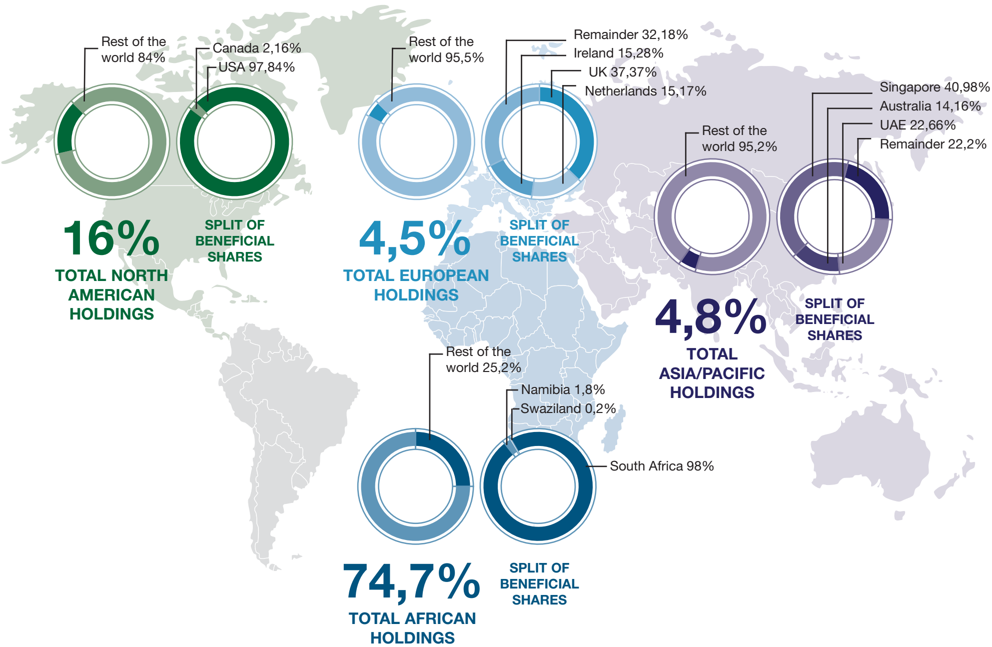
Investment Services
- *Sanlam Multi Manager International* – investment management advisory business
- *Sanlam Collective Investments* – retail, multi-managed, institutional and third-party collective investment (unit trust) funds
- *Blue Ink* – hedge fund manager focusing on both the local and the global investment markets
- *Fin-Q* – provides independent advice to people leaving retirement funds; and
- *Graviton Financial Partners* – a broker network business.





Our shareholders

Geographic split of beneficial shareholders (excluding unknown shareholding)



Geographic split of beneficial shareholders – December 2011

Region	Total shareholding	% of issued capital
South Africa	1 525 162 274	72,63
United States of America and Canada	332 151 230	15,82
United Kingdom	34 910 609	1,66
Rest of Europe	58 500 952	2,79
Rest of the world[1]	130 088 226	6,19
Unknown	19 186 709	0,91
Total	**2 100 000 000**	**100,00**

[1] *Represents all shareholdings except those in the above regions*

Analysis of shareholders on 31 December 2011

Distribution of shareholding	Total shareholders Number	%	Total shares held Number	%
1 – 1 000	448 786	86,20	169 877 123	8,09
1 001 – 5 000	63 449	12,19	124 539 246	5,93
5 001 – 10 000	5 296	1,02	36 323 044	1,73
10 001 – 50 000	2 292	0,44	41 582 511	1,98
50 001 – 100 000	202	0,04	14 603 885	0,69
100 001 – 1 000 000	428	0,08	145 919 212	6,95
1 000 001 and over	133	0,03	1 567 154 979	74,63
Total	520 586	100,00	2 100 000 000	100,00

	% shareholding
Public and non-public shareholders	
Public shareholders (498 061)	65,14
Non-public shareholders	
Directors' interest	0,50
Held by subsidiaries	8,20
Employee pension funds	0,08
Sanlam Limited Share Incentive Trust	1,77
Government Employees Pension Fund	13,55
Ubuntu-Botho Investments (Pty) Limited	10,76
Total	100,00

	% shareholding
Shareholder structure	
Institutional and other shareholding	
Offshore	27,37
South Africa	57,28
Individuals	15,35
Total	100,00

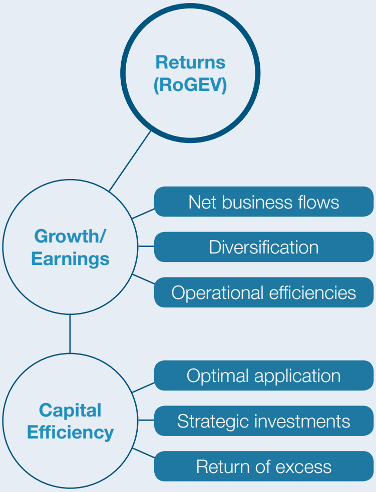
Beneficial shareholding of 5% or more:

– Government Employees Pension Fund (PIC)	13,55
– Ubuntu-Botho Investments (Pty) Limited	10,76

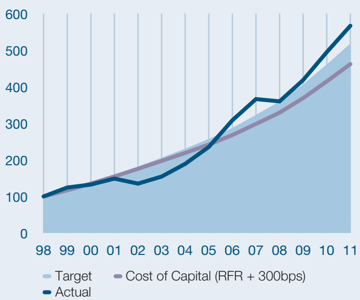
Key performance indicators (KPIs)*

Focus on returns

Maximise shareholder value creation



Out perform cumulative growth target of long-bond rate + 400bps since listing (bps)



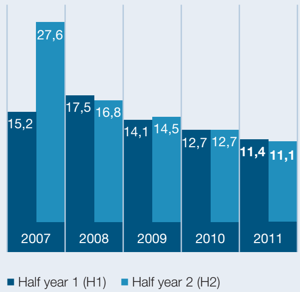
Additional information pages 64.

Focus on quality

Persistency – successful retention of business

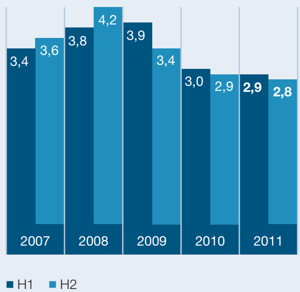
- Persistency in SA entry-level market continues to improve

Number of not taken up (NTUs), lapses and surrenders as % of in-force per half year



- Persistency trend still positive in SA middle income market

Lapses, surrenders and fully paid-ups as % of in-force per half year



Additional information page 68.

**Refer to Sanlam's web-based Sustainability Report (www.sanlam.co.za) for Sanlam's sustainability KPIs.*

Investment performance

Focus on top half investment performance

- Investment process supporting long-term performance

Percentage of SIM's assets under management (AUM) to exceed benchmark
(R312 billion)

2011/12/31	**94,7%**
2010/12/31	92,7%
2009/12/31	85,0%
2008/12/31	84,9%

Rolling 3 year

2011/12/31	**88,2%**
2010/12/31	79,6%
2009/12/31	80,0%
2008/12/31	84,5%

Rolling 5 year

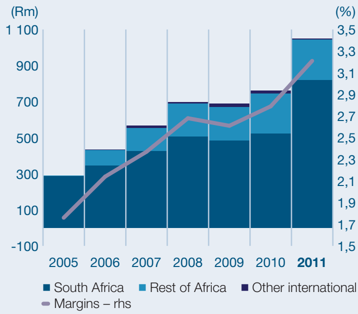
Additional information on page 50.

Growth and diversification

Profitable volume growth

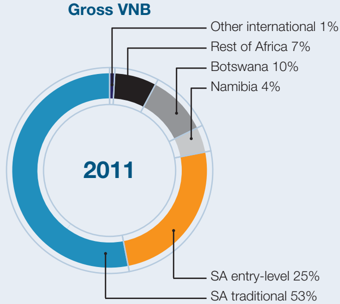
- Gross VNB grew by 38%, reaching R1 billion for the first time

Value of new business (Rm)
vs new business margins (%)



- Increasing contribution from growth markets

Gross VNB



Additional information on page 67.

Five-year review

		2011	2010[1]
Group Equity Value			
Group Equity Value	R million	**63 521**	57 361
Group Equity Value	cps	**3 146**	2 818
Return on Group Equity Value (RoGEV) per share	%	**15,7**	18,2
Business volumes			
New business volumes	R million	**115 087**	105 526
Life business		**21 455**	17 099
Investment business		**72 679**	69 181
Short-term insurance		**14 822**	13 667
New business volumes excluding white label		**108 956**	99 947
White label		**6 131**	5 579
Recurring premiums on existing business	R million	**19 354**	17 754
Total inflows	R million	**134 441**	123 280
Net fund flows	R million	**25 480**	22 026
SIM funds under management	R billion	**503**	474
New covered business			
Value of new covered business	R million	**1 051**	762
Present Value of New Business Premiums (PVNBP)	R million	**32 786**	27 334
New covered business margin	%	**3,21**	2,79
Earnings			
Gross result from financial services	R million	**6 007**	5 396
Net result from financial services	R million	**3 760**	3 303
Normalised headline earnings	R million	**5 023**	5 143
Headline earnings	R million	**5 015**	5 122
Net result from financial services	cps	**186,1**	161,5
Normalised headline earnings	cps	**248,7**	251,5
Diluted headline earnings	cps	**250,1**	252,4
Group administration cost ratio	%	**30,1**	29,6
Group operating margin	%	**20,2**	19,8
Other			
Sanlam share price	cps	**2 885**	2 792
Dividend	cps	**130**	115
Sanlam Life Insurance Limited			
Shareholders' fund	R million	**45 172**	40 521
Capital adequacy requirements (CAR)	R million	**7 350**	7 375
CAR covered by prudential capital	times	**3,7**	3,4
Foreign exchange rates	R		
Closing rate			
Euro		**10,48**	8,88
British Pound		**12,55**	10,36
United States Dollar		**8,07**	6,62
Average rate			
Euro		**10,06**	9,68
British Pound		**11,59**	11,29
United States Dollar		**7,22**	7,30

[1]Restated for the restructuring of clusters during 2011. Periods before 2010 have not been restated.

[2]Restated for effect of change in accounting policy of Channel Life.

[3]Restated for the introduction of Sanlam UK in the 2008 financial year.

[4]Excludes dividends paid.

2009[2]	2008	2007[3]	Average annual growth rate %
51 024	45 238	51 293	5
2 473	2 213	2 350	8[4]
16,2	(1,7)	18,8	
102 928	100 136	102 004	3
18 009	18 268	17 408	5
65 835	63 222	64 193	3
12 896	12 165	11 407	7
96 740	93 655	93 008	4
6 188	6 481	8 996	(9)
16 093	15 870	14 906	7
119 021	116 006	116 910	4
15 499	9 122	11 363	
441	409	454	3
689	698	567	17
26 365	26 033	23 886	8
2,61	2,68	2,37	
4 229	4 260	4 539	7
2 705	2 802	3 029	6
4 485	1 966	5 199	(1)
4 429	2 702	4 833	1
131,8	133,8	133,3	9
218,5	93,9	228,7	2
218,4	132,2	220,8	3
27,7	28,4	27,8	
16,9	18,4	20,8	
2 275	1 700	2 275	6[4]
104	98	93	9
37 036	34 419	37 933	4
7 675	8 075	7 525	
3,1	2,7	3,5	
10,56	12,85	9,99	1
11,89	13,33	13,61	(2)
7,36	9,24	6,83	4
11,62	11,98	9,65	1
13,04	15,07	14,10	(5)
8,31	8,13	7,04	1

Unpacking our material pillars

Our material sustainability pillars: reviewing our 2011 performance

This table provides a summary of our 2011 sustainability performance against each of the material pillars included within our Sustainability Management Framework. It also assesses how we did in terms of the commitments we made last year, and identifies our commitments for the years ahead.

OUR MATERIAL SUSTAINABILITY PILLARS		OUR COMMITMENTS of 2010	OUR PERFORMANCE in 2011	OUR COMMITMENTS for the future
Sustainability governance	**Management quality and commitment**	▪ Further develop structures for accountability on sustainability.	▪ Finalised appropriate structures for accountability on sustainability throughout the Group, under the leadership of the Social, Ethics and Sustainability committee, and increased awareness of the strategic nature of sustainability, particularly amongst the executive team.	▪ We will seek to embed sustainability more effectively throughout the Group by improving understanding of the strategic value of sustainability below the executive level, in particular within our product and service portfolio and within our investment decisions.
		▪ Sanlam* to finalise and implement its Sustainability Management Framework (SMF).	▪ Significant improvements achieved in the coordination of sustainability internally through finalisation of our SMF and approval of Group-wide key performance indicators (KPIs) on sustainability. ▪ Agreed to include sustainability-related pillars as a key performance area (KPA) throughout the organisation from January 2012.	▪ We will leverage off the development of our SMF to help us become a recognised leader on sustainable development in this sector within the next three years. ▪ We will drive sustainability in the revised KPAs, and include sustainable development within the internal leadership training programme.
		▪ Aim to increase our forensic capacity, in support of a robust anti-corruption programme for the Group.	▪ Head of Sanlam's Group Compliance and Forensic Services maintained an involvement and contribution to various anti-corruption initiatives. ▪ Sanlam Group Compliance is currently conducting a high-level group-wide assessment of the readiness of the Sanlam businesses for the proposed Protection of Personal Information Bill (POPI). ▪ Sanlam Group Compliance conducted an assessment of the readiness of Sanlam RSA businesses for the implementation of the underlying principles of international anti-money laundering (AML) standards.	▪ A detailed roadmap will be presented to the business for an in-depth impact study to prepare the Group for POPI. ▪ A fraud risk management assessment (FRMA) will be conducted to determine the fraud and corruption risk exposure of the business in Sanlam.

In the context of these tables on our material pillars, references to Sanlam include the Sanlam Group's South African operations only.

	OUR MATERIAL SUSTAINABILITY PILLARS	OUR COMMITMENTS of 2010	OUR PERFORMANCE in 2011	OUR COMMITMENTS for the future
Sustainability governance *(continued)*	**Management quality and commitment** *(continued)*	▪ Sanlam to undertake an ethical risk assessment in 2011 and expand and enhance training on ethical issues.	▪ An independent ethical risk assessment was undertaken by KPMG. ▪ All of our staff underwent ethics training and signed the Group's code of conduct. Each business conducts its own training and awareness, monitored by the Group Social, Ethics and Sustainability committee on a quarterly basis.	▪ Improve the coordination of training at a Group level.
	Stakeholder engagement	▪ Aim to develop a formal stakeholder engagement strategy and framework.	▪ A stakeholder mapping exercise has been undertaken and a more structured engagement process is being finalised.	▪ A more structured engagement process with our identified key stakeholders will be concluded.
Responsibility for developing our people	**HR management**	▪ Revise our HR service approach for office staff, to ensure a more efficient and effective service.	▪ We have developed and implemented a shared service – all transactional service delivery will be streamlined and centralised. ▪ We have increased levels of awareness and focus around the legislative requirements, from an HR perspective, throughout the organisation; greater integration throughout the organisation, with issues highlighted from Group CEO down.	▪ Key focus areas for 2012 are: ▪ Talent management, performance management and transformation; ▪ Enhanced and focused leadership development programmes.
		▪ Focus will be directed to the formalisation of record keeping systems to improve BBBEE information consolidation.	▪ Improved collation of HR management information especially head count and skills development.	▪ We will optimise the process of collating group-wide information through the implementation of our Business Intelligence system. We expect improved collation of all HR management information.
	Attracting and retaining talent	▪ BBBEE plans: Aim to maintain our newly achieved level 3 status by improving our systems and targets.	▪ We maintained our level 3 status. A contributing factor was the improvement in both our Skills Development and Employment Equity scores.	▪ Revitalise our retention strategies especially for top performing talent and to focus our succession planning.
	Skills development and career progression	▪ Finalise development of a Graduate Leadership Programme (GLP).	▪ We have launched the GLP, and additional learnership and management development programmes. Nineteen candidates successfully completed the programme in 2011.	▪ Fifteen high performing, high potential delegates have been identified to complete the GLP in 2012.

Unpacking our material pillars continued

Responsibility for developing our people *(continued)*

OUR MATERIAL SUSTAINABILITY PILLARS	OUR COMMITMENTS of 2010	OUR PERFORMANCE in 2011	OUR COMMITMENTS for the future
Skills development and career progression *(continued)*		▪ A total of 66 staff members across the Sanlam Group successfully completed the Senior Management Development and Business Management programmes. ▪ A learnership aimed specifically at leaners with disabilities was implemented and completed during 2011 with approximately 70% of the learners being placed permanently in the organisation. ▪ We achieved a marginal improvement in the skills development performance pillar of our BBBEE scorecard, due to the introduction of our disability learnerships.	▪ We intend to double the number of staff members completing management development programmes. ▪ The success of the disability learnership programme has encouraged SPF to commence with 30 Disability Learnerships by May 2012. ▪ Group HR and business clusters are implementing a strategy to meet our target. We expect, once again, to be awarded full points for participating in Registered Learnerships or Category B, C or D training.
Workplace transformation and employee diversity	▪ Seek to improve employment equity at senior levels.	▪ There was a slight increase in the overall unverified BBBEE score at the senior management level. A re-categorisation exercise in one of the businesses resulted in a negative impact on the score associated with black representation at the senior management level.	▪ We will further improve our performance on BEE particularly as regards employment equity.
	▪ The new Employment Equity targets for 2012 will be finalised in the first quarter of 2012.	▪ All businesses set new Employment Equity targets for 2011 and 2012. At the end of 2011 the black/white ratio increased from 59% in 2010 to 61%.	▪ During 2012 an extensive Employment Equity analysis will be conducted and the results of this analysis will be taken into consideration when the next three-year Employment Equity plans are developed.
Employee wellness and Sanlam culture	▪ Group-wide focus on further entrenching the business culture to align this to Sanlam's business strategy.	▪ Preliminary investigations and development towards further entrenching the Sanlam business culture commenced in 2011.	▪ An extension of the project to include all staff members in the assessment of the Sanlam business culture is scheduled for 2012.
	▪ Sanlam plans to obtain accreditation as 'Investors in People' for the Sanlam Investments cluster.	▪ All clusters except Sanlam Investments cluster have undergone the 'Investors in People' accreditation.	▪ SPF will be undergoing a further assessment during 2012, to maintain their current 'Investors in People' accreditation.

Responsible products and services

OUR MATERIAL SUSTAINABILITY PILLARS	OUR COMMITMENTS of 2010	OUR PERFORMANCE in 2011	OUR COMMITMENTS for the future
Promoting responsible investment	▪ Sanlam Multi Managers International (SMMI) will be launching a new SRI product in 2011.	▪ Signed Code for Responsible Investing in South Africa (CRISA). ▪ Enhanced engagement with investee companies through our proxy voting policy. ▪ Drafted guidelines on incorporating sustainability principles into investment decisions. ▪ The SMMI SRI Balanced Fund was launched in October 2011. ▪ SMMI incorporated CRISA explicitly into our manager research and assessment process.	▪ Seek to increase levels of client interest in driving social and environmental agendas within our investment portfolios. ▪ The SMMI SRI Balanced Fund will continue to be marketed during 2012.
Responsible procurement	▪ Sanlam plans to implement a web-based system that allows suppliers to upload their own BBBEE certificates.	▪ Obtaining an integrated procurement system enabling seamless interaction with suppliers as well as internal stakeholders is paramount. Finding a suitable solution is still in process. ▪ Engaged with our supplier base to obtain all valid certificates manually.	▪ Sign-off of an integrated procurement system and possible implementation of certain modules. ▪ Aligning our processes to engage with our supplier base.
	▪ Sanlam is entrenching environmental selection processes.	▪ Finalised a new procurement policy that includes reference to the requirement for selecting suppliers with a good environmental track record.	▪ We will encourage our supplier network to adopt best environmental practice, and will positively recognise those suppliers that do. ▪ We will review our approach to property acquisition: in addition to the rental component of costs, we will consider resource demands, and potential to minimise these.
	▪ Further research will be done into maximising web-based solutions that will lessen the need for business travel.	▪ Increased the video conferencing facilities in Cape Town and Gauteng. ▪ A positive trend evidenced in the usage of the facilities.	▪ Promote an increase in the use of video conferencing as an alternative to carbon emissions intensive business travel. ▪ Investigate the viability to roll-out video conferencing facilities to other offices.

Unpacking our material pillars continued

Responsible products and services *(continued)*

OUR MATERIAL SUSTAINABILITY PILLARS	OUR COMMITMENTS of 2010	OUR PERFORMANCE in 2011	OUR COMMITMENTS for the future
Treating our clients fairly	▪ Sanlam will further gear resources to adapt to changes to the Statement of Intent (SOI) and the anticipated Treating Customers Fairly (TCF) regulation.	▪ Until the legislation comes into effect, the focus remains on preparation and raising levels of awareness.	▪ Strive to meet new regulatory requirements. ▪ Sanlam will measure progress on the TCF principles applicable from 2014 onwards. ▪ Each cluster will define an ombudsman most applicable to the business and will measure ombudsman complaints received relative to agreed targets. SIM and SPF will continue reporting on compliance with the Financial Advisory and Intermediary Services (FAIS) Act. SIM will measure client retention rates against targets, providing an indication of client satisfaction, while SPF will measure percentage of lapses and client retention relative to prior years and targets.
	▪ Sanlam aims to grow the Sanlam Professional Market Financial Literacy Campaign by 30% during 2011.	▪ A formal assessment was not conducted to determine the exact growth. We, however, expanded the campaign to 4 000 students from 2 500 in 2010.	▪ We will conduct a formal assessment of the campaign.

Responsibility towards a prosperous society

OUR MATERIAL SUSTAINABILITY PILLARS	OUR COMMITMENTS of 2010	OUR PERFORMANCE in 2011	OUR COMMITMENTS for the future
Access to financial services	▪ Strive to improve our clients' product access and the financial security benefits they derive from our products.	▪ Successfully expanded our product reach. ▪ Sanlam Sky (now a part of SPF) focuses specifically on improving access to financial services in entry-level markets in SA. ▪ Realised new opportunities to engage in public private partnerships.	▪ We will expand Sanlam's presence into new markets – and develop skills to ensure greater transformation amongst agents and brokers. ▪ We will seek to develop products that meet both the needs of the Group and of the market, particularly the need for savings products in lower income markets.
Corporate social investment	▪ Establish the Sanlam Foundation in 2011.	▪ Launched the Sanlam CSI Foundation in September 2011, to facilitate more focused and coordinated efforts linked to Sanlam's core business, and to achieve more sustainable socio-economic benefits. ▪ Annual CSI spend in 2011 was R34,59 million, representing approximately 0,77% of the Group net profit after tax; this compares favourably with our 2010 spend of R22,06 million (0,47% of the Group net profit after tax).	▪ Ensure continuing alignment of CSI efforts across the business as part of a coordinated strategy.
	▪ Refine our CSI programme in line with Sanlam Foundation Strategy. ▪ Maintain commitment to core sponsorships – notably Takalani Sesame and the Sanlam Cancer Challenge.	▪ Our CSI programme focuses on education, covering four core components: – Skills Development: promoting financial literacy for high school and university students. – Education Development: investing in leadership in maths, science, English and technology (for high schools), as well as in teachers, principals and parents through the Department of Higher Education and Training. – HIV and Aids awareness and education: investing in programmes for high schools. – Environmental awareness: promoting environmental protection programmes.	▪ Seek to build a leadership position in our community investment programmes by addressing stakeholder issues/ concerns, and resonate with the nature of the business. ▪ Continued investment in sponsorships is pivotal in growing Sanlam's brand awareness within our target markets in South Africa.

Unpacking our material pillars continued

	OUR MATERIAL SUSTAINABILITY PILLARS	OUR COMMITMENTS of 2010	OUR PERFORMANCE in 2011	OUR COMMITMENTS for the future
Responsibility towards a prosperous society *(continued)*	**Social enterprise development**	▪ Focus on supporting the growth and upliftment of black entrepreneurs through our procurement practices, focusing on black female-owned businesses.	▪ Sanlam continues to achieve full points on the enterprise development component of the dti scorecard through our Ubuntu-Botho (UB) transaction. This provides broad-based UB empowerment groupings access to capital, business advice and cross-selling opportunities between shareholding businesses. ▪ Ongoing challenges experienced around ensuring the viability of some BBBEE suppliers.	▪ Sanlam expects to continue to achieve full points on this element through the UB transaction.

OUR MATERIAL SUSTAINABILITY PILLARS		OUR COMMITMENTS of 2010	OUR PERFORMANCE in 2011	OUR COMMITMENTS for the future
Responsibility towards the natural environment	**Environmental management**	▪ The Group Environmental Policy will be signed off early in 2011. ▪ Further resources will be allocated to the implementation of the Sanlam Environmental dashboard in 2011.	▪ Group Environmental Policy refined and endorsed by the Sanlam Board of Directors, the Board Social, Ethics and Sustainability committee, Sanlam's Group CEO and his executives. ▪ A process of developing a Group Environmental Sustainability Framework and dashboard is underway, assisted by external consultants, to establish a broader dashboard covering a range of environmental key performance indicators.	▪ Finalising the development of our environmental dashboard.
		▪ New resource reduction targets will be set for Sanlam.	▪ Resource reduction targets have been set for 2011 – 2015, providing clear direction for the Group. New targets, based on the 2010 baseline year, are applicable to all Sanlam business units and were approved by the Board Sustainability sub-committee in March 2011 and adopted in June 2011.	▪ Achieve further improvements in the management of our direct environmental impacts, particularly through improved waste management practices and enhanced energy and water efficiency initiatives.

Unpacking our material pillars continued

Responsibility towards the natural environment *(continued)*

OUR MATERIAL SUSTAINABILITY PILLARS	OUR COMMITMENTS of 2010	OUR PERFORMANCE in 2011	OUR COMMITMENTS for the future
Environmental management *(continued)*	▪ Strive to position Sanlam as a corporate leader in, and champion of, environmental sustainability.	▪ Focus has been on improving reliability of performance measurement, setting priorities and introducing pilot projects. ▪ More efficient use of energy and water, and reduced waste generation, through behavioural change.	▪ Maintain a focus on communication and engagement with our staff, aimed at encouraging responsible environmental practice.
Climate change and energy	▪ Improving measurement of energy usage and other climate change related performance indicators.	▪ Sanlam's CO_2 emissions for 2011 decreased slightly on last year's performance. ▪ Sanlam was ranked 8th overall on the South African Carbon Disclosure Leadership Index.	▪ Maintain focus on promoting energy efficiency – primarily at our head office, and progressively at our other offices – through energy saving initiatives under the management of our Facilities team. ▪ Prioritise initiatives and start to implement bigger projects.
	▪ Seeking to improve efficiencies and identify opportunities to implement initiatives to reduce environmental impact.	▪ We have set ambitious targets for reducing our greenhouse gas emissions and energy usage informed by a baseline assessment and performance benchmark. ▪ Introducing improved measurement and reporting systems, enabling a more informed, coordinated and strategic approach to identifying and responding to our environmental priorities.	▪ Further improving measurement and reporting systems. ▪ Explore opportunities to develop a portfolio of onsite renewable generation initiatives.
Sustainable water use	▪ No specific commitments made.	▪ We have set ambitious targets for reducing our municipal water demands informed by a baseline assessment and performance benchmark.	▪ Water saving measures will be introduced, and rainwater-harvesting opportunities will be considered.

Responsibility towards the natural environment *(continued)*

OUR MATERIAL SUSTAINABILITY PILLARS	OUR COMMITMENTS of 2010	OUR PERFORMANCE in 2011	OUR COMMITMENTS for the future
Sustainable water use *(continued)*		▪ Renewed our partnership with the World Wide Fund for Nature (WWF) for the Sanlam Living Waters programme. As a key sponsor, Sanlam contributed R3 343 000 in 2011 in support of WWF's Marine and Fresh Water Programme. ▪ Conducted a desktop study to determine current consumption (including a comparison between Sanlam and Santam head office buildings); based on assumptions we have made on how to reduce water consumption based on a variety of technologies that could be implemented.	▪ Sanlam will dedicate resources to assess and identify how it can use its sphere of influence in a systemic way to influence responsible water use and management in South Africa. We also plan to conduct research into water risks that may impact Sanlam businesses.
Materials and waste management	▪ Maintain focus on separating waste and recycling decentrally; encourage increased recycling, double-sided printing and e-statements, as part of our drive to minimise the volume of paper used in client communications.	▪ Sanlam Head Office introduced waste separation at source to increase its average levels of recycling of all waste (including food waste).	▪ We have committed to improve measurement of the proportion of waste reused/recycled and the amount of responsible disposal of technological waste.
		▪ We have set ambitious targets for reducing our total waste and paper usage informed by a baseline assessment and performance benchmark. ▪ Undertook desktop research aimed at better understanding potential opportunities to improve our materials and waste performance.	▪ Investigate additional measures aimed at reducing our waste to landfill by 50%.

Engaging our stakeholders

Recognising the strategic importance of being responsive to our stakeholders, we have developed and are implementing a systematic approach to identifying, prioritising and engaging with our key stakeholders.

As a large diversified company, our engagements with stakeholders have predominantly been very decentralised. A process is currently underway to develop a more coordinated stakeholder management strategy and action plan. We have completed a stakeholder mapping exercise that identifies and prioritises our stakeholders based on an assessment of their dependence on our activities and their ability to influence what we do. For each of these priority stakeholder groupings we have agreed whether the interaction with them should be coordinated at a Group or cluster level, and we have assigned responsibility for managing that relationship to a senior Sanlam executive. Through this process we seek to ensure a systematic Group-wide approach to engaging with our stakeholders and to understand and respond to their respective interests. The outcome of these engagements informs the Group strategy and our internal risk assessment processes.

We have a Group Intelligence division that regularly undertakes surveys to assess the views of our key stakeholders. Through our membership of the Global Reputation Institute we are able to analyse stakeholders' perceptions regarding the nature of

We continuously engage with our stakeholders through a number of initiatives, including:

Shareholder interaction through regular presentations, roadshows, reports on results and news releases

Employee communication through regular newsletters, roadshows and presentations

Consumer education through, for instance, financial literacy programmes

Community outreach through CSI programmes of the Sanlam Foundation and targeted sponsorships

our products and services, and the quality of our internal policies and procedures. These studies are reviewed at the beginning of each year and, together with the Group strategy, inform our planning for the year ahead.

The sustainability management framework that we developed this year includes specific key performance indicators aimed at ensuring that we have coordinated effective engagement and feedback mechanisms. This includes provision for the Group and each cluster to annually review and identify existing and emerging stakeholder issues. The nature and outcomes of these engagements will feed into the annual performance appraisals of those responsible and inform our integrated and sustainability reporting processes.

Economic and financial markets review

Jac Laubscher Group Economist

Judging by the course of South Africa's main economic and financial market indicators during 2011, one could easily be tricked into concluding that it must have been a rather uneventful year. The JSE All Share Index traded within a fairly narrow range between 30 000 and 33 000 points, with the only noteworthy deviation from this trend in August when the index fell to a low of 28 391, only to rebound to within the defined range within weeks. By the end of October it was once again within a whisker of the all-time high of 33 233 reached in May 2008, and it ended the year on 31 986, a mere 0,4% lower than at the start of the year.

The bond market displayed similar behaviour, with the generic 10-year government bond yield fluctuating within a range of 8% to 8,6% most of the time, breaching the range only briefly in March (to the upside) and in August/September (to the downside). Its year-end level of 8,1% essentially represents a return to where it started the year on 8,15%.

The repo rate of the South African Reserve Bank likewise remained unchanged at 5,5% throughout 2011 in spite of the steady increase in inflation from 3,5% at the beginning of the year to breach the 6% upper end of the target range in October. The Bank evidently attached greater importance to the risks to the growth outlook, especially those emanating from Europe.

Having traded sideways during the first half of 2011, the nominal effective exchange rate of the rand suffered a sharp depreciation from August onwards. The rand continues to be subject to fluctuations in global risk appetite rather than economic fundamentals.

Real economic activity weakened sharply from the second quarter with GDP growth contracting from 4,6% in Q1 to 1,3% in Q2 and 1,4% in Q3. The slowdown can be attributed mostly to the manufacturing and mining sectors, which contrasted sharply with the relative buoyancy of the retail, transport and communication, and financial sectors.

By November the year-on-year rate of increase in real retail sales for the previous three months had increased to 7,3%. The latter is evidence of underlying strength in the household sector due to sustained real wage growth, although at a slowing pace, some improvement in employment, in particular in the public sector, and a modest reduction in indebtedness. Households in the middle to lower-middle income groups benefited proportionately more from these trends.

However, this seemingly benign picture hides an enormous amount of gut-wrenching uncertainty regarding the outlook for the global economy, with financial markets repeatedly flipping between risk-on and risk-off mode. The core driver of this lack of confidence has been the sovereign debt crisis in Europe and the inability of political leaders to get ahead of the markets in dealing with the challenges of both short-term stabilisation and long-term reform.

The difficulties experienced in raising the government debt ceiling in the US and the subsequent depriving of the USA of its AAA credit rating by Standard & Poors contributed further to financial markets losing confidence in policymakers to address the severe challenges facing the global economy. The promise of improved global cooperation in setting policies inherent to the establishment of the G20 has unfortunately also not realised.

The fundamental issue remains the outlook for the global economy. Fears of a double-dip recession in the developed countries returned in August, helped along by the weakening situation in Europe in particular. The inability of macro-economic policy to quickly return the economy to normality after the shock of the global financial crisis has become increasingly clear to see. Not even unconventional monetary policy steps such as quantitative easing have been able to accomplish this. Although the initial policy response most certainly helped prevent the world economy falling into a second Great Depression, the limitations of macro-economic policy in dealing with a balance sheet recession has once again been exposed.

The processes of deleveraging and repricing of risk in the developed countries has a long way to go, rendering monetary policy largely ineffectual in the face of a dearth in credit demand. Fiscal policy is bound to be contractionary for an extended period because of the need to return government debt to sustainable levels. The implication is that structural reform to address constraints on economic growth is the only viable option for many countries; in some cases, e.g. Europe, addressing long overdue distortions. An extended period of low growth in the developed world *a lá* Japan in the nineties remains the most likely scenario.

Although emerging market countries have displayed remarkable resilience in the face of the global crisis, it has also become evident that they have not decoupled completely from the developed world. Their success in growing domestic demand and exploiting intra-group linkages will determine to what extent they will be able in future to differentiate themselves from the developed world.

It is therefore not surprising that South Africa is increasingly developing stronger ties with other emerging economies to diminish its dependence on the developed world. Sanlam's own internationalisation strategy with its focus on Africa and India is of course informed by a similar assessment of opportunities to expand its business.

In summary, economic prospects for the world and South Africa for the coming year are not encouraging. The South African economy seems to be caught in a 2,5% – 3,5% growth trajectory for the foreseeable future. Important issues, globally as well as domestically, remain unresolved and therefore potential sources of instability.

2012 also promises to be an important year for economic policy in South Africa, and the ruling ANC's mid-year policy conference followed by its national congress in December will be closely watched for any signs of a change in direction. At the core of the policy debate is the role the state should be playing in the economy.

Message from the Chairman

If I had to credit only one attribute that contributed materially to the sound performance of the Sanlam Group in recent years, **I would have to go with trust.**

See pages 8 and 12 of this report and our web-based Sustainability Report (www.sanlam.co.za) for more information on our key performance indicators and our material sustainability pillars.

Not so long ago environmental, social and governance (ESG) issues were considered "soft" issues that have the ability to impact on a company's bottom line, but not materially. Historically, therefore, financial reporting did not place much emphasis on sustainability issues. The thinking was that earnings growth really matters, not the levels of ESG responsibility displayed by a company when doing business.

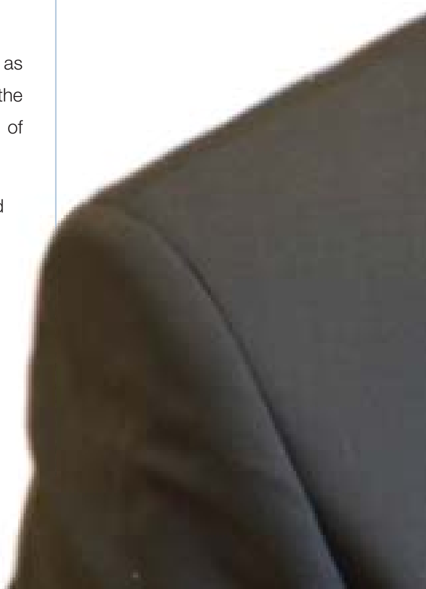
Fortunately this thinking has changed significantly in recent years and ESG issues are now considered as important as a company's set of financial results. Hence the reference to the triple bottom line: profit, people and planet.

South African listed companies are required by the JSE to apply the recommendations of the King Code of Governance on an "apply or explain" basis, including integrated reporting. In fact, South Africa was one of the first countries in the world expecting its listed companies to produce annual integrated reports.

However, the concept of integrated reporting is still so new that there are as yet no universally agreed standards or guidelines. In South Africa the Integrated Reporting Committee (IRC) released the world's first set of integrated reporting guidelines in January 2011.

I am pleased to present you with the Sanlam Group's second integrated report. An independent assessment of our 2010 Integrated Annual Report confirmed that we are on the right track and proposed enhancements in line with best practice. These have been incorporated in the 2011 Integrated Annual Report.

I hope that this report meets with your approval and confirms the Sanlam Group's commitment to growing a sustainable business in a responsible manner. The theme for this year's annual report is therefore *Sustainability through Responsibility*.



Desmond Smith
Chairman

"We confirm our commitment to growing a sustainable business in a responsible manner"

Message from the Chairman continued

Delivering results with trust

If I had to credit only one attribute that contributed materially to the sound performance of the Sanlam Group in recent years, I would have to go with trust.

Just as ESG issues were considered "soft" issues until it became evident that these focus areas would play a key role in determining the sustainability of a business, trust is still largely considered a "soft" side of doing business. After all, experiencing trust or distrust is linked to emotions.

Increasingly, however, leadership and management experts agree that high trust levels within a company significantly improve communication, collaboration, innovation and execution of strategy. Therefore, trust can impact on a company's bottom line.

Since joining the Sanlam Board in 2009, I have been impressed by the high level of trust that permeates the entire Sanlam fabric. There is a strong relationship of trust, not just between Board members, but also between the Board and the Sanlam executive management. We enjoy an open and transparent relationship based on mutual respect, which enables an easy flow of communication.

Equally, there exists a strong trust relationship between the Sanlam executive management and the leadership of the various business clusters.

I believe that this relationship of trust, combined with a consistent strategy and stability within the senior executive team has played an important role in the ability of the Sanlam Group to deliver shareholder value.

The five pillar strategy introduced by Johan van Zyl – optimal capital utilisation, earnings growth, costs and efficiencies, diversification and transformation – remains firmly in place and has continuously focused the Group on maintaining operational and capital efficiency, which is key in growing value.

The Sanlam share price ended 2011 at R28,85, representing growth of 393% over the 13-year period since the end of 1998, the year in which Sanlam was listed on the JSE. Including dividends paid, this translates into an average return per annum of 17,1%. In comparison, the SA Life Insurance Index returned an average 9% per annum over the same period.

This means that R100 000 invested in Sanlam shares 13 years ago was worth R776 000 at the end of 2011.

I see the strong performance of the Sanlam share price as a vote of confidence by our shareholders in the Sanlam management as well as an acknowledgement of Sanlam's stable and consistent solid performance.

Key risks and opportunities

Together with the rest of the world, Sanlam was forced to adapt to operating in an environment where strong headwinds are the norm. Our prudent approach has enabled us to do this with relative ease. As a result we managed to again deliver a strong performance in 2011 in very volatile and uncertain conditions.

The bulk of Sanlam's business remains in South Africa and much focus has been placed on extracting value from these operations. However, the South African middle-income and affluent market segments are largely mature and the Group has a significant market share in these segments. Additional growth has therefore been achieved from Sanlam's diversification into the South African entry-level market and other emerging markets by forming strategic partnerships in target regions.

The restructuring of the various Sanlam cluster businesses late in 2010 and in 2011 has also started delivering the desired results. Johan van Zyl expands on this in his management report.

Operationally, therefore, very little keeps me awake at night. I firmly believe that the Sanlam Group remains a sustainable business despite a rapidly changing and challenging environment.

While I am satisfied that Sanlam continues to be a well-run company with all good governance requirements firmly in place, there are, however, a number of external risks facing our business.

Regulatory reform

In my view the main business risk facing Sanlam and the industry in which it operates is the burden that is being placed on the financial services industry by a wave of regulatory reform.

Following the 2008 global financial crisis, politicians started driving international reform initiatives aimed at improving financial regulation in the major areas that contributed to the crisis. Already a well-regulated industry at the time the crisis struck, the South African financial services industry did not suffer a single casualty and consumers were not left in the lurch.

Nevertheless the South African Government has introduced and continues to investigate numerous regulatory interventions in the financial services industry. While we are convinced that this is pursued with the best intentions, we are concerned that the unintended consequences and associated risks will impact negatively on our industry as well as its shareholders and its clients.

In addition to the regulatory changes, South Africa is also driving a number of reform proposals, which are likely to impact on the South African savings and investment industry. These include:

- Social Security Reform, which includes Retirement Fund Reform
- Intermediary Remuneration Review
- National Health Insurance
- Review of basis for taxation of insurance companies.

The savings and investment industry, as represented by the Association for Savings and Investment South Africa (ASISA), is engaging with Government on these issues. Sanlam is playing an important role in this process.

Economic uncertainty

The global economy is in bad shape and although emerging market countries, including South Africa, have displayed remarkable resilience in the face of the global crisis, the contagion effects are unavoidable.

South Africa is therefore increasingly developing stronger ties with other emerging economies to diminish its dependence on the developed world. Aligned with this, Sanlam's internationalisation strategy is focused strongly on Africa and India.

Message from the Chairman continued

Sustainability through responsibility

In 2011 the Sanlam Board expanded the mandate of its Sustainability Board committee to include overall responsibility for the social and ethical aspects of Sanlam's corporate conduct. The committee, which continues to be chaired by non-executive director Valli Moosa, was therefore renamed the Social, Ethics and Sustainability Board committee.

This means that the chief executives of our various business clusters will in future be required to report to this committee not only on aspects of sustainability that are relevant to their businesses, but also on their social and ethical conduct. Sanlam has in place a Code of Ethics with the aim of ensuring that business is at all times conducted in an ethical way.

The Sanlam Board also carries ultimate responsibility for ensuring that clients are treated fairly. We therefore have in place a Policyholders' Interest Board committee, tasked with ensuring that our policyholders are treated fairly across all levels of our business. We are currently working on expanding the mandate of this committee to include Sanlam clients across all product lines, not only policyholders. The aim is to implement the six proposed fairness outcomes of the Financial Services Board's (FSB) Treating Customers Fairly (TCF) project. A current concern is the absence of a shared understanding of what a fair outcome ultimately looks like.

Achieving earnings growth in a responsible and sustainable manner is key to the Sanlam strategy. To ensure that this is driven at the most senior level, the Group Chief Executive's remuneration model was amended in 2011 to ensure even greater alignment with the Group strategy by increasing the linkage of his remuneration to the sustainable management and growth of the business over the long term.

Board review

At the end of the 2011 financial year, the Sanlam Board had 18 members: 12 were independent non-executives (in accordance with King III's "independence" standards), two were non-executives, and four were executive directors. The classification of directors as independent is reviewed annually. The average length of service by the directors was five years and nine months.

In June 2011 we said goodbye to Attie du Plessis and George Rudman. Both retired after serving as directors for 10 years. I would like to thank Attie and George for their loyal service to the Board and to Sanlam.

I would also like to welcome the three independent non-executive directors appointed at the annual general meeting in June 2011. They are Philisiwe Buthelezi, Flip Rademeyer and Chris Swanepoel.

At the end of 2011 our Board comprised four black females, five black males, one white female and eight white males.

In closing

While 2011 brought much uncertainty and new challenges, I believe that it has also paved the way for a productive 2012.

I referred earlier to the importance of trust in an organisation and how a relationship built on trust significantly speeds up the execution of business critical decisions.

Looking across the Sanlam business clusters, I am amazed by how quickly executive decisions turned to business critical actions. The fact that the restructuring process in July last year has already rendered results is proof of how important a strong trust relationship is for a company of Sanlam's size.

I am confident that the changes implemented in 2011 have positioned the Sanlam Group for further growth in 2012, despite the difficult operating environment that awaits us.

There have also been a number of positive industry developments that will impact on us in 2012. The most noteworthy one is probably the finalisation of the Financial Sector Charter (FSC) after eight long years. The gazetting of the revised sector code will make a real difference in the development of black economic empowerment, more than what the dti Codes could have.

I would like to extend a sincere thank you to our shareholders and other stakeholders for their support in 2011. I would also like to express my gratitude to my fellow Board members, as well as Johan van Zyl and his management team for placing their trust in the Sanlam Board and for their open and honest engagements with us.

Desmond Smith

Chairman

Sanlam Board of directors and committee memberships

Sustainability through Responsibility

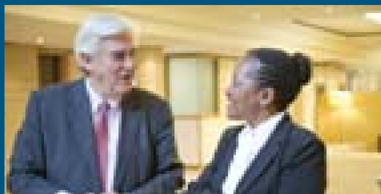
1. Desmond Smith

13. Patrice Motsepe

6. Valli Moosa 9. Flip Rademeyer

11. Chris Swanepoel 4. Anton Botha

10. Bernard Swanepoel 3. Philisiwe Buthelezi



8. Ian Plenderleith 14. Rejoice Simelane

18. Temba Mvusi 16. Kobus Möller
17. Yvonne Muthien

5. Fran du Plessis 2. Manana Bakane-Tuoane

15. Johan van Zyl

7. Sipho Nkosi 12. Lazarus Zim

Please see CVs overleaf

Sanlam Board of directors and committee memberships continued

Independent non-executive directors

1. Desmond Smith (64) (Chairman)

Director since 2009

Qualifications: BSc, Fellow of Actuarial Society of SA, ISMP (Harvard)

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

Major external positions, directorships or associations: Reinsurance Group of America (SA), Medi-Clinic Corporation, InnovUS Tegnologie Oordrag, Stellenbosch Institute for Advanced Studies, Road Accident Fund, International Actuarial Association.

2. Manana Bakane-Tuoane (63)

Director since 2004

Qualifications: PhD Economics (University of Saskatchewan, Canada)

Sanlam and Sanlam Life committee membership: Nominations, Human Resources, Policyholders' Interest, Non-executive directors.

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

3. Philisiwe Buthelezi (47)

Director since 2011

Qualifications: MBA (Corporate Finance), MSc (Economics)

Sanlam and Sanlam Life committee membership: Audit, Actuarial and Finance, Risk and Compliance, Non-executive directors.

Major external positions, directorships or associations: Group Five, The National Empowerment Fund, Industrial Development Corporation (IDC).

4. Anton Botha (58)

Director since 2006

Qualifications: BProc, BCom (Hons) Investment Management, EDP (Stanford)

Sanlam and Sanlam Life committee membership: Human Resources (Chairman), Non-executive directors.

Sanlam Group directorships: Sanlam Capital Markets, Sanlam Investment Holdings, Genbel Securities.

Major external positions, directorships or associations: JSE, University of Pretoria, Vukile Property Fund, Imalivest, African Rainbow Minerals.

5. Fran du Plessis (57)

Director since 2004

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

Sanlam and Sanlam Life committee membership: Audit, Actuarial and Finance, Risk and Compliance, Policyholders' Interest (Chairperson), Non-executive directors.

Major external positions, directorships or associations: Naspers, LDP Incorporated, Life Healthcare, Arcelor Mittal.

6. Valli Moosa (54)

Director since 2004

Qualifications: BSc Mathematics and Physics

Sanlam and Sanlam Life committee membership: Social, Ethics and Sustainability (Chairman), Non-executive directors.

Major external positions, directorships or associations: Lereko Investments, Imperial, Sun International, Real Africa Holdings, Anglo Platinum, Sappi Limited, WWF-SA.

7. Sipho Nkosi (57)

Director since 2006

Qualifications: BCom (Hons) Economics, MBA, Diploma in Marketing, AMP (Oxford)

Sanlam and Sanlam Life committee membership: Non-executive directors.

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

8. Ian Plenderleith (68)

Director since 2006

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

Sanlam and Sanlam Life committee membership: Audit, Actuarial and Finance, Risk and Compliance, Non-executive directors.

Sanlam Group directorships: Sanlam UK.

Major external positions, directorships or associations: Past Deputy Governor of the SA Reserve Bank, Past Executive Director of the Bank of England, BH Macro, BMCE Bank International, Europe Arab Bank, Invoice Clearing Bureau South Africa, Wits Business School Advisory Board, British Museum Friends, Morgan Stanley International, Morgan Stanley & Co International.

9. Flip Rademeyer (64)

Director since 2011

Qualifications: CA(SA)

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

Sanlam Group directorships: Sanlam Emerging Markets, Sanlam Customised Insurance, Sanlam Collective Investments, Sanlam Coris Capital Collective Investment Managers, Glacier Management Company.

Major external positions, directorships or associations: Ubuntu-Botho Investments Holdings.

The Sanlam Board members are also the members of the Sanlam Life Insurance Limited Board.

10. Bernard Swanepoel (50)

Director since 2004

Qualifications: BCom (Hons), BSc Mining Engineering

Sanlam and Sanlam Life committee membership: Social, Ethics and Sustainability, Non-executive directors.

Major external positions, directorships or associations: African Rainbow Minerals, To-the-Point Growth Specialists, Advisory Board Alexander Proudfoot, Village Main Reef, Savannah Mining.

11. Chris Swanepoel (61)

Director since 2011

Qualifications: BSc (Hons), Fellow of the Institute of Actuaries; Fellow of the Actuarial Society of South Africa

Sanlam and Sanlam Life committee membership: Risk and Compliance (Chairman), Audit, Actuarial and Finance, Policyholders' Interest, Non-executive directors.

Sanlam Group directorships: Sanlam Investment Holdings, Sanlam Capital Markets, Sanlam Credit Conduit, Genbel Securities.

12. Lazarus Zim (51)

Director since 2006

Qualifications: BCom (Hons), MCom

Sanlam and Sanlam Life committee membership: Social, Ethics and Sustainability, Non-executive directors.

Major external positions, directorships or associations: Telkom, Zim Capital, Afripalm Resources and Northam Platinum.

Non-executive directors

13. Patrice Motsepe (50) (Deputy Chairman)

Director since 2004

Qualifications: BA Legal, LLB

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

Major external positions, directorships or associations: African Rainbow Minerals, Harmony, Ubuntu-Botho Investments, Mamelodi Sundowns Football Club, African Fashion International.

14. Rejoice Simelane (59)

Director since 2004

Qualifications: PhD (Econ) (Connecticut, USA), LLB (Unisa)

Sanlam and Sanlam Life committee membership: Social, Ethics and Sustainability, Non-executive directors.

Major external positions, directorships or associations: African Rainbow Minerals, Ubuntu-Botho Investments Holdings, Mamelodi Sundowns Football Club, Council for Medical Schemes.

Executive directors

15. Johan van Zyl (55)

Director since 2001

Qualifications: PhD, DSc (Agric)

Group Chief Executive since 2003

Sanlam Group directorships: Sanlam Investment Management (Chairman), Sanlam Netherlands Holding BV, Sanlam UK, Santam, Sanlam Emerging Markets (Chairman).

Major external positions, directorships or associations: University of Pretoria, ASISA (Association of Savings and Investment South Africa) (Chairman), Vumelana Advisory Fund (Chairman).

16. Kobus Möller (52)

Financial Director since 2006

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

Sanlam and Sanlam Life committee membership: Risk and Compliance committee.

Sanlam Group directorships: Sanlam Capital Markets, Sanlam Emerging Markets, Sanlam Investment Holdings, Santam, Sanlam UK, MiWay Group Holdings.

17. Yvonne Muthien (55)

Chief Executive: Group Services

Executive Director since December 2009

Qualifications: BA (Hons) (UWC), MA (Northwestern), DPhil (Oxford)

Sanlam and Sanlam Life committee membership: Social, Ethics and Sustainability.

Sanlam Group directorships: Santam.

Major external positions, directorships or associations: Trustee of Sasol Inzalo Foundation, Chairperson of the President's Advisory Council on National Orders.

18. Temba Mvusi (56)

Chief Executive: Group Market Development

Executive Director since December 2009

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

Sanlam and Sanlam Life committee membership: Social, Ethics and Sustainability.

Sanlam Group directorships: Sanlam Investment Management, Sanlam Private Investments, Sanlam Investment Holdings.

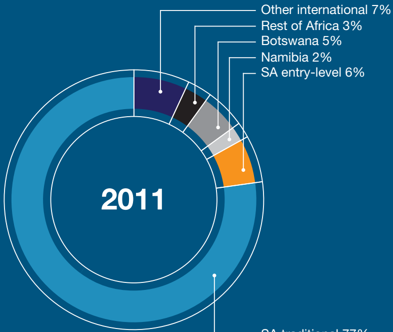
Major external positions, directorships or associations: IEMAS.

Sustainable delivery

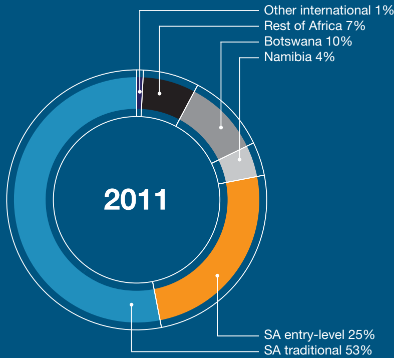
Growth and diversification

Increasing contribution from growth markets

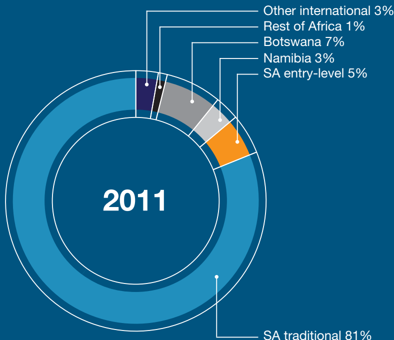
New life business



Gross VNB



Operating profit



Management review by the Group Chief Executive

In 2011 we continued to execute the Group's five-pillar strategy and achieved our overarching objective of keeping the business on a strategically sound footing for the future.

See page 8 and 12 of this report and our web-based Sustainability Report (www.sanlam.co.za) for more information on our key performance indicators and our material sustainability pillars.

The sustainability of the Sanlam Group is determined by its ability to create value for clients and shareholders.

Our clients expect us to provide appropriate products that offer value, while shareholders demand value from their investment in Sanlam. If we do not meet these most basic expectations of our stakeholders, there can be no sustainable growth. And without profitable growth, our business is rendered unsustainable.

The question then is whether we delivered value to our key stakeholders in 2011 in line with their expectations and whether we are geared to continue delivering such value into the future? Most important, however, is whether we achieved this in a responsible manner.

Titled *Sustainability through Responsibility* this, our second Integrated Annual Report, aims to answer these questions by providing a holistic and transparent overview of Sanlam's performance, both from a financial point of view as well as in terms of our consideration of environmental, social and governance (ESG) issues.

The operating environment in 2011

The period under review proved as challenging as we had anticipated in 2010. Described as "gut-wrenching" by our Group Economist, the uncertainty that emanated from the eurozone during 2011 caused tremendous volatility in financial markets around the world.

Net result from financial services per share up

15%

New business volumes increased by 9% to

R115bn

Gross VNB margin of 3,21% compared to 2,79% in 2010

Return on Group Equity Value per share of

15,7%

Dividend per share increased by 13% to 130 cents

Johan van Zyl
Group Chief Executive

“Sustaining a market leading performance”

Management review by the Group Chief Executive continued

While emerging market countries, including South Africa, displayed remarkable resilience in the face of the global crisis, they are not decoupled from the developed world and were not spared from the fall-out of the extreme volatility filtering out of Europe and the US.

Fears of a double-dip recession in developed countries returned in August 2011, fuelled by the chaos in Europe. The US government debt ceiling issue and the loss of its AAA Standard & Poors rating further eroded investor confidence.

The only good news for 2011 was a slight improvement in household income levels in the middle to lower-middle income groups due to sustained real wage growth, a slight improvement in employment and a modest reduction in debt levels.

Performance highlights

The Sanlam Group delivered strong results in 2011 despite this very challenging global operating environment.

We performed well in areas of the business that we could control, resulting in a pleasing growth in operational profits. Since investment markets are, however, largely out of our control, we had to accept fairly flat investment performance in 2011.

We also maintained our focus on the quality of new business in line with our objective to focus on profitable business instead of simply chasing market share.

The following are some of our salient results:

- Net result from financial services per share up 15%
- New business volumes increased by 9% to R115 billion
- Gross VNB margin of 3,21% compared to 2,79% in 2010 (3,05% vs 2,79% excluding STC impact)
- Return on Group Equity Value per share of 15,7%
- Dividend per share increased by 13% to 130 cents.

2011 strategic initiatives

In 2011 we continued to execute the Group's five-pillar strategy and achieved our overarching objective of keeping the business on a strategically sound footing for the future.

The five pillars that continue to make up our strategy are optimal capital utilisation, earnings growth, costs and efficiencies, diversification and transformation. By focusing resolutely on these five pillars, we have achieved market-leading growth and have transformed Sanlam into an efficient and profitable company with a healthy capital position.

Optimal capital utilisation

Key to achieving our objectives is the effective management of the Group's capital resources. The Sanlam Group remained well capitalised with discretionary capital of R3,9 billion as at the end of December 2011.

One of our big focus areas for 2011 has been to pursue profitable growth opportunities with the aim of efficiently utilising discretionary capital.

Of the discretionary capital, some R2 billion has been earmarked for the Shriram Capital investment in India through the Sanlam Emerging Markets (SEM) cluster announced late last year. This investment is in line with our strategy to diversify both geographically and into broader financial services. Our target remains to close this transaction in the second quarter of 2012.

We used some R1,1 billion of discretionary capital for strategic acquisitions. These include the purchase of 3,5 million Santam shares to increase our holding in Santam to an effective 60%, and Sanlam Private Investments' acquisition of leading UK stockbroking firm, Merchant Securities Group plc, and Summit Trust, an international independent trust services group headquartered in Geneva, Switzerland. Our expanded global wealth management proposition will serve the established South African client base and clients in the UK and Australia. SEM provided further capital to a number of its fledgling businesses, expanded into Swaziland in 2011 where we established an asset management business, and started exploring opportunities in Mozambique. The Botswana operations also increased its stake in Letshego, to expand its credit operations.

We also continued the buy-back of Sanlam shares on a selective basis. R979 million was utilised for this purpose.

In 2011, we bolstered our discretionary capital portfolio by some R1 billion through the disposal of non-strategic investments, including the sale of a major part of the Group's holding in the Vukile Property Fund.

Earnings growth

Key to our strategy is to grow earnings in a responsible and sustainable manner. We will therefore not push short-term profits at the expense of long-term earnings growth. To encourage this, Group remuneration structures are aligned to this strategy through some direct link of the vesting of bonuses and long-term incentives to the sustainable management and growth of the business over the long term.

So, how have we done in 2011?

Despite the economic challenges of 2011, the Group achieved a satisfactory 14% growth in net operating profit. Sanlam Personal Finance (SPF) performed exceptionally with excellent earnings growth of 18%, the result of sound contributions from all its South African retail market segments and all its major businesses.

Sanlam Emerging Markets (SEM) and Sanlam Investments recorded 8% and 7% growth respectively, both clusters benefiting from their diversified composition as strong performances from certain individual businesses compensated for relatively weaker performances by other. Businesses in the latter category are essentially either start-ups

Management review by the Group Chief Executive continued

or growth phase entities or businesses more directly and severely impacted by the adverse economic conditions.

Santam again made a material contribution to the Group bottom line as favourable underwriting conditions continued during 2011. Some reduction in margin in the second half of 2011 resulted in only a relatively small increase in Santam's operating profit for the year.

The Sanlam headline earnings were affected by the flat equity market performance in 2011 relative to the buoyant markets in 2010 and ended the year marginally down on that reported for 2010.

Cost and efficiencies

The business restructuring referred to below should ensure improved focus and coordination across businesses, resulting in reduced operating costs and greater efficiencies.

The Sanlam for Sanlam programme, introduced in November 2010, has proven successful in encouraging effective collaboration between clusters with the goal of achieving greater growth and profitability.

Managing an efficient business also requires stringent risk, compliance and corporate governance systems. As a Group we spent around R400 million in 2011 on various initiatives aimed at ensuring that we remain a good corporate citizen, including internal and external audits, reporting of results and Board activities. We have also significantly enhanced our compliance capabilities over the last few years.

Diversification

Our diversification strategy has resulted in a mix of business that has provided us with the resilience required to withstand the extreme global turmoil over the past four years.

We have successfully achieved geographic, product, distribution and market segment diversification in recent years, which has served us well. In 2003, for example, 74% of our net operating profit was derived from our life business. In 2011 life business, while double in size compared to 2003, contributed only 52% of net operating profit. So while our life business is still important to the Sanlam Group, it forms part of a much more balanced portfolio of businesses that is better equipped to withstand harsh conditions.

However, in order to ensure the sustainability of our business well into the future, we need to do more.

Currently our international operations contribute around 14% of operating profit. We are aiming to double this contribution over the next five years as these international markets have been identified as key growth engines for the future.

We have identified significant growth potential in the international markets and more specifically in the developing economies of Africa and certain areas in the East and Pacific Rim. Our restructuring in 2011 will facilitate further diversification in 2012.

We will also be looking at further diversifying our distribution channels by entering into joint ventures with affinity groups such as retailers and unions. Where we already have a presence, further diversification efforts will be focused on branching into different markets. In the UK, for example, we are looking at expanding our current private client offering into the mass affluent market.

Expansion in developed markets will mostly be of an organic nature, with no large capital investments required.

Transformation

Transformation is one of the pillars of our business strategy, because only through focused transformation will we ensure that this business remains viable.

While the internal transformation of Sanlam is a key priority, we are also concerned with the transformation of the savings and investment landscape of South Africa.

South Africa's low savings rate is of concern and we believe we have an important role to play in helping more South Africans achieve financial stability by providing access to appropriate products that offer value. We have therefore done away with products that no longer offer value and are focused on delivering innovative products through unconventional channels into the low-income market.

Other transformation initiatives are detailed in the Sustainability Report published on our website. I would, however, like to highlight the following achievements for 2011:

- At the end of 2011, black shareholding in the Sanlam Group came close to 28% as measured against the Department of Trade and Industry's BEE scorecard. Sanlam has pro-actively been transforming ownership of the Group since 1993.
- Our black:white employee ratio was 61:39 at the end of 2011, compared to 59:41 at the end of 2010. Our target is to increase the current black staff complement to around 62% by the end of 2012. I am confident that we will achieve this target.
- Our Sustainability Management Framework was finalised and implemented and group-wide key performance indicators on sustainability approved.
- We launched the Graduate Leadership Programme as well as a disability learnership.
- The Sanlam Foundation was launched in September 2011 to facilitate more focused and coordinated efforts linked to Sanlam's core business, and to achieve more sustainable socio-economic benefits. Our annual CSI spend in 2011

Management review by the Group Chief Executive continued

was R34,6 million representing 0,77% of Group net profit after tax. In 2010 the CSI spend was R22,1 million (0,47% of Group net profit after tax).

- Sanlam was ranked eighth overall on the South African Carbon Disclosure Leadership Index. We have set ambitious targets for reducing our greenhouse gas emissions and energy usage, informed by a baseline assessment and performance benchmark.
- Sanlam's WWF partnership was effective throughout 2011 and renewed in January 2012 for another three years. The focus of the WWF Sanlam Living Waters programme is on water conservation. As a key sponsor, we contributed more than R3 million in 2011 towards this programme.

Supporting strategy with structure

While our five-pillar strategy remains firmly entrenched we identified a number of structural changes in 2011 that will provide the most effective support over the next five years to our key strategy objectives: sourcing new growth opportunities and maximising the return on investment in the existing businesses.

We started implementing a number of strategic structural changes in July 2011. The new structure reflects the right emphasis on the growth areas of the business.

Emerging markets

The strategic restructuring exercise resulted in the creation of the SEM cluster from the previous Sanlam Developing Markets (SDM) business. SEM assumed responsibility for Sanlam Namibia from SPF, effective from 1 July 2011.

SEM took over management responsibility for the Sanlam Investment Management (SIM) operations in Africa during 2011. SIM Africa is currently represented in Kenya, Nigeria, Namibia, Zambia, Botswana and Swaziland. The cluster also assumed joint responsibility with Santam for managing general insurance businesses in various markets.

The restructuring enables SEM to focus exclusively on pursuing growth opportunities in emerging markets (Rest of Africa, India and South East Asia) across all business lines offered by the Sanlam Group. This allows for a more coordinated approach between the various Group businesses in these territories as well as a more holistic and integrated approach when entering new markets.

Retail market

Sanlam Sky Solutions moved out of SDM and is now SPF's retail offering targeting the entry-level (low income) market in South Africa. The restructuring enables SPF to focus exclusively on the South African retail client market, ensuring better coordination in targeting the full spectrum of this market.

In line with our strategy to provide clients with a superior "Journey For Life" experience, the restructuring creates greater opportunity for a seamless addition of Sanlam solutions to clients' portfolios as their financial needs change.

Sanlam Investments

To bolster the international offering of the Sanlam Investments cluster, Sanlam UK was incorporated into the International Investments sub-cluster.

Human resources

The critical importance of people in the business and the demands of effective transformation across the Group necessitated the creation of a chief executive position in charge of Group Human Resources and we therefore appointed Buyani Zwane as Chief Executive of Group Human Resources. He has been tasked, among others, with creating a strong and transformed leadership core for the Sanlam Group.

Some awards and market recognition in 2011

Sanlam Group

- Best Reporting and Communication in the Life Insurance Sector.

Sanlam Personal Finance

- **SPF Client Contact Centre** received Best Customer Service Centre, Best Business Processing Centre and Top Community Spirit Awards in South Africa.

Sanlam Emerging Markets

- **Pan Africa Life** voted the Best Insurance Company and Life Insurance Company of the Year in Kenya and awarded for Fraud Detection and Prevention Initiatives.
- **Shriram General Insurance** received Excellence in Growth Award for the fastest growing company in the insurance segment in India.

Sanlam Investments

- **Kokkie Kooyman,** fund manager of the **Sanlam Global Financial Fund,** named top global financial fund manager for the second year in a row by UK-based *Investment Week Fund Manager.*
- Raging Bull Award for **SIM Global Best Ideas Feeder Fund.**
- **Sanlam Employee Benefits** received the *Imbasa Yegolide* Award as the Umbrella Fund of the Year, the Financial Intermediaries' Association Award for Employee Benefits Product Supplier of the Year and the Institute of Retirement Funds' Communication Challenge Award.

Santam

- Awarded as Commercial and Corporate Insurer of the Year, Insurer of the Year, Top Commercial Short-term Insurance Brand and for Climate Change Leadership. The Association of Chartered Accountants voted Santam's Sustainability Report as the best in the financial sector.
- **MiWay** awarded as Best Company to Work For in its categories and won the Short-term Insurance category in the Ask Africa Orange Index for Service Excellence.

Management review of the Group Chief Executive continued

How our business clusters performed in 2011

The Sanlam Group consists of four operational clusters: Sanlam Personal Finance, Sanlam Emerging Markets, Sanlam Investments and Santam and I continue with a brief overview of the performances of these clusters in 2011.

Sanlam Personal Finance (SPF)

Despite the economic challenges of 2011, which impacted severely on the South African middle market, I am pleased with SPF's good premium growth across all segments. This can be partly attributed to the launch of two innovative product solutions at the end of 2010 and early in 2011. The Cumulus single premium savings solution was launched in March 2011. The Glacier International offering became available in October 2010 and provides affluent South African clients with innovative ways of investing offshore. Both products have been well accepted by their target markets.

The profitability of new business remained intact, notwithstanding the competitive environment, and we are comfortable with the persistency levels in all market segments. We are particularly pleased with the improvement in persistency levels for the entry-level market.

An 18% increase in SPF's operating profit is a very commendable performance and is the result of strong contributions from all three market segments.

Summarised, the key results for each of the SPF market segments are as follows:

Affluent Market

Sales grew by 5% (13% excluding a once-off book transfer in 2010). The Glacier linked annuity and discretionary solutions, which are impacted less by lower interest rates, have shown good growth. Sales were also boosted by the Glacier offshore solution. Gross operating profit grew by 34%, supported by an increase in assets under management.

Middle Market

Sales were 14% higher than in 2010, with new recurring premiums having grown by 6% and single premiums by 15%. The impact of lower interest rates, which rendered guaranteed plan and conventional annuity product rates unattractive, was negated by increased sales of the new Cumulus solution. Sanlam Personal Loans also grew its loan book as a result of an increased demand for credit and SPF's selected expansion into the mass middle market at the end of 2010. Risk sales, however, were under pressure in 2011 and the business is looking at various ways of improving sales in this area in 2012. Gross operating profit increased by 11%, a particularly pleasing result from this mature market segment.

Entry-level Market

Total sales were 5% lower than in 2010, with new individual recurring premiums 3% higher and a decline in roll-overs of discontinued single premium business contributing 19% lower single premiums in 2011. Group business sales saw an increase of 17%, mainly due to good credit life sales as well as our on-going relationship with affinity groups. While individual life business was lagging in the first half of 2011 when volumes were limited and the sales force reduced to focus on the quality of new business, there was a satisfactory improvement in both volumes and quality of business in the second half as the distribution force was expanded again. The strong growth achieved in this segment over the last few years, positive experience variances and a slowdown in the growth of new business volumes (lower new business strain), contributed to a 92% increase in gross operating profit.

Sustainability through Responsibility at SPF

We believe that by offering financial products that meet the needs of our various target markets we can contribute to reducing the levels of underinsurance and help turn around our country's poor savings rate.

Strong focus is therefore placed on understanding our target markets and designing solutions that will meet their needs in a cost effective manner. The aim is to provide clients with value for money while at the same time ensuring the quality of business sold.

We also recognise the important role played by our distribution channels in helping people save and insuring themselves and their families against the financial risks of death and disability. SPF currently has some 4 500 intermediaries in the field and is in the process of increasing the distribution footprint even further.

Targeting growth markets

SPF has identified the middle market, which consists of 4,5 million people, as a mature market, yet with growth opportunities. This market is diverse in terms of income, needs and the different attitudes and financial behaviours of clients. In order to create value offerings for this market we segmented the market and created a client value proposition for each of the key sub-segments, while maintaining our focus on quality business and profitability margins. This required a number of changes in our business, but these have already started to show results.

Changes to the SPF funeral product, for example, have increased the sales of this product by between 200% and 300% in two of the prioritised segments in the middle market.

The restructuring in the middle of 2011 in which Sanlam Sky Solutions joined SPF, also enables SPF to better target clients with appropriate solutions across the segments as their financial needs change.

Access for all

Currently 95% of the entry-level market sales consist of funeral policies. The challenge for Sanlam is to find a business model that offers value to low-income earners so that this market can be given access to a more diverse range of risk and savings products.

A further challenge is identifying non-traditional distribution channels that will provide easy access to appropriate products, while keeping the cost of distribution and premium collections to a minimum.

The joint venture with the ZCC in the Sanlam Sky Solutions group business areas continues to be very successful. The ZCC collections in August 2011 were the highest ever with over 680 000 collections.

Treating clients fairly

The fair treatment of clients has been a priority for not only SPF but the total Sanlam Group long before the Financial Services Board (FSB) announced the

Management review of the Group Chief Executive continued

Treating Customers Fairly (TCF) initiative. Our own initiatives are overseen at Board level by the Policyholders' Interest committee, which ensures that policyholders are treated fairly across all levels of our business. Our Chairman highlighted in his message that the mandate of this committee was being expanded to include all retail clients, not just policyholders.

Nevertheless, we are supportive of the FSB's TCF initiative and have representation on the task teams set up by the FSB. We will use the regulatory developments emanating from TCF to guide future improvements to our interactions with clients.

We believe that the fair treatment of clients is a journey, and we continuously seek ways of improving our value propositions to clients. As such, we will also use the regulatory developments emanating from TCF to guide future improvements to our interactions with clients.

Employer of choice

SPF can deliver on its undertaking to provide clients with superior products and services only if it employs skilled, competent and motivated people. Together with the rest of the Group, SPF therefore strives to be an employer of choice.

SPF has been an "Investor in People" accredited organisation for six years running. The next assessment will take place in 2012 and I am confident that the cluster will retain this accreditation.

The SPF Internal Training Academy and the disabled learnership programme, introduced in 2010, have proven very successful. In 2011, this cluster spent in excess of R50 million on the training and development of its people.

The transformation of our business remains a priority as this will determine our relevance and sustainability into the future. More than half of the SPF staff complement consists of previously disadvantaged people. Progress is measured on an on-going basis and a component of all staff performance bonuses depends on the business achieving its transformation targets.

See page 68 in the Financial Review for more detail on SPF's performance

and view SPF's presentation at the 2011 Sanlam Investors' Conference on www.sanlam.co.za

Sanlam Emerging Markets (SEM)

SEM is a diversified cluster, with operations presenting the business with very different risks and opportunities. Overall, this diversification delivered sound results in 2011 against difficult operating environments.

The cluster achieved satisfactory new business results, despite a high 2010 base in certain instances and the negative impact of the relatively strong average exchange rate of the rand. The average margin of new life business remained in line with that of 2010. Botswana operations recorded flat new business sales in rand, reflecting the more mature nature of this market as well as the difficult operating environment and increasing competition. In Namibia, new investment business increased by 4% from a high base in 2010 and in a very competitive environment. The rest of our African operations, however, increased new business volumes by a very pleasing 17%.

In India changes in legislation had a material impact on new business volumes. The business adjusted quickly and managed to change the business mix to product lines that will be profitable in the new environment, also resulting in improved operating profit in the current year. The decrease in the present value of new business premiums was also markedly less than experienced by the rest of the industry.

Gross operating profit for the cluster was 12% up on 2010, despite significant upfront losses incurred during 2011 in newly established businesses.

One of Sanlam's big focus areas for 2011 has been to pursue profitable growth opportunities with the aim of efficiently utilising discretionary capital. As mentioned earlier, we reached an agreement, subject to certain conditions, with the Shriram Group in India to increase Sanlam's exposure to the financial services activities of the Shriram Group.

In 2011 SEM established two new partnerships. In Mozambique the cluster started exploring opportunities with a strong local partner in broader financial services as per the new SEM mandate. In Swaziland SEM established an asset management business.

The performances of the following operations stood out in 2011:

- A new management structure was put in place at African Life Zambia in 2010 with very pleasing results. The business proved in 2011 that the significant turnaround in new business volumes and persistency is sustainable.
- In 2010 SEM expanded into Malawi, taking up a 49% stake in NICO Life Malawi. We are pleased with our new partners and the progress made in strengthening this relationship in 2011.
- We likewise value the partnership between SEM and the First Bank of Nigeria, established in 2010.

Sustainability through Responsibility at SEM

Together with the rest of the Sanlam Group, SEM strives for sustainable profit growth. SEM aims to achieve this through strong partnerships with reputable and established operations in Sanlam's target countries. This approach enables SEM to allocate capital resources and expertise to support these partnerships, thereby strengthening their technical base to enable further growth.

Once a partnership has been forged, SEM supports the operation by providing training and skills development, as well as technical and management support. Sanlam prefers to help build self-sustaining companies in each of the countries where we are represented rather than create dependent structures.

The growth of our emerging markets operations helps create additional employment opportunities in those countries. An additional benefit is the on-going development of local skills at all levels.

Sanlam's presence in emerging markets provides consumers in those countries with access to much needed innovative product solutions. Products are developed specifically for each country taking into consideration the unique needs of each target market. This aids wealth creation in some of Africa's more underdeveloped economies.

To ensure that these efforts are well coordinated, the Corporate Services and Stakeholder Management division was created in SEM with effect 1 August 2011. This division has been tasked with initiating and overseeing stakeholder relations and sustainability initiatives.

See page 71 in the Financial Review for more detail on SEM's performance

and view SEM's presentation at the 2011 Sanlam Investors' Conference on www.sanlam.co.za

Management review of the Group Chief Executive continued

Sanlam Investments

The cluster remained steadfast during 2011 in its efforts to construct a broader investment business in line with the strategy adopted at the end of 2010. Focus areas that enjoyed attention throughout the year included the building of a long-term positive investment track record, an increased retail market emphasis, growing and diversifying the cluster, including an increasing international footprint, and cross cluster collaboration.

Overall, the cluster delivered sound results in 2011. Net fund inflows amounted to R11,4 billion with positive Employee Benefits fund flows in particular pleasing. A 7% increase in overall operating profit benefited from strong group life underwriting results.

I would like to highlight some of the performances of the sub-clusters during 2011.

Asset Management

Sanlam Investment Management (SIM) and its investors enjoyed solid relative investment performance over one, three and five years generated by an experienced and highly skilled team of investment professionals.

SIM's retail business achieved record net inflows into the Sanlam range of collective investment schemes. The strong net inflows of funds can be attributed to a combination of factors that worked well in 2011, including our distribution support capability and other support functions, particularly product design and marketing.

Lower institutional net fund flows were experienced due to an industry-wide slowdown in new business being awarded and a few big mandate changes or switches by funds and institutions during the year.

Wealth Management

The Wealth Management sub-cluster established two new business units, the Investment Advisory Service and the Fiduciary and Tax Services, as part of its strategic expansion plan. As mentioned earlier in my review under Optimal capital utilisation, the acquisition of two international firms – Merchant Securities and Summit Trust – was also finalised. Our expanded global wealth management proposition will serve the established South African client base and clients in the UK and Australia.

While market volatility and the significant financial investment into the establishment and purchase of these units placed the profitability of this sub-cluster under pressure in 2011, we are confident this vastly improved wealth management offering will deliver sustainable long-term growth in the future.

Capital Management (SICM)

SICM focused on growing its debt and equity structuring books. The Sanlam Properties business model evolved to that of a property finance business with risks such as development risk being outsourced to other parties while the derivatives Structured Solutions business saw significant growth in their third party funds.

SICM also started transforming existing businesses with the aim of improving margins over the longer term. The two businesses most affected are the Equities Division, which is being transformed into a client focused flow-based business, and Sanlam Private Equity (SPE), which will be transformed into a manager of third party funds.

Sanlam Employee Benefits (SEB)

This sub-cluster delivered good performance in 2011, winning several industry awards and also increasing its profits significantly during the period under review.

The Sanlam Umbrella Fund, identified as one of the top five opportunities across the cluster, experienced exceptional growth in 2011. As a result Sanlam Umbrella Solutions ended the year with R6,6 billion in assets under management.

Sanlam Structured Solutions (SSS), a guaranteed and annuity business, secured a R1,26 billion single premium flow into its annuity product in October. A strong pipeline for the SSS smoothed bonus products remains in place.

Sanlam Group Risk continued to show solid growth in new business and that, coupled with better underwriting conditions than in 2010, resulted in a significant increase in profits for 2011.

The Retirement Fund Administration business is not yet delivering the expected returns and again delivered a loss. While progress has been made in stabilising the business, the turnaround has been slow. This is a focus area as this offering is important for the future.

International Investments

Sanlam International Investment Partners (SIIP) focused on bedding down the operational and strategic plans of the specialist investment management businesses that it invested in during 2011. Product sets have been expanded and capitalised and these businesses are well positioned to attract investors in South Africa and in their local markets.

SIM Global continued to attract South African institutional investors and limited retail investors in SA and Europe. The Sanlam Global Financial Fund kept its performance track record intact in a very difficult environment.

Sanlam Asset Management Ireland, the cluster's Dublin-based UCITS IV compliant investment platform, continued to expand its service offering to the Sanlam Group of companies and also successfully launched new products for third party clients during the period under review.

Previously a standalone business, we grouped Sanlam UK with the rest of our offshore investment businesses in July 2011.

Sanlam UK recorded strong business volume growth in 2011, despite operating in a tough business environment. Ironically the volatile situation in Europe and the legislative and regulatory changes in the UK have created opportunities for the Sanlam UK business. Independent financial advisers (IFAs) are forced to seek the support of stable business partners and Sanlam UK is well positioned to offer the support they need to survive.

Investment Services

One of the main drives for Investment Services in 2011 was to set up Graviton Financial Partners, a broker network business, which offers value adding services to independent financial advisers. This positions the sub-cluster well for the trend in the retail market towards broker consolidation and provides our financial intermediaries with compelling value propositions that are in the best interest of their clients.

Management review of the Group Chief Executive continued

Sustainability through Responsibility at Sanlam Investments

Mindful that consistent long-term performance is key in ensuring sustainability, we believe that companies that are willing to do business responsibly should be rewarded and given the opportunity to grow.

Sanlam Investments identified such a business in 2009 and supplied the start-up with significant seed capital. This enabled the company, Sustainable Capital, to launch the Africa Sustainability Fund, which aims to provide long-term investors with equity exposure to African companies, excluding South Africa. Sustainable Capital has done us proud by consistently outperforming its benchmark as a direct result of focusing on responsible investing.

Sanlam Investments also supports the Code for Responsible Investing in South Africa (CRISA), launched in July last year. South Africa is only the second country after the UK to formally encourage institutional investors to integrate into their investment decisions sustainability issues such as environmental, social and governance (ESG).

The cluster, through SIM, has for several years been a signatory to the United Nations-backed Principles for Responsible Investing (PRI).

Ultimately people are our competitive edge in the Sanlam Group. For Sanlam Investments to win in its space on a sustainable basis, it is therefore fundamental that it is exceptional at attracting, retaining, developing, deploying and connecting with its people. Programmes to ensure culture and talent development are therefore sponsored and supported at CEO level.

See page 74 in the Financial Review for more detail on Sanlam Investments' performance

and view Sanlam Investments' presentation at the 2011 Sanlam Investors' Conference on www.sanlam.co.za

Santam

While the 2011 operating environment proved as challenging as was anticipated in 2010, the Santam Group achieved excellent underwriting results as well as double digit growth of 12% in gross written premium.

Net underwriting margins exceeded expectations at 7,7% in 2011. However, compared to 2010, investment results were negatively impacted by the low fair value movements on equities and lower interest rates.

Margins in most of the significant business classes were satisfactory with the motor book performing exceptionally well. The absence of large industrial and fire-related claims for the net underwriting account, as well as a low incidence of catastrophe events, furthermore contributed to the good underwriting results. However, underwriting profits of the liability class were on lower levels in 2011 than the exceptional levels achieved in 2010 due to a few large claim estimate increases during the year.

In general, lower average claims cost brought about through efficiency initiatives and the continuous focus on risk management improved the quality and diversity of the risk pool, impacting positively on underwriting margins.

Reduced claims cost and the use of appropriate segmentation models also enabled Santam to minimise across-the-board premium increases and even implement selective premium reductions for commercial and personal motor insurance clients in 2011.

Efficiency initiatives in the commercial and personal lines contact centres increased conversion rates and reduced churn rates.

Santam's acquisition cost ratio on net earned premium of 28,1% was higher than the 27,4% of 2010 due to increased spend on strategic investment initiatives such as MiWay and other transformation and optimisation projects. In the medium- to long-term the aim is to reduce the acquisition cost ratio closer to 26% while continuing to invest in growth for the longer term.

At 31 December 2011 the Group's solvency ratio of 48% was higher than the long-term target range of between 35% and 45%. Santam's capital management philosophy is to maximise the return on shareholders' capital within an appropriate risk framework. Given the strong solvency margin as well as the stabilisation of the investment markets, the Board decided to declare a special dividend of 850 cents per share. This will be the fifth special dividend paid by Santam since 2004 and will bring the total special dividend per share declared over this period to R52.

In 2011 strong focus was placed on bedding down the strategic acquisitions concluded in 2010 and they are starting to bear fruit:

- The acquisition of Emerald Risk Transfer enhanced Santam's specialist underwriting skill in the corporate property environment as demonstrated by the turn-around from a loss-making situation in 2009 to double-digit underwriting margins in 2010 and 2011.
- The acquisition of MiWay Group Holdings contributed significantly to the growth target set for diversifying our distribution channels. MiWay achieved gross written premium growth of 67%. They also clinched two prestigious awards in 2011, namely the Ask Africa Orange Index Service Excellence award for short-term insurer as well as the 2011 Deloitte Best Company to Work For award in the medium company size category.

On 1 March 2011, Santam acquired 55% of the voting equity in Mirabilis Engineering Underwriting Managers by merging its construction and engineering business into Mirabilis. The new merged entity is now the leading engineering specialist underwriter in the South African market.

Santam's brand position of "Insurance, Good and Proper" was launched in 2011, entrenching the concept that Santam's value proposition extends beyond price. Recent market research shows that Santam's intrinsic message resonates successfully with South African consumers. In order to ensure delivery of insurance, good and proper, Santam is driving a culture of performance and excellence within the company.

Sustainability through Responsibility at Santam

As a short-term insurer, Santam ensures its sustainability by managing the risks that it insures. While pragmatic and collaborative systemic risk management in society and the economy helps Santam protect its bottom line, such initiatives can also be used to benefit a variety of stakeholders through cooperation.

Management review of the Group Chief Executive continued

A good example is Santam's continued collaboration with the WWF South Africa, the Council of Scientific and Industrial Research (CSRI), the University of Cape Town, and the United Nations Environment Programme (UNEP) Finance Initiative on the ground breaking Eden project in the Eden District Municipality of the Southern Cape. This initiative is a research project aimed at understanding how changes in Eden's landscape are affecting current and future risk exposure to wild fire, flood and sea storm, and to understand how best the insurance industry can respond to ensure its own viability, as well as build the resilience of the socio-ecological system as a whole.

UNEP has recognised this project as a local effort aimed at pursuing a holistic and integrated approach to risk management in order to build climate and disaster-resilient communities. The findings of this project enable Santam to complement its risk assessment with proactive risk management aimed at those systemic drivers of risk that are within its potential realm of influence. This ties in strongly with Santam's commitment to do Insurance Good and Proper.

In line with Santam's policy to invest 1% of net earned premium income in strategic projects, the Group ensures that it retains leadership position in South Africa by focusing on profitable growth and diversification opportunities, enhancing competitiveness and operational effectiveness.

See page 76 in the Financial Review for more detail on Santam's performance

and view Santam's presentation at the 2011 Sanlam Investors' Conference on www.sanlam.co.za

Priorities for the Sanlam Group in 2012

South Africa, together with the rest of the world, is facing strong headwinds in 2012. Economic, regulatory and political uncertainties cause instability, which tends to hamper growth. In South Africa we are currently facing all three. It is no surprise then that the South African economy appears to be caught in a 2,5% to 3,5% growth trajectory for the foreseeable future.

Sanlam is well prepared for the headwinds and cross winds that we expect to encounter in 2012. In 2011 we restructured parts of our business to support sustainable growth into the future. In 2012 our focus will be on harvesting benefits from the strategic changes that were implemented.

We have set the following priorities for 2012:

- Grow earnings by attracting new clients in new markets and by cross selling to existing clients.
- Strengthen our distribution channels in South Africa, both for our retail as well as institutional businesses.

- Closing and bedding down of the Shriram transaction.
- Explore further opportunities in Africa as well as in South East Asia.
- Ensure a sustainable business platform that operates in line with the changing regulatory environment.
- Focus on resolving the administration problems experienced by our Employee Benefits business.
- Upgrade the Group's IT capabilities to drive cost efficiencies across all businesses.
- Continue transforming Sanlam as well as the environment in which we operate.

In closing

The strategic restructuring implemented in 2011 created a solid base from which to achieve sustainable future growth for the Sanlam Group. This base is supported by an internal culture of collaboration, accountability, ownership and trust.

As our Chairman pointed out in his message to shareholders, a company requires a culture of trust in order to successfully execute a strategy. I am in full agreement with him that high trust levels permeate the Sanlam fabric. I also believe that we have earned the trust of our clients and shareholders, enabling us to continue building a sustainable business into the future.

I would like to thank our clients and shareholders for trusting us to deliver the value they expect, each and every Sanlam employee for their diligence and loyalty during this time of volatility and change, my management team for their unwavering support, and the members of the Sanlam Board for their wisdom and vision.

The year ahead will not be an easy one. We are facing many challenges, including global economic uncertainty and a raft of regulatory changes in all the regions we operate. However, I am confident that our conservative approach and experienced staff will enable us to continue withstanding more turmoil while at the same time enabling us to provide growth and value on a sustainable basis.

Johan van Zyl

Group Chief Executive

Group executive committee

Sustainability through Responsibility

1. Johan van Zyl

4. Kobus Möller

2. Ian Kirk

3. Lizé Lambrechts

5. Yvonne Muthien

6. Temba Mvusi

7. Johan van der Merwe

8. Heinie Werth

9. André Zeeman

10. Buyani Zwane

Please see CVs overleaf

Group executive committee continued

1. Johan van Zyl (55)

Appointed: 2001

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, Sanlam Emerging Markets and Sanlam UK.

Council member of the University of Pretoria, Chairman of ASISA (Association of Savings and Investment South Africa) and Chairman of the Vumelana Advisory Fund.

Former Chief Executive of Santam, Vice-chancellor and Principal of the University of Pretoria.

2. Ian Kirk (54)

Appointed: 2006

Qualifications: FCA (Ireland), CA(SA), HDip BDP (Wits)

Appointed Chief Executive Officer of Santam in 2007.

(Formerly Chief Executive: Strategy and Special Projects at Sanlam).

Director of Santam, Centriq Insurance Holdings, Centriq Insurance, Centriq Life Insurance, SAIA, Infinit Group Risk Solutions, SHA (Stalker Hutchison Admiral), Beaux Lane (SA) Properties, Nova Risk Partners, Emerald Risk Transfer, MiWay Insurance Limited.

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

3. Lizé Lambrechts (48)

Appointed: 2002

Qualifications: BSc (Hons), FIA, EDP (Manchester)

Appointed Chief Executive of Sanlam Personal Finance in 2002.

Non-executive director of Sanlam Developing Markets, Sanlam Linked Investments, Sanlam Netherlands Holding, Sanlam Investments and Pensions UK Limited, Channel Life and Director of Glacier Financial Holdings and Sanlam UK. Started her career in actuarial training in Sanlam in 1985 and held various senior positions in the Group's retail business.

4. Kobus Möller (52)

Appointed: 2003

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, Sanlam Emerging Markets, Sanlam UK, MiWay Group Holdings and Sanlam Investment Holdings.

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

5. Yvonne Muthien (55)

Appointed: 2009

Qualifications: BA (Hons) (UWC), MA (Northwestern), DPhil (Oxford)

Appointed Chief Executive: Group Services in December 2009.

Executive director of Sanlam Limited and Sanlam Life.

Non-executive director of Santam, Sanlam Investment Holdings, Chairperson of Sanlam Foundation, Trustee of Sasol Inzalo Foundation and Chairperson of the President's Advisory Council on National Orders.

Former director of Aurecon, Sentech, SABC, Transnet and Mossgas.

Former council member of the University of Stellenbosch.

6. Temba Mvusi (56)

Appointed: 2004

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

Appointed Chief Executive: Group Market Development in August 2005 after serving as Chief Executive: Group Services since January 2004.

Executive director of Sanlam Limited and Sanlam Life.

Non-executive director of Sanlam Private Investments, Sanlam Investment Management, Sanlam Investment Holdings and IEMAS.

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

7. Johan van der Merwe (47)

Appointed: 2002

Qualifications: MCom, MPhil (CANTAB), CA(SA), AMP (Harvard) INSEAD (2011)

Appointed Chief Executive Officer of Sanlam Investment Management in July 2002

Chairman of Sanlam Investment Management, Sanlam UK, Sanlam International Investment Partners, Octane Holdings, Atterbury Investment Holdings, Sanlam Capital Markets, Sanlam Properties, Sanlam Multi Manager International, Sanlam Asset Management (Ireland), Sanlam Private Investments and Sanlam Collective Investments. Director of Atom Funds Management, Eight Investment Partners, FOUR Capital Partners, Sanlam International Investment Partners, SIIP Mauritius, SIM International Investments Partners AUSTRALIA Proprietary Limited.

8. Heinie Werth (48)

Appointed: 2005

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

Appointed Chief Executive Officer of Sanlam Emerging Markets (previously Developing Markets) in December 2005 and before that served as Financial Director of Sanlam Life from April 2002.

Executive director of Sanlam Emerging Markets, non-executive director of Shriram Life Insurance (India), Botswana Insurance Holdings and Sanlam Namibia.

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.

9. André Zeeman (51)

Appointed: 2005

Qualifications: BCom, FASSA, EDP (Manchester)

Appointed Chief Actuary of Sanlam Limited and Statutory Actuary of Sanlam Life in September 2005

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

10. Buyani Zwane (47)

Appointed: 2011

Qualifications: B Soc Science, GDHRM (UCT), MAP (Wits)

Appointed Chief Executive: Group Human Resources in December 2011

Member of Magnificent Mile Trading, Dynamic Leadership Solutions and Isimangaliso Wetland Park boards.

Former Chairman of Franklin Covey SA and Black Management Forum (Mpumalanga), Chief Executive of Breakthrough Development, member of BMF Intellect and BMF (National) boards, various executive positions in oil and energy and gaming industries and financial and public sector organisations.

Financial review

Danie Claassen, Head: Group Tax Services; **Kobus Möller**, Financial Director; **Jeanne Joubert**, Head: Corporate Finance; **André Nortier**, Chief Audit Executive, **Wikus Olivier**, Head: Group Finance.

Sustainable delivery summarises Sanlam's performance in a year characterised by uncertainty and global economic headwinds. As highlighted in the Economic and Market Review of our Group Economist, concerns over sovereign debt in the European Union and economic growth prospects in the major world economies impacted on emerging markets and consequently the Group's operating environment in 2011. This is reflected in the key economic and market indicators. Despite these conditions, we are pleased to report another set of solid results, reaffirming our ability to create shareholder value on a sustainable basis through tough times.

Economic conditions

Despite some improvement in real disposable income in South Africa, consumer debt levels and inflation in the middle-income market remain high and impacted on the level of discretionary expenditure. The level of savings in South Africa remains low with most of the improvement in disposable income being spent on consumer goods. The business climate in the other regions where the Group operates remained similarly strained. Investors remain cautious under these conditions, contributing to a challenging environment for new business sales.

Equity markets

The South African equity market delivered a weak performance during 2011, in particular compared to the strong performance achieved in the 2010 financial year. The FTSE/JSE All Share Index closed 0,4% down on its 31 December 2010 level, compared to a positive return of 16,1% in 2010. The strong equity market performance in the latter half of 2010, however, contributed to a 12% higher average market level during 2011, providing support to fund-based fee income. The Group's overall exposure to international equity markets remains relatively low. The FTSE100 and MSCI World indices delivered negative returns of 6% and 7% respectively in local currency.

Interest rates

Long-term interest rates in general decreased marginally since 31 December 2010 and had no material impact on the valuation of new life business for the year or the in-force life book as at the end of December 2011. The South African All Bond Index provided a return of 9% during 2011, while short-term interest rates remained low; being 110bps (15%) lower on average compared to the 2010 full year. The Group's overall exposures to international bonds remains relatively low. Lower short-term interest rates had a negative impact on interest earned by companies in the Group on working capital as well as the demand for traditional guaranteed and money market solutions offered by the Group.

Foreign currency exchange rates

The rand weakened significantly against the major developed market currencies during 2011 as risk aversion increased among global investors. The rand, however, remained on an average basis strong against the major emerging market currencies to which the Group has exposure, as reflected in the table below (negative variances indicate a strengthening of the rand).

Foreign currency/rand	Europe euro	United Kingdom GBP	USA US$	Botswana BWP	India INR	Rest of Africa (weighted)
31/12/2010	8,88	10,36	6,62	1,05	0,15	
31/12/2011	10,48	12,55	8,07	1,11	0,15	
	18,0%	**21,1%**	**21,9%**	**5,7**	**2,5%**	**14,5%**
Average: 2010	9,68	11,29	7,30	1,10	0,16	
Average: 2011	10,06	11,59	7,22	1,08	0,15	
	3,9%	**2,7%**	**(1,1%)**	**(1,8%)**	**(3,5%)**	**(7,3%)**

Changes in presentation and accounting policies

The Sanlam Group results for the year ended 31 December 2011 are presented based on and in compliance with International Financial Reporting Standards (IFRS). The basis of presentation and accounting policies are consistent with those applied in the 2010 annual report and the 2011 interim report, apart from the following changes, which were also indicated in the 2011 interim results announcement:

- Segmental reporting: To ensure appropriate strategic focus across the Group, the management structure was changed, effective 1 July, as follows:
  - Operations in emerging markets outside of South Africa have been combined into a Sanlam Emerging Markets cluster. This includes operations formerly managed within the Sanlam Personal Finance, Sanlam Developing Markets, Short-term Insurance and Investments clusters.
  - The South African operations of the former Sanlam Developing Markets cluster have been combined with that of Sanlam Personal Finance.
  - Management responsibility for Sanlam UK has been transferred to the Investments cluster.
  - The Group now reports in five segments: Sanlam Personal Finance, Sanlam Emerging Markets, Sanlam Investments, Santam and Corporate and Other.

Segmental information for 2010 has been restated accordingly.

- The replacement of STC in South Africa with a withholding tax basis, effective 1 April 2012, required the elimination of STC as a future Sanlam cost in the valuation base. This resulted in an increase in the future profitability of new life insurance business written (VNB) as well as the in-force life insurance book (VIF).

Financial review continued

Group equity value (GEV)

GEV is the aggregate of the following components:

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

GEV provides an indication of the value of the Group's operations, but without placing any value on future new covered business to be written by the Group's life insurance businesses. Sustainable return on GEV is the primary performance benchmark used by the Group in evaluating the success of its strategy to maximise shareholder value.

Group equity value at 31 December 2011

R million	2011 Total	2011 Fair value of assets	2011 Value of in-force	2010 Total	2010 Fair value of assets	2010 Value of in-force
Covered business	**34 875**	**14 553**	**20 322**	31 045	14 033	17 012
Sanlam Personal Finance	**26 687**	**8 622**	**18 065**	23 663	8 513	15 150
Sanlam Emerging Markets	**2 320**	**1 012**	**1 308**	1 777	735	1 042
Sanlam Investments	**5 868**	**4 919**	**949**	5 605	4 785	820
Other Group operations	**22 012**	**22 012**	**—**	19 413	19 413	—
Sanlam Personal Finance	**2 189**	**2 189**	**—**	1 949	1 949	—
Sanlam Emerging Markets	**1 167**	**1 167**	**—**	1 000	1 000	—
Sanlam Investments	**9 041**	**9 041**	**—**	8 078	8 078	—
Santam	**9 615**	**9 615**	**—**	8 386	8 386	—
Other capital and net worth adjustments	**2 734**	**2 734**	**—**	2 903	2 903	—
	59 621	**39 299**	**20 322**	53 361	36 349	17 012
Discretionary capital	**3 900**	**3 900**	**—**	4 000	4 000	—
Group equity value	**63 521**	**43 199**	**20 322**	57 361	40 349	17 012
Issued shares for value per share (million)	**2 018,9**			2 035,5		
Group equity value per share (cents)	**3 146**			2 818		
Share price (cents)	**2 885**			2 792		
Discount	**(8%)**			(1%)		

The GEV per share increased by 11,6% from 2 818 cents at 31 December 2010 to 3 146 cents at 31 December 2011, after payment of a 115 cents per share dividend in May 2011. The Sanlam share price traded at an 8% discount to GEV by close of trading on 31 December 2011, with the discount widening since December 2010 in the volatile investment market conditions.

Capital allocated to the life operations increased by some R500 million from 31 December 2010. This increase relates predominantly to the investment return earned on the required capital portfolio with no additional capital allocation required in respect of these operations. Discretionary capital remained broadly on a similar level than 2010, with the share buy-backs and acquisitions during 2011 effectively funded from the investment return earned on the discretionary capital and a realisation of illiquid investments (refer Capital management section below for additional information on corporate activity during 2011).

The Group operations have a significant exposure to investment markets, both in respect of the shareholder capital portfolio that is invested in financial instruments, as well as a significant portion of the fee income base that is linked to the level of assets under management. The lacklustre investment market performance during 2011 had a marked negative impact on the RoGEV for the period. This was, however, offset by growth in the underlying asset bases of most operations through strong net fund inflows. After achieving a RoGEV per share of 18,2% in 2010, the per share return of 15,7% in 2011 is a particularly pleasing performance. This was, however, positively impacted by the reversal of the STC allowance in the value of in-force (VIF) of R1,2 billion (refer above). The adjusted RoGEV per share for 2011, which excludes the STC reversal and assumes long-term investment return assumptions, was 14,6%, well in excess of the return target of 12,4%.

The lower RoGEV on a per share basis is in part the result of the further vesting of the conversion right in respect of 13,3 million ‘A’ Deferred shares in terms of the value add arrangement with our BBBEE partner Ubuntu-Botho. In aggregate, the conversion right in respect of 41,5 million of the issued 56,5 million ‘A’ Deferred shares have vested to date.

Financial review continued

Return on Group equity value for the year ended 31 December 2011

	2011 Earnings R million	2011 Return %	2010 Earnings R million	2010 Return %
Covered business	**6 273**	**20,2**	5 057	17,5
Sanlam Personal Finance	**5 146**	**21,7**	4 108	18,9
Sanlam Emerging Markets	**571**	**32,1**	350	21,6
Sanlam Investments	**556**	**9,9**	599	10,6
Other operations	**2 708**	**13,9**	4 100	24,4
Sanlam Personal Finance	**373**	**19,1**	732	48,4
Sanlam Emerging Markets	**27**	**2,7**	127	15,6
Sanlam Investments	**1 113**	**13,8**	1 193	16,0
Santam	**1 195**	**14,2**	2 048	29,1
Discretionary and other capital	**424**		165	
Portfolio investments and other	**575**		342	
Net corporate expenses	**(124)**		(112)	
Share-based payments transactions	**(4)**		(3)	
Change in net worth adjustments	**(23)**		(62)	
Return on Group equity value	**9 405**	**16,4**	9 322	18,3
Return on Group equity value per share		**15,7**		18,2

Covered business yielded a return of 20,2% compared to 17,5% in 2010. Excluding the reversal of STC, investment variances and economic assumption changes, the adjusted RoGEV of covered business amounted to 16,6%, a solid performance. Strong VNB growth and continued positive operating experience variances supported the results.

The valuations of the other Group operations were in general positively impacted by a higher average level of assets under management, supporting increased future profitability. Santam and the majority of SEM's non-life operations are valued at their listed share prices. The Santam share price outperformed general equity markets in South Africa, which supported the 14,2% return earned on this investment. The SEM operations' relatively low return of 2,7% reflects the weak equity market performance in Botswana.

Earnings

Summarised shareholders' fund income statement for the year ended 31 December 2011

R million	**2011**	2010	%△
Net result from financial services	**3 760**	3 303	14
Net investment return	**1 571**	2 123	(26)
Net investment income	**792**	851	(7)
Net investment surpluses	**715**	1 131	(37)
Net equity-accounted earnings	**64**	141	(55)
Project expenses	**(25)**	(48)	48
BEE transaction costs	**(7)**	(8)	13
Secondary tax on companies	**(168)**	(135)	(24)
Amortisation of intangible assets	**(108)**	(92)	(17)
Normalised headline earnings	**5 023**	5 143	(2)
Other non-headline earnings and impairments	**151**	401	
Normalised attributable earnings	**5 174**	5 544	(7)

Net result from financial services

The net result from financial services or net operating profit increased by a pleasing 14%, with a strong contribution from Sanlam Personal Finance in particular.

R million	**2011**	2010	%△
Sanlam Personal Finance	**1 990**	1 680	18
Sanlam Emerging Markets	**309**	286	8
Sanlam Investments	**945**	882	7
Investment Management	**435**	456	(5)
Employee Benefits	**242**	179	35
Capital Management	**210**	201	4
Sanlam UK	**58**	46	26
Santam	**640**	567	13
Corporate and other	**(124)**	(112)	(11)
Net result from financial services	**3 760**	3 303	14

Financial review continued

The performance of the individual clusters is discussed in further detail below.

Normalised headline earnings

Normalised headline earnings of R5 billion are 2% lower than in 2010, largely attributable to the 26% decrease in the net investment return earned on the capital portfolio. As indicated above, the South African equity market delivered a marked weaker performance in 2011 compared to 2010. This was partly offset by the positive impact of the weaker rand (against developed market currencies) on the valuation of the offshore exposure in the capital portfolio. The increase in the STC expense for 2011 is the combined effect of lower STC credits earned during 2011 and a higher dividend paid in respect of the 2010 financial year.

Business volumes

Business flows

The Group achieved growth of 9% in new business volumes, a satisfactory performance in the difficult operating environment of 2011. New life business recorded exceptional growth of 25%, with investment and short-term insurance business increasing by 5% and 8% respectively. The strategic focus on the quality of new business written is reflected in good retention levels and a continuance of strong net fund inflows.

Business volumes for the year ended 31 December 2011

	New business			Net inflows		
R million	**2011**	2010	%△	**2011**	2010	%△
Sanlam Personal Finance	**27 246**	25 422	7	**5 898**	5 660	4
Sanlam Emerging Markets	**10 995**	10 660	3	**2 008**	799	151
Sanlam Investments	**56 062**	50 304	11	**11 444**	10 141	13
Santam	**14 653**	13 561	8	**5 249**	4 868	8
	108 956	99 947	9	**24 599**	21 468	15
White label	**6 131**	5 579	10	**881**	558	58
Total	**115 087**	105 526	9	**25 480**	22 026	16

Value of new covered business

The value of new life business (VNB) written during 2011 increased by 38% on 2010 to reach R1 051 million, breaching the R1 billion mark for the first time. After minorities, VNB increased by 44% to R958 million. The replacement of STC in South Africa with a withholding tax basis, results in an increase in the future profitability of new business written and commensurately VNB. The change in tax basis increased net VNB by R50 million for 2011. Excluding this, net VNB increased by 36% at overall improved margins, testimony to the success of the Group's strategic focus on the quality of new business.

Value of new covered business for the year ended 31 December 2011

	After STC basis change			Before STC basis change		
R million	**2011**	2010	%△	**2011**	2010	%△
Value of new covered business	**1 051**	762	38	**1 001**	762	31
Sanlam Personal Finance	**705**	510	38	**668**	510	31
Sanlam Emerging Markets	**223**	221	1	**214**	221	(3)
Sanlam Investments	**123**	31	297	**119**	31	284
Net of minorities	**958**	666	44	**908**	666	36
Present value of new business premiums	**32 786**	27 334	20	**32 786**	27 334	20
Sanlam Personal Finance	**23 423**	20 372	15	**23 423**	20 372	15
Sanlam Emerging Markets	**3 642**	3 767	(3)	**3 642**	3 767	(3)
Sanlam Investments	**5 721**	3 195	79	**5 721**	3 195	79
Net of minorities	**31 449**	25 891	21	**31 449**	25 891	21
New covered business margin	**3,21%**	2,79%		**3,05%**	2,79%	
Sanlam Personal Finance	**3,01%**	2,50%		**2,85%**	2,50%	
Sanlam Emerging Markets	**6,12%**	5,87%		**5,88%**	5,87%	
Sanlam Investments	**2,15%**	0,97%		**2,08%**	0,97%	
Net of minorities	**3,05%**	2,57%		**2,89%**	2,57%	

The performance of the individual clusters is discussed in further detail below.

Financial review continued

Cluster performance

Sanlam Personal Finance

Key performance indicators for the year ended 31 December 2011

R million	2011	2010	%△
Group Equity Value			
Group Equity Value	**28 876**	25 612	13
Covered business	**26 687**	23 663	13
Other operations	**2 189**	1 949	12
Return on Group equity value	**21,5%**	20,9%	
Covered business	**21,7%**	18,9%	
Other operations	**19,1%**	48,4%	
Business volumes			
New business volumes	**27 246**	25 422	7
Life business	**15 338**	13 074	17
Entry-level market	**1 323**	1 388	(5)
Recurring premiums	***925***	*897*	*3*
Single premiums	***398***	*491*	*(19)*
Middle-income market	**7 908**	6 928	14
Recurring premiums	***1 177***	*1 150*	*2*
Single premiums	***6 731***	*5 778*	*16*
Affluent market	**6 107**	4 758	28
Investment business	**11 908**	12 348	(4)
Middle-income market	**318**	297	7
Affluent market	**11 590**	12 051	(4)
Net fund flows	**5 898**	5 660	4
Life business	**4 143**	2 424	71
Entry-level market	**1 566**	987	59
Middle-income market	**(1 004)**	(1 042)	4
Affluent market	**3 581**	2 479	44
Investment business	**1 755**	3 236	(46)
Value of new covered business			
Value of new business	**705**	510	38
Entry-level market	**262**	173	51
Middle-income market	**360**	278	29
Affluent market	**83**	59	41
Excluding STC basis change	***668***	*510*	*31*
Present value of new business premiums	**23 423**	20 372	15
Entry-level market	**3 963**	3 675	8
Middle-income market	**13 358**	11 980	11
Affluent market	**6 102**	4 717	29

R million	2011	2010	%△
New business margin	**3,01%**	2,50%	
Entry-level market	**6,64%**	4,71%	
Middle-income market	**2,70%**	2,32%	
Affluent market	**1,36%**	1,25%	
Excluding STC basis change	***2,85%***	*2,50%*	
Earnings			
Gross result from financial services	**2 775**	2 353	18
Entry-level market	**296**	154	92
Middle-income market	**2 311**	2 074	11
Affluent market	**168**	125	34
Net result from financial services	**1 990**	1 680	18
Administration cost ratio	**35,4%**	37,1%	
Excluding growth initiatives	***33,7%***	*35,8%*	
Operating margin	**30,9%**	29,7%	

Sanlam Personal Finance (SPF) recorded overall strong results for the 2011 financial year, which is particularly satisfactory given the mature nature of the middle-income market segment in South Africa.

SPF achieved **RoGEV** of 21,5% for 2011, compared to 20,9% for the comparable period in 2010. Both covered and other operations contributed to the performance. The covered business results were supported by the reversal of STC from the VIF, strong growth in the value of new life business and continued positive experience variances. An adjusted RoGEV for SPF, which excludes tax changes, investment variances and economic assumption changes, amounted to 18%. The return on other operations were positively impacted by an increase in the valuation of Glacier and Sanlam Personal Loans, attributable to an increase in the level of assets under management and the size of the loan book respectively. This was partly offset by lower profit estimates for the other non-life operations, particularly Sanlam Healthcare Management where the expense assumption was strengthened.

New business sales increased by 7% on 2010, with single premium business the main contributor to the growth. Excluding a once-off book transfer included in the 2010 results (refer below), new business volumes increased by 12%.

New business volumes in the South African *entry-level market* decreased by 5%. Single premiums continued to decline as roll-overs of the discontinued single premium business in Sanlam Sky reduce over time while the book runs off. This trend was in line with expectations. New recurring premium business were 3% up on 2010, reflecting the impact of the strategic drive to improve new business quality. Growth in the size of the individual life distribution channels as well as new business production were deliberately slowed down while the necessary process changes to achieve the quality improvements were implemented. As a result individual life new recurring

Financial review continued

premium business declined by 2%. This was offset by strong growth in Group business through the bancassurance and affinity channels. Most of the process changes are completed, with the business again focussing on increasing the number of individual life agents and brokers. This was reflected in improved new business sales during the last quarter of 2011. The improvements in new business quality is already evident, supporting an increase in new business margins from 4,71% in 2010 to 6,28% in 2011 (on a comparable basis before removal of STC charge). Net fund inflows of R1,6 billion was 59% up on 2010, to a large extent attributable to improved persistency levels.

The *middle-income market* segment recorded growth of 14% in new life business, with good sales of new single premium savings products launched during the year offsetting lacklustre demand for the traditional guaranteed solutions in the current low interest rate environment. Recurring premium life business in this segment grew by only 2%, in part impacted by a decision not to follow the low premium rates offered by competitors in the underwriting market. The Group's focus remains on quality, rather than market share and unprofitable new business growth. VNB increased by 29% on 2010 (22% before the STC basis change), broadly in line with the growth in new business volumes. VNB margins improved from 2,32% in 2010 to 2,70%, partly due to the removal of the STC charge. Net fund outflows were 4% lower, a satisfactory result given the negative impact of higher maturity benefits paid congruent to the higher average market levels in 2011.

Glacier continued to perform well in the *affluent market* with growth of 28% in life business sales. Demand for Glacier's new international offering and linked annuities remained strong. The prevailing environment benefited the sale of linked annuities as the product provides flexibility to clients and does not lock in the current low interest rates. Investment business sales were, however, 4% lower than in 2010, largely due to a R1 billion once-off book transfer included in the 2010 results. Excluding this transfer, new investment business increased by 6%. The increase in life sales supported a 41% increase in VNB.

Gross **result from financial services** increased by 18%. The entry-level market recorded gross operating earnings of R296 million, 92% up on 2010. This is attributable to growth in the size of the book over the last few years, augmented by good mortality experience in 2011. The results were further enhanced as the level of new business strain remained approximately in line with that of 2010 as a consequence of the slowdown in new business volumes. The middle-income market profit increased by 11%, attributable to higher risk profits from improved claims experience and an increase in administration profit following higher average assets under management, partly offset by lower interest earned on working capital. Sanlam Personal Loans increased its contribution to operating profit by 43% following a 25% increase in the average size of the loan book and improved bad debt experience. Glacier also reported a 34% increase in profit, supported by an increase in fees earned on the overall higher level of assets under management.

Sanlam Emerging Markets

Key performance indicators for the year ended 31 December 2011

R million	2011	2010	%△
Group Equity Value			
Group Equity Value	**3 487**	2 777	26
Covered business	**2 320**	1 777	31
Other operations	**1 167**	1 000	17
Return on Group equity value	**21,5%**	19,6%	
Covered business	**32,1%**	21,6%	
Other operations	**2,7%**	15,6%	
Business volumes			
New business volumes	**10 995**	10 660	3
Namibia	**8 425**	8 192	3
Botswana	**1 675**	1 683	—
Rest of Africa	**526**	448	17
India	**369**	337	9
Net fund flows	**2 008**	799	151
Namibia	**1 564**	(1 200)	230
Botswana	**(435)**	1 189	(137)
Rest of Africa	**663**	526	26
India	**216**	284	(24)
Value of new covered business			
Value of new business	**223**	221	1
Namibia	**43**	46	(7)
Botswana	**111**	127	(13)
Rest of Africa	**69**	45	53
India	**—**	3	(100)
Present value of new business premiums	**3 642**	3 766	(3)
Namibia	**739**	859	(14)
Botswana	**1 617**	1 803	(10)
Rest of Africa	**1 045**	787	33
India	**241**	317	(24)
New business margin	**6,12%**	5,87%	
Namibia	**5,82%**	5,36%	
Botswana	**6,86%**	7,04%	
Rest of Africa	**6,60%**	5,72%	
India	**—**	0,95%	
Earnings			
Gross result from financial services	**656**	591	11
Namibia	**204**	206	(1)
Botswana	**416**	415	—
Rest of Africa	**50**	(4)	>100
India	**4**	(17)	>100
Corporate	**(18)**	(9)	(100)
Net result from financial services	**309**	286	8
Administration cost ratio	**36,5%**	30,6%	
Operating margin	**36,7%**	32,7%	

Financial review continued

Sanlam Emerging Markets (SEM) reported overall satisfactory results, despite a difficult operating environment in 2011. The cluster's results were impacted by the following:

- Tough operating conditions with industrial action in Botswana, elections in Uganda, Nigeria and Zambia, acts of violence in Kenya and Nigeria and political uncertainty in Malawi. These conditions impacted on new business production. The Group's strategy in emerging markets of diversification (geographically and product mix) and forming partnerships with strong local players provided a solid platform to manage these risks. The success of the strategy is evident in the satisfactory overall growth achieved despite these challenges.
- A strong average rand exchange rate, which had a R9 million and R17 million negative impact on the reported VNB and result from financial services respectively.
- A high comparative base in Namibia and Botswana. In both these countries the comparative 2010 results include non-recurring items which impacted on the 2011 growth achieved in new business volumes and result from financial services.

SEM's RoGEV for the period was negatively impacted by a low return on its listed non-life operations in Botswana, in line with the general equity market performance. This was however compensated for by a 32,1% return on covered business, supported by strong VNB, to achieve an overall return of 21,5%.

New business volumes increased by 3% on 2010, with strong growth in Rest of Africa and India offset by a lower overall level of growth in the relatively more mature Namibia and Botswana operations.

New business volumes in Namibia were 3% up on 2010. Life business sales decreased by 29% to R346 million from a high base in 2010, which included once-off single premiums. Despite a very competitive environment, collective investment scheme flows increased by 4% to R7,8 billion. Net fund flows, however, improved significantly due to the non-recurrence of a R2 billion net outflow in SIM Namibia during 2010. VNB decreased in line with lower new life business sales.

Botswana recorded flat new business volumes, supported by strong single premium annuity and credit life sales. Recurring premium volumes were, however, 19% down on 2010, with industrial action and increasing competition eroding new business growth. VNB and PVNBP decreased in line with the lower recurring premium sales. Single premiums increased by 2% against a high comparative base in 2010. Net fund flows were affected by a R1,4 billion withdrawal by the Botswana Public Officers Pension Fund.

The Rest of Africa operations recorded new business volumes of R526 million, up 17% on 2010 despite an average 10% stronger rand exchange rate against most countries. Zambia, Tanzania and Malawi are the main contributors to the growth, with Nigeria also recording a satisfactory maiden contribution of R21 million. VNB and VNB margins improved significantly on 2010 in line with the strong new business performance.

Our Indian operation adapted well to the new regulatory environment and achieved new business growth of 9% on 2010, supported by single premium savings, credit life and short-term insurance volumes. The regulatory changes, however, impacted on the cost base and essentially eliminated the VNB in 2011. Changes implemented to the cost base should support future profitability.

SEM achieved a 11% increase in its gross **result from financial services**, despite some R45 million losses incurred by newly established operations. The Namibian operations' contribution decreased by 1% from the high base in 2010, which included annuity mismatch profits that did not repeat in 2011 to the same extent. The Botswana operations' operating earnings were flat on 2010 (up 2% in local currency), with the increased stake in Letshego offsetting the negative impact of a reduced holding in the Zambian investment management business and lower asset management fees earned following the Botswana Public Officers Pension Fund withdrawal. The Rest of Africa results were negatively impacted by start-up losses at new operations and the stronger average rand exchange rate; excluding these the Rest of Africa businesses achieved satisfactory operating earnings of some R100 million in 2011. Start-up losses also contributed to some deterioration in the administration cost ratio of the cluster.

Financial review continued

Sanlam Investments

Key performance indicators for the year ended 31 December 2011

R million	2011	2010	%△
Group Equity Value			
Group Equity Value	**14 909**	13 683	9
Investment Management	**6 864**	6 221	10
Employee Benefits	**5 077**	4 992	2
Capital Management	**851**	931	(9)
Sanlam UK	**2 117**	1 539	38
Return on Group equity value	**12,2%**	13,7%	
Investment Management	**10,9%**	17,9%	
Employee Benefits	**6,6%**	12,7%	
Capital Management	**18,7%**	11,1%	
Sanlam UK	**31,9%**	2,7%	
Business volumes			
Net fund flows	**11 444**	10 141	13
Investments	**10 708**	11 654	(8)
South Africa segregated	**24**	2 554	(99)
South Africa collective investments	**6 836**	3 631	88
South Africa private investments	**1 596**	4 570	(65)
Non-South Africa	**2 252**	899	151
Life business	**736**	(1 513)	149
New life business volumes	**3 912**	1 740	125
Recurring premiums	**349**	214	63
Single premiums	**3 563**	1 526	133
Value of new covered business			
Value of new business	**123**	31	297
Excluding STC basis change	***119***	*31*	*284*
Present value of new business premiums	**5 721**	3 195	79
New business margin	**2,15%**	0,97%	
Excluding STC basis change	***2,08%***	*0,97%*	
Earnings			
Gross result from financial services	**1 230**	1 151	7
Investment Management	**584**	605	(3)
Employee Benefits	**330**	248	33
Capital Management	**262**	254	3
Sanlam UK	**54**	44	23
Net result from financial services	**945**	882	7

Sanlam Investments achieved a RoGEV of 12,2% despite the weak investment markets. Strong net fund inflows achieved by the cluster provided some support to assets under management and commensurately the valuation of the investment management operations. The depreciation of the rand against developed market currencies impacted positively on the return of the cluster's offshore operations, in particular Sanlam UK. The strong operating profit performance of the Capital Management operations reflects in the RoGEV achieved for the period. Sanlam Employee Benefits' (SEB) RoGEV continues to be dampened by the relative size of required capital held in respect of its covered business. In addition, SEB acquired the minority interest in its Infinit distribution channel, for which the excess paid over net asset value has been written off in accordance with the embedded value methodology.

The cluster achieved strong net fund flows. Apart from investment management, all operations also reported an increase in operating earnings.

New business volumes for the cluster were up 11% on 2010. South African new investment business grew by 8%, with a continued strong performance of retail collective investment scheme business partly offset by a decline in new segregated and multi-manager mandates. Sanlam UK continued on its growth path with new investment business increasing by 34% (partly assisted by business flows from the newly acquired Border Asset Management operations). SIM Global recorded growth of 59%, offsetting lower new business sales at Sanlam International Investment Partners. Overall international investment business volumes increased by 3% in a very challenging operating environment in the developed markets. New life business volumes increased by 125% on 2010 to R3,9 billion, with both SEB (up 228%) and Sanlam UK (up 43%) contributing to the growth. The SEB performance benefited from a R1,2 billion annuity mandate received in the second half of the year. This large inflow, together with a change in the mix of new risk business to more profitable products, contributed to a more than tripling in VNB and a significant increase in VNB margins. The new life business aided the cluster's overall net fund inflows of R11,4 billion, offset by a weaker performance from investment business.

Gross result from financial services of R1 230 million is 7% up on the prior year with SEB being the main contributor. SEB's earnings benefited from an improvement in claims experience as well as a once-off release of data-related reserves. Sanlam Capital Markets was impacted by a lack of deal flow during 2011 as market volatility drained investor confidence and impacted on the competitiveness of hedging rates. The debt business, however, outperformed on the back of lower credit risk margins. The Private Equity business' results were in turn negatively affected by the non-recurrence of large fees earned in 2010 on the exit of investments. Despite these conditions, Sanlam Capital Management managed to increase its gross operating earnings by 3%, aided by a R45 million once-off profit realised on a property financing transaction. The Investment Management operations reported a 3% decrease in operating earnings, attributable to a R31 million decline in performance fees earned and a R14 million decrease in the investment return earned on seeding capital

Financial review continued

provided to some of the cluster's hedge fund portfolios. SIM Global is the main contributor to the decline in performance fees, with volatility in its earnings expected given the specialised nature of its investment funds. Excluding these items, operating earnings increased by a satisfactory 14%, which is in excess of the growth in average assets under management.

Santam

Key performance indicators for the year ended 31 December 2011

R million	2011	2010	%△
Group Equity Value			
Group Equity Value	**9 615**	8 386	15
Return on Group Equity Value	**14,2%**	29,1%	
Business volumes			
Net earned premiums	**14 653**	13 561	8
Net fund flows	**5 249**	4 868	8
Earnings			
Gross result from financial services	**1 517**	1 464	4
Net result from financial services	**640**	567	13
Ratios			
Claims	**64,2%**	63,9%	
Administration costs	**16,2%**	15,1%	
Combined	**92,3%**	92,2%	
Underwriting	**7,7%**	7,8%	

The favourable underwriting experience of 2010 continued into the 2011 financial year, resulting in a 4% increase in Santam's gross result from financial services (2010 comparative information includes MiWay to be comparable to the 2011 results). The strategic focus on claims management is reflecting in a relatively low claims ratio, with an underwriting margin of 7,7% in 2011, marginally down on the 7,8% average margin achieved in 2010 but down on the 8,6% margin achieved in the second half of 2010 and the 8,5% margin in the first half of 2011. Most risk classes contributed to the results. Gross written premium increased by 12%, but higher reinsurance exposure resulted in net earned premiums increasing by 8%, a satisfactory result in the context of strong competition from the established direct insurers and banks. MiWay continues to successfully build its direct distribution capacity, increasing its gross written premiums by some 70% in 2011.

The RoGEV of the short-term insurance cluster largely reflects the investment return earned on the listed Santam shares, which performed ahead of the weak South African equity market.

Capital management

Optimal capital allocation and management remains a key priority for the Group and any discretionary capital that will not be used for corporate activity within a reasonable time frame will be returned to shareholders. The Group held discretionary capital of R4 billion at the end of 2010, which reduced to R3,9 billion as at 31 December 2011. The following corporate activity released additional discretionary capital during 2011:

- R168 million was added to the discretionary capital portfolio through the disposal of the Group's interest in Fundamo.
- The Group had direct and indirect exposures to Vukile units, the majority of which were acquired when the Group sold its property asset management business to Vukile. Most of the Vukile units were sold in the latter half of the year, which released R790 million of illiquid assets into discretionary capital.
- In terms of the agreement for the disposal of MiWay to Santam, Santam exercised its option to early settle the deferred consideration component of the transaction. A final amount of R103 million was received from Santam.

Utilisation of discretionary capital comprised the following:

- In terms of the Group's share buy-back programme 36,1 million Sanlam shares were acquired in the market for a total consideration of R979 million.
- The Group increased its effective interest in Santam to 59,9% through the acquisition of 3,5 million Santam shares for a total consideration of R476 million.
- Sanlam Investments augmented its proposition for private clients through the acquisition of three new international businesses: Border Asset Management (a UK private clients asset management business) for R71 million, Merchant Securities (a UK stockbroking business) for R129 million and Summit Trust (a trust and fiduciary business in Switzerland) for R83 million.

Other movements in discretionary capital included:

- Seeding capital of R200 million was provided for new products launched by the asset management operations. These new products require seeding capital while a performance track record is being established.
- Investment return earned on the discretionary capital and other small transactions.

The discretionary capital is substantially earmarked for corporate activity and expansion of the Group's footprint in Africa and India, including the potential R2 billion investment in Shriram Capital announced late in 2011. Further share buy-backs will also be considered in periods of share price weakness.

Sanlam is a participant in the Financial Services Board (FSB)'s implementation of a third country equivalent of the European Solvency II regime in South Africa (called Solvency Assessment and Management (SAM)). The Group's SAM implementation project is progressing according to plan. The FSB conducted its first quantitative impact study in South Africa in the latter half of 2011, in which Sanlam participated. The results of the study confirmed the Group's view that the capital allocated to the life insurance operations is appropriate.

Financial review continued

Solvency

All of the life insurance businesses within the Group were sufficiently capitalised at the end of December 2011. The total admissible regulatory capital (including identified discretionary capital) of Sanlam Life Insurance Limited, the holding company of the Group's major life insurance subsidiaries, of R27,5 billion covered its capital adequacy requirements (CAR) 3,7 times. No policyholder portfolio had a negative bonus stabilisation reserve at the end of December 2011.

Fitch Ratings has affirmed the following ratings of the Group in 2011 and the outlook remained stable:

Sanlam Limited:

- National Long-term: AA- (zaf)

Sanlam Life Insurance Limited:

- National Insurer Financial Strength: AA+ (zaf)
- National Long-term: AA (zaf)
- National Short-term: F1+ (zaf)
- Subordinated debt: A+ (zaf)

Santam Limited:

- National Insurer Financial Strength: AA+ (zaf)
- National Long-term: AA (zaf)
- Subordinated debt: A+ (zaf)

Dividend

The Group only declares an annual dividend due to the costs involved in distributing an interim dividend to our large shareholder base. Sustainable growth in dividend payments is an important consideration for the Board in determining the dividend for the year. The Board uses cash operating earnings as a guideline in setting the level of the dividend, subject to the Group's liquidity and solvency requirements. Any cost relating to a dividend payment is allowed for in setting the dividend for a particular year. The dividend payable in 2012 is still subject to STC and allowance is accordingly made for this cost in setting the dividend. The new dividend withholding tax regime will apply in respect of future dividend declarations. The operational performance of the Group in the 2011 financial year enabled the Board to increase the dividend per share by 13% to 130 cents. This will maintain a cash operating earnings cover of approximately 1,1 times.

Shareholders are advised that the final cash dividend of 130 cents for the year ended 31 December 2011 is payable on Wednesday, 9 May 2012 to ordinary shareholders recorded in the register of Sanlam at the close of business on Thursday, 26 April 2012. The last date to trade to qualify for this dividend will be Thursday, 19 April 2012, and Sanlam shares will trade ex-dividend from Friday, 20 April 2012.

Dividend payment by way of electronic bank transfers will be effected on Wednesday, 9 May 2012. The mailing of cheque payments in respect of dividends due to those shareholders who have not elected to receive electronic dividend payments will commence on or as soon as practically possible after this date.

Share certificates may not be dematerialised or rematerialised between Friday, 20 April 2012 and Thursday, 26 April 2012, both days inclusive.

Forward-looking statements

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

Shareholders' information

for the year ended 31 December 2011

Contents

Group equity value

Shareholders' fund financial statements

Embedded value of covered business

Basis of preparation and presentation – shareholders' information

This section provides additional information in respect of the Group shareholders' fund in a format that corresponds to that used by management in evaluating the performance of the Group.

It includes analyses of the Group shareholders' fund's consolidated financial position and results in a similar format to that used by the Group for internal management purposes. The Group financial statements on pages 234 to 304 are prepared in accordance with IFRS and include the consolidated results and financial position of both the shareholder and policyholder activities. These IFRS financial statements also do not distinguish between the shareholders' operational and investment activities, which are separate areas of management focus and an important distinction in evaluating the Sanlam Group's financial performance. Information is presented in this section to provide this additional shareholders' fund information.

The Group also discloses Group Equity Value (GEV) information. The Group's key strategic objective is to maximise returns to shareholders. GEV has been identified by management as the primary measure of value, and return on GEV (RoGEV) is used by the Group as the main performance measure to evaluate the success of its strategies towards sustainable value creation in excess of its cost of capital. GEV more accurately reflects the performance of the Group than results presented under IFRS and provides a more meaningful basis of reporting the underlying value of the Group's operations and the related performance drivers. This basis allows more explicitly for the impact of uncertainty in future investment returns and is consistent with the Group's operational management structure.

A glossary containing explanations of technical terms used in these financial statements is presented on page 305.

Basis of preparation and presentation – shareholders' fund information

The basis of presentation and accounting policies in respect of the financial information of the shareholders' fund are the same as those set out on pages 235 to 253, apart from the specific items described under separate headings in this section.

The basis of preparation and presentation of the shareholders' information is also consistent with that applied in the 2010 financial statements, apart from the following:

- Segmental reporting: To ensure appropriate strategic focus across the Group, the management structure was changed, effective 1 July, as follows:
  - Operations in emerging markets outside of South Africa have been combined into a Sanlam Emerging Markets cluster. This includes operations formerly managed within the Sanlam Personal Finance, Sanlam Developing Markets, Short-term Insurance and Investments clusters.
  - The South African operations of the former Sanlam Developing Markets cluster have been combined with that of Sanlam Personal Finance.
  - Management responsibility for Sanlam UK has been transferred to the Investments cluster.
  - The Group now reports in five segments: Sanlam Personal Finance, Sanlam Emerging Markets, Sanlam Investments, Santam and Corporate and Other.

Shareholders information for 2010 has been restated accordingly.

- The replacement of STC in South Africa with a withholding tax basis, effective 1 April 2012, required the elimination of STC as a future Sanlam cost in the valuation base. This resulted in an increase in the future profitability of new life insurance business written (VNB) as well as the in-force life insurance book (VIF).

The shareholders' fund information includes the following:

- Consolidated shareholders' fund at net asset value, together with a consolidated shareholders' fund income statement and related notes (refer pages 96 to 128);
- Shareholders' fund at fair value (refer page 94); and
- GEV and RoGEV information (refer pages 90 to 93).

Consolidated shareholders' fund, income statement and related information

The analysis of the shareholders' fund at net asset value and the related shareholders' fund income statement reflects the consolidated financial position and earnings of the shareholders' fund, based on accounting policies consistent with those on pages 235 to 253, apart from the following:

Basis of preparation and presentation continued

Basis of consolidation

Group companies are consolidated in the analysis of the Sanlam Group shareholders' fund at net asset value. The policyholders' and outside shareholders' interests in these companies are treated as minority shareholders' interest on consolidation.

Consolidation reserve

In terms of IFRS, the policyholders' fund's investments in Sanlam shares and Group subsidiaries are not reflected as equity investments in the Sanlam Group IFRS statement of financial position, but deducted in full from equity on consolidation (in respect of Sanlam shares) or reflected at net asset value (in respect of subsidiaries). The valuation of the related policy liabilities however includes the fair value of these investments, creating an artificial mismatch between policy liabilities and policyholder investments, with a consequential impact on the Group's shareholders' fund and earnings. The consolidation reserve created in the Group financial statements for these mismatches is not recognised in the shareholders' fund at net asset value as the related policyholder investments are recognised as equity instruments at fair value. The fund transfers between the shareholders' and policyholders' fund relating to movements in the consolidation reserve are commensurately also not recognised in the shareholders' fund's normalised earnings. This policy is applied, as these accounting mismatches do not represent economic profits and losses for the shareholders' fund.

Segregated funds

Sanlam also manages and administers assets in terms of third-party mandates, which are for the account of and at the risk of the clients. As these are not the assets of the Sanlam Group, they are not recognised in the Sanlam Group statement of financial position in terms of IFRS and are also excluded from the shareholders' fund at net asset value and fair value. Fund flows relating to segregated funds are however included in the notes to the shareholders' fund information to reflect all fund flows relating to the Group's assets under management.

Equity-accounted earnings

Equity-accounted earnings are presented in the shareholders' fund income statement based on the allocation of the Group's investments in associates and joint ventures between operating and non-operating entities:

- Operating associates and joint ventures include investments in strategic operational businesses, namely Sanlam Personal Loans, Shriram Life Insurance, Shriram General Insurance, Letshego, Nico Holdings and the Group's life insurance associates in Africa. The equity-accounted earnings from operating associates and joint ventures are included in the net result from financial services.
- Non-operating associates and joint ventures include investments held as part of the Group's balanced investment portfolio. Santam Group's equity-accounted investments are the main non-operating associates and joint ventures. The Group's share of earnings from these entities are reflected as equity-accounted earnings.

Normalised earnings per share

As discussed under the policy note for 'Consolidation reserve' above, the IFRS prescribed accounting treatment of the policyholders' fund's investments in Sanlam shares and Group subsidiaries creates artificial accounting mismatches with a consequential impact on the Group's IFRS earnings. In addition, the number of shares in issue used for the calculation of IFRS basic and diluted earnings per share must also be reduced with the treasury shares held by the policyholders' fund. This is in the Group's opinion not a true representation of the earnings attributable to the Group's shareholders, specifically in instances where the share prices and/or the number of shares held by the policyholders' fund change significantly during the reporting period. The Group therefore calculates normalised diluted earnings per share to eliminate fund transfers relating to the investments in Sanlam shares and Group subsidiaries held by the policyholders' fund.

Fund flows

The notes to the shareholders' fund information also provide information in respect of fund flows relating to the Group's assets under management. These fund flows have been prepared in terms of the following bases:

Funds received from clients

Funds received from clients include single and recurring long- and short-term insurance premium income from insurance and investment policy contracts, which are recognised in the financial statements. It also includes contributions to collective investment schemes and non-life insurance linked-products as well as inflows of segregated funds, which are not otherwise recognised in the financial statements as they are funds held on behalf of and at the risk of clients. Transfers between the various types of business, other than those resulting from a specific client instruction, are eliminated.

White label fund flows relate to business where the Group is principally providing administrative or life licence services to third-party institutions. White label business is by nature low margin business and subject to volatile cash flows.

Funds received from clients include the Group's effective share of funds received from clients by strategic operational associates and joint ventures.

New business

In the case of long-term insurance business the annualised value of all new policies (insurance and investment contracts) that have been issued during the financial year and have not subsequently been refunded, is regarded as new business.

All segregated fund inflows, inflows to collective investment schemes and short-term insurance premiums are regarded as new business.

New business includes the Group's share of new business written by strategic operational associates and joint ventures.

Payments to clients

Payments to clients include policy benefits paid in respect of long- and short-term insurance and investment policy contracts, which are recognised in the financial statements. It also includes withdrawals from collective investment schemes and non-life insurance linked-products as well as outflows of segregated funds, which are not otherwise recognised in the financial statements as they relate to funds held on behalf of and at the risk of clients. Transfers between the various types of business, other than those resulting from a specific client instruction, are eliminated.

White label fund flows relate to business where the Group is principally providing administrative or life licence services to third-party institutions. White label business is by nature low margin business and subject to volatile cash flows.

Payments to clients include the Group's effective share of payments to clients by strategic operational associates and joint ventures.

Shareholders' fund at fair value

The shareholders' fund at fair value is prepared from the consolidated shareholders' fund by replacing the net asset value of the Group operations that are not part of covered business, with the fair value of these businesses. Fair values for listed businesses are determined by using stock exchange prices and for unlisted businesses by using directors' valuations.

Group Equity Value

GEV is the aggregate of the following components:

- The embedded value of covered business, which comprises the required capital supporting these operations (also referred to as adjusted net worth) and their net value of in-force business;
- The fair value of other Group operations based on longer-term assumptions, which includes the investment management, capital markets, short-term insurance and the non-covered wealth management operations of the Group; and
- The fair value of discretionary and other capital.

GEV is calculated by adjusting the shareholders' fund at fair value with the following:

- Adjustments to net worth; and
- Goodwill and the value of business acquired intangible assets relating to covered business are replaced by the value of the in-force book of covered business.

Although being a measure of value, GEV is not equivalent to the economic value of the Group as the embedded value of covered business does not allow for the value of future new business. An economic value may be derived by adding to the GEV an estimate of the value of the future sales of new covered business, often calculated as a multiple of the value of new covered business written during the past year.

The GEV is inherently based on estimates and assumptions, as set out in this basis of preparation and as also disclosed under critical accounting estimates and judgements in the annual financial statements. It is reasonably possible that outcomes in future financial years will be different to the

Basis of preparation and presentation continued

current assumptions and estimates, possibly significantly, impacting on the reported GEV. Accordingly, sensitivity analyses are provided for changes from the base estimates and assumptions within the Shareholders' information.

Adjustments to net worth

Present value of corporate expenses

GEV is determined by deducting the present value of corporate expenses, by applying a multiple to the after-tax corporate expenses. This adjustment is made as the embedded value of covered business and the fair value of other Group operations do not allow for an allocation of corporate expenses.

Share incentive schemes granted on subsidiaries' own shares

Where Group subsidiaries grant share incentives to staff on the entities' own shares, the fair value of the outstanding incentives at year-end is deducted in determining GEV. The expected cost of future grants in respect of these incentive schemes is allowed for in the calculation of the value of in-force covered business and the fair value of other Group operations as appropriate.

Share incentive schemes granted on Sanlam shares

Long-term incentives granted by the Group on Sanlam shares are accounted for as dilutive instruments. The GEV is accordingly not adjusted for the fair value of these outstanding shares, but the number of issued shares used to calculate GEV per share is adjusted for the dilutionary effect of the outstanding instruments at year-end. The expected cost of future grants in respect of these incentive schemes is allowed for in the calculation of the value of in-force covered business and the fair value of other Group operations.

Return on Group Equity Value

The RoGEV is equal to the change in GEV during the reporting period, after adjustment for dividends paid and changes in issued share capital, as a percentage of GEV at the beginning of the period.

Basis of preparation and presentation – embedded value of covered business

The Group's embedded value of covered business information is prepared in accordance with PGN107 (version 5), the guidance note on embedded value financial disclosures of South African long-term insurers issued by the Actuarial Society of South Africa (Actuarial Society). Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders.

The embedded value results of the Group's covered business are included in the shareholders' information as it forms an integral part of GEV and the information used by management in evaluating the performance of the Group. The embedded value of covered business does not include the contribution to GEV relating to other Group operations or discretionary and other capital, which are included separately in the analysis of GEV.

The basis of presentation for the embedded value of covered business is consistent with that applied in the 2010 financial statements.

Covered business

Covered business includes all material long-term insurance business that is recognised in the Sanlam Group financial statements. This business includes individual stable bonus, linked and market-related business, reversionary bonus business, group stable bonus business, annuity business and other non-participating business written by Sanlam Personal Finance, Sanlam Emerging Markets, Sanlam UK and Sanlam Employee Benefits.

Covered business excludes the value of investment products provided under a life insurance policy where there is very little or no insurance risk.

Acquisitions, disposals and other movements

The embedded value of covered business results are prepared taking cognisance of changes in the Group's effective shareholding in covered business operations.

Methodology

Embedded value of covered business

The embedded value of covered business is the present value of earnings from covered business attributable to shareholders, excluding any value that may be attributed to future new business. It is calculated on an after-tax basis taking into account current legislation and known future changes.

The embedded value of covered business comprises the following components:

- Adjusted net worth (ANW); and
- The net value of in-force business.

Adjusted net worth

ANW comprises the required capital supporting the covered business and is equal to the net value of assets allocated to covered business that does not back policy liabilities.

The required capital allocated to covered business reflects the level of capital considered sufficient to support the covered business, allowing for an assessment of the market, credit, insurance and operational risks inherent in the underlying products, subject to a minimum level of the local statutory solvency requirement for each business.

Sanlam applies stochastic modelling techniques on an ongoing basis to assist in determining and confirming the most appropriate capital levels for the covered business. The modelling 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 over the following 10 years. The capital allocated to covered business includes an allowance for capital required in respect of future new business.

The capital allocated to covered business is funded from a balanced investment portfolio, comprising investments in equities, hedged equities, fixed interest securities, cash and subordinated debt funding. The subordinated debt funding liability is matched by ring-fenced bonds and other liquid assets held as part of the balanced investment portfolio.

Transfers are made to or from adjusted net worth on an annual basis for the following:

- Transfers of net operating profit. These transfers relate to dividends paid from covered business in terms of the Group's internal dividend policy to fund the dividend payable to Sanlam Limited shareholders; and
- Transfers to or from the balanced investment portfolio. Any capital in the portfolio that is in excess of the requirements of the covered business is transferred to discretionary capital in terms of the Group's capital management framework.

Net value of in-force business

The net value of in-force business consists of:

- The present value of future shareholder profits from in-force covered business (PVIF), after allowance for
- The cost of required capital supporting the covered business.

Present value of future shareholder profits from in-force covered business

The long-term policy liabilities in respect of covered business in the financial statements are valued based on the applicable statutory valuation method for insurance contracts and fair value for investment contracts. These liabilities include profit margins, which can be expected to emerge as profits in the future. The discounted value, using a risk-adjusted discount rate, placed on these expected future profits, after taxation, is the PVIF.

The PVIF excludes the cost of required capital, which is separately disclosed.

Cost of required capital

A charge is deducted from the embedded value of covered business for the cost of required capital supporting the Group's existing covered business. The cost is the difference between the carrying value of the required capital at the valuation date and the discounted value, using a risk-adjusted discount rate, of the projected releases of the capital allowing for the assumed after-tax investment return on the assets deemed to back the required capital over the life of the in-force business.

Basis of preparation and presentation continued

Value of new business

The value of new business is calculated as the discounted value, at point of sale, using a risk-adjusted discount rate, of the projected stream of after-tax profits for new covered business issued during the financial year under review. The value of new business is also reduced by the cost of required capital for new covered business.

In determining the value of new business:

- A policy is only taken into account if at least one premium, that is not subsequently refunded, is recognised in the financial statements;
- Premium increases that have been allowed for in the value of in-force covered business are not counted again as new business at inception;
- Increases in recurring premiums associated with indexation arrangements are not included, but instead allowed for in the value of in-force covered business;
- The expected value of future premium increases resulting from premium indexation on the new recurring premium business written during the financial year under review is included in the value of new business;
- Continuations of individual policies and deferrals of retirement annuity policies after the maturity dates in the contract are treated as new business if they have been included in policy benefit payments at their respective maturity dates;
- For employee benefits, increases in business from new schemes or new benefits on existing schemes are included and new members or salary-related increases under existing schemes are excluded and form part of the in-force value;
- Renewable recurring premiums under Group insurance contracts are treated as in-force business; and
- Assumptions are consistent with those used for the calculation of the value of in-force covered business at the end of the reporting period.

Profitability of new covered business is measured by the ratio of the net value of new business to the present value of new business premiums (PVNBP). The PVNBP is defined as new single premiums plus the discounted value, using a risk-adjusted discount rate, of expected future premiums on new recurring premium business. The premiums used for the calculation of PVNBP are based on the life insurance new business premiums disclosed in note 1 on page 100, excluding white label new business.

Risk discount rates and allowance for risk

In accordance with the actuarial guidance, the underlying risks within the covered business are allowed for within the embedded value calculations through a combination of the following:

- Explicit allowances within the projected shareholder cash flows;
- The level of required capital and the impact on cost of required capital; and
- The risk discount rates, intended to cover all residual risks not allowed for elsewhere in the valuation.

The risk margins are set using a top-down approach based on Sanlam Limited's weighted average cost of capital (WACC), which is calculated based on a gross risk-free interest rate, an assumed equity risk premium, a market assessed risk factor (beta), and an allowance for subordinated debt on a market value basis. The beta provides an assessment of the market's view of the effect of all types of risk on the Group's operations, including operational and other non-economic risk.

To derive the risk discount rate assumptions for covered business, an adjusted WACC is calculated to exclude the non-covered Group operations included in Sanlam Limited's WACC and to allow for future new covered business. The covered business operations of the Group use risk margins of between 2,5% and 7,0% and the local gross risk-free rate at the valuation date.

Minimum investment guarantees to policyholders

An investment guarantee reserve is included in the reserving basis for policy liabilities, which makes explicit allowance for the best estimate cost of all material investment guarantees. This reserve is determined on a market consistent basis in accordance with actuarial guidance from the Actuarial Society (PGN110). No further deduction from the embedded value of covered business is therefore required.

Share incentive schemes

The embedded value of covered business assumes the payment of long-term incentives in the future and allows for the expected cost of future grants within the value of in-force covered business and value of new business.

Sensitivity analysis

Sensitivities are determined at the risk discount rates used to determine the base values, unless stated otherwise. For each of the sensitivities, all other assumptions are left unchanged. The different sensitivities do not imply that they have a similar chance of occurring.

The risk discount rate appropriate to an investor will depend on the investor's own requirements, tax position and perception of the risk associated with the realisation of the future profits from the covered business. The disclosed sensitivities to changes in the risk discount rate provide an indication of the impact of changes in the applied risk discount rate.

Risk premiums relating to mortality and morbidity are assumed to be increased consistent with mortality and morbidity experience respectively, where appropriate.

Foreign currencies

Changes in the embedded value of covered business, as well as the present value of new business premiums, of foreign operations are converted to South African rand at the weighted average exchange rates for the financial year, except where the average exchange rate is not representative of the timing of specific changes in the embedded value of covered business, in which instances the exchange rate on transaction date is used. The closing rate is used for the conversion of the embedded value of covered business at the end of the financial year.

Assumptions

Best estimate assumptions

The embedded value calculation is based on best estimate assumptions. The assumptions are reviewed actively and changed when evidence exists that material changes in the expected future experience are reasonably certain. The best estimate assumptions are also used as basis for the statutory valuation method, to which compulsory and discretionary margins are added for the determination of policy liabilities in the financial statements.

It is reasonably possible that outcomes in future financial years will be different to these current best estimate assumptions, possibly significantly, impacting on the reported embedded value of covered business. Accordingly, sensitivity analyses are provided for the value of in-force and value of new business.

Economic assumptions

The assumed investment return on assets supporting the policy liabilities and required capital is based on the assumed long-term asset mix for these funds.

Inflation assumptions for unit cost, policy premium indexation and employee benefits salary inflation are based on an assumed long-term gap relative to fixed-interest securities.

Future rates of bonuses for traditional participating business, stable bonus business and participating annuities are set at levels that are supportable by the assets backing the respective product asset funds at each valuation date.

Assets backing required capital

The assumed composition of the assets backing the required capital is consistent with Sanlam's practice and with the assumed long-term asset distribution used to calculate the statutory capital requirements and internal required capital assessments of the Group's covered business.

Demographic assumptions

Future mortality, morbidity and discontinuance rates are based on recent experience where appropriate.

HIV/Aids

Allowance is made, where appropriate, for the impact of expected HIV/Aids-related claims, using models developed by the Actuarial Society, adjusted for Sanlam's practice and product design. Premiums on individual business are assumed to be rerated, where applicable, in line with deterioration in mortality, with a three-year delay from the point where mortality losses would be experienced.

Basis of preparation and presentation continued

Expense assumptions

Future expense assumptions reflect the expected level of expenses required to manage the in-force covered business, including investment in systems required to support that business, and allow for future inflation. The split between acquisition, maintenance and extraordinary project expenses is consistent with the statutory valuation assumptions and based on actual expenses incurred.

Project expenses

In determining the value of in-force covered business, the present value of projected expenses for certain planned projects focusing on both administration and existing distribution platforms of the life insurance business is deducted. Although these projects are of a short-term nature, 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.

Special development costs that relate to investments in new distribution platforms are not allowed for in the projections. The actual costs relating to these projects are recognised in the earnings from covered business on an accrual basis.

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 covered business and value of new business, as they are incorporated in the valuation of the Sanlam Investments businesses at fair value.

Taxation

Projected taxation is based on the current tax basis that applies in each country.

Allowance has been made for the impact of capital gains tax on investments in South Africa, assuming a five-year roll-over period.

No allowance was made for tax changes announced by the Minister of Finance in his budget speech in February 2012.

Earnings from covered business

The embedded value earnings from covered business for the period are equal to the change in embedded value, after adjustment for any transfers to or from discretionary capital, and are analysed into the following main components:

- **Value of new business**

The value of new business is calculated at point of sale using assumptions applicable at the end of the reporting period.

- **Net earnings from existing covered business**

Expected return on value of covered business

The expected return on value of covered business comprises the expected return on the starting value of in-force covered business and the accumulation of value of new business from point of sale to the valuation date.

Operating experience variances

The calculation of embedded values is based on assumptions regarding future experiences including discontinuance rates (how long policies will stay in force), risk (mortality and morbidity) and future expenses. Actual experience may differ from these assumptions. The impact of the difference between actual and assumed experience for the period is reported as operating experience variances.

Operating assumption changes

Operating assumption changes consist of the impact of changes in assumptions at the end of the reporting period (compared to those used at the end of the previous reporting period) for operating experience, excluding economic or taxation assumptions. It also includes certain model refinements.

- **Expected investment return on adjusted net worth**

The expected investment return on adjusted net worth attributable to shareholders is calculated using the future investment return assumed at the start of the reporting period.

The total embedded value earnings from covered business include two further main items:

- **Economic assumption changes**

The impact of changes in external economic conditions, including the effect that changes in interest rates have on risk discount rates and future investment return assumptions, on the embedded value of covered business.

- **Investment variances**

Investment variances – value of in-force

The impact on the value of in-force business caused by differences between the actual investment return earned on policyholder fund assets during the reporting period and the expected return based on the economic assumptions used at the start of the reporting period.

Investment variances – investment return on adjusted net worth

Investment return variances caused by differences between the actual investment return earned on shareholders' fund assets during the reporting period and the expected return based on economic assumptions used at the start of the reporting period.

Group equity value

at 31 December 2011

R million	Note	**2011** Total	**2011** Fair value of assets	**2011** Value of in-force	2010 Total	2010 Fair value of assets	2010 Value of in-force
Sanlam Personal Finance		**28 876**	**10 811**	**18 065**	25 612	10 462	15 150
Covered business[1]		**26 687**	**8 622**	**18 065**	23 663	8 513	15 150
Glacier		**1 169**	**1 169**	**—**	965	965	—
Sanlam Personal Loans		**494**	**494**	**—**	365	365	—
Multi-Data		**112**	**112**	**—**	149	149	—
Sanlam Trust		**168**	**168**	**—**	185	185	—
Anglo African Finance		**50**	**50**	**—**	50	50	—
Sanlam Healthcare Management		**196**	**196**	**—**	235	235	—
Sanlam Emerging Markets		**3 487**	**2 179**	**1 308**	2 777	1 735	1 042
Covered business[1]		**2 320**	**1 012**	**1 308**	1 777	735	1 042
Sanlam Namibia Holdings		**119**	**119**	**—**	105	105	—
Shriram General Insurance		**152**	**152**	**—**	143	143	—
BIFM		**294**	**294**	**—**	302	302	—
Sanlam Emerging Markets other operations		**602**	**602**	**—**	450	450	—
Sanlam Investments		**14 909**	**13 960**	**949**	13 683	12 863	820
Covered business[1]		**5 868**	**4 919**	**949**	5 605	4 785	820
Sanlam Investment Management		**7 715**	**7 715**	**—**	7 152	7 152	—
SIM Wholesale		**4 247**	**4 247**	**—**	4 201	4 201	—
International		**2 034**	**2 034**	**—**	1 508	1 508	—
Sanlam Collective Investments		**583**	**583**	**—**	512	512	—
Capital Management		**851**	**851**	**—**	931	931	—
Sanlam Employee Benefits: Infinit		**—**	**—**	**—**	25	25	—
Sanlam UK		**1 326**	**1 326**	**—**	901	901	—
Principal		**473**	**473**	**—**	318	318	—
Punter Southall Group		**307**	**307**	**—**	227	227	—
Nucleus		**229**	**229**	**—**	140	140	—
Preference shares, interest-bearing instruments and other		**317**	**317**	**—**	216	216	—
Santam		**9 615**	**9 615**	**—**	8 386	8 386	—
Group operations		**56 887**	**36 565**	**20 322**	50 458	33 446	17 012
Discretionary capital		**3 900**	**3 900**	**—**	4 000	4 000	—
Balanced portfolio – other		**4 011**	**4 011**	**—**	4 157	4 157	—
Group Equity Value before adjustments to net worth		**64 798**	**44 476**	**20 322**	58 615	41 603	17 012
Net worth adjustments		**(1 277)**	**(1 277)**	**—**	(1 254)	(1 254)	—
Present value of holding company expenses	11	**(1 264)**	**(1 264)**	**—**	(1 232)	(1 232)	—
Fair value of outstanding equity compensation shares granted by subsidiaries on own shares		**(13)**	**(13)**	**—**	(22)	(22)	—
Group Equity Value		**63 521**	**43 199**	**20 322**	57 361	40 349	17 012
Value per share (cents)	10	**3 146**	**2 140**	**1 006**	2 818	1 982	836
Analysis per type of business							
Covered business[1]		**34 875**	**14 553**	**20 322**	31 045	14 033	17 012
Sanlam Personal Finance		**26 687**	**8 622**	**18 065**	23 663	8 513	15 150
Sanlam Emerging Markets		**2 320**	**1 012**	**1 308**	1 777	735	1 042
Sanlam Investments		**5 868**	**4 919**	**949**	5 605	4 785	820
Other Group operations		**22 012**	**22 012**	**—**	19 413	19 413	—
Discretionary and other capital		**6 634**	**6 634**	**—**	6 903	6 903	—
Group Equity Value		**63 521**	**43 199**	**20 322**	57 361	40 349	17 012

[1] *Refer to embedded value of covered business on page 129.*

Change in Group equity value

for the year ended 31 December 2011

R million	2011	2010
Earnings from covered business[1]	**6 273**	5 057
Earnings from other Group operations	**2 708**	4 100
Operations valued based on ratio of price to assets under management	**809**	1 136
Assumption changes	**(113)**	137
Change in assets under management	**231**	622
Earnings for the year and changes in capital requirements	**377**	564
Foreign currency translation differences and other	**314**	(187)
Operations valued based on discounted cash flows	**567**	782
Expected return	**415**	301
Operating experience variances and other	**(19)**	34
Assumption changes	**36**	521
Foreign currency translation differences	**135**	(74)
Operations valued at net asset value – earnings for the year	**183**	56
Listed operations – investment return	**1 149**	2 126
Earnings from discretionary and other capital	**424**	165
Portfolio investments and other	**575**	342
Net corporate expenses	**(124)**	(112)
Share-based payment transactions	**(4)**	(3)
Change in net worth adjustments	**(23)**	(62)
Group Equity Value earnings	**9 405**	9 322
Dividends paid	**(2 279)**	(2 112)
Shares cancelled	**–**	(1 234)
Cost of treasury shares acquired	**(966)**	372
Sanlam share buy back	**(979)**	(887)
Transfer to shares cancelled	**–**	1 234
Share incentive scheme and other	**13**	25
Change in accounting policy	**–**	(11)
Group equity value at beginning of the year	**57 361**	51 024
Group equity value at end of the year	**63 521**	57 361

[1]*Refer to embedded value of covered business on page 129.*

Return on Group equity value

for the year ended 31 December 2011

	2011		2010	
	Earnings R million	**Return %**	Earnings R million	Return %
Sanlam Personal Finance	**5 519**	**21,5**	4 840	20,9
Covered business[1]	**5 146**	**21,7**	4 108	18,9
Other operations	**373**	**19,1**	732	48,4
Sanlam Emerging Markets	**598**	**21,5**	477	19,6
Covered business[1]	**571**	**32,1**	350	21,6
Other operations	**27**	**2,7**	127	15,6
Sanlam Investments	**1 669**	**12,2**	1 792	13,7
Covered business[1]	**556**	**9,9**	599	10,6
Investment Management	**677**	**10,9**	1 013	17,9
Coris Administration and Infinit	**—**	**—**	23	—
Sanlam UK other operations	**262**	**29,1**	48	5,8
Capital Management	**174**	**18,7**	109	11,1
Santam	**1 195**	**14,2**	2 048	29,1
Discretionary and other capital	**424**		165	
Return on Group Equity Value	**9 405**	**16,4**	9 322	18,3
Return on Group Equity Value per share		**15,7**		18,2

[1]*Refer to embedded value of covered business on page 129.*

R million	**2011**	2010
Reconciliation of return on Group Equity Value:		
The return on Group Equity Value reconciles as follows to normalised attributable earnings:		
Normalised attributable earnings per shareholders' fund income statement on page 98	**5 174**	5 544
Net foreign currency translation gains recognised in other comprehensive income	**435**	(408)
Earnings recognised directly in equity		
Share-based payment transactions	**(7)**	21
Net cost of treasury shares delivered	**(246)**	(170)
Share-based payments	**239**	191
Change in ownership of subsidiaries	**(277)**	(2)
Recognised in Statement of Changes in Equity	**(391)**	(2)
Less: Included in earnings from value of in-force	**114**	—
Movement in fair value adjustments – shareholders' funds at fair value	**860**	2 154
Movement in adjustments to net worth	**72**	(17)
Present value of holding company expenses	**(32)**	(67)
Fair value of outstanding equity compensation shares granted by subsidiaries on own shares	**9**	5
Change in goodwill and value of business acquired adjustments less value of in-force acquired	**95**	45
Growth from covered business: value of in-force[1]	**3 148**	2 030
Return on Group Equity Value	**9 405**	9 322

[1]*Refer to embedded value of covered business on page 129.*

Group equity value sensitivity analysis

at 31 December 2011

Given the Group's exposure to financial instruments, market risk has a significant impact on the value of the Group's operations as measured by Group Equity Value. The sensitivity of Group Equity Value to market risk is presented in the table below and comprises the following two main components:

- Impact on net result from financial services (profitability): A large portion of the Group's fee income is linked to the level of assets under management. A change in the market value of investments managed by the Group on behalf of policyholders and third parties will commensurately have a direct impact on the Group's net result from financial services. The present value of this impact is reflected in the table below as the change in the value of in-force and the fair value of other operations.
- Impact on capital: The Group's capital base is invested in financial instruments and any change in the valuation of these instruments will have a commensurate impact on the value of the Group's capital. This impact is reflected in the table below as the change in the fair value of the covered business' adjusted net worth as well as the fair value of discretionary and other capital.

The following scenarios are presented:

- Equity markets and property values decrease by 10%, without a corresponding change in dividend and rental yields.
- Investment return and inflation decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately.
- The rand depreciates by 10% against all currencies, apart from the Namibian dollar.

The Group's covered business is also exposed to non-market risks, which includes expense, persistency, mortality and morbidity risk. The sensitivity of the value of in-force business, and commensurately Group Equity Value, to these risks is presented in note 1 on page 133.

R million	Base value	Equities and properties -10%	Interest rates -1%	Rand exchange rate depreciation +10%
2011				
Covered business	**34 875**	**33 352**	**35 522**	**35 125**
Adjusted net worth	**14 553**	**13 997**	**14 566**	**14 683**
Value of in-force	**20 322**	**19 355**	**20 956**	**20 442**
Other Group operations	**22 012**	**20 438**	**22 248**	**22 135**
Valued at net asset value	**1 421**	**1 421**	**1 421**	**1 421**
Listed	**10 111**	**9 100**	**10 111**	**10 111**
Other	**10 480**	**9 917**	**10 716**	**10 603**
Group operations	**56 887**	**53 790**	**57 770**	**57 260**
Discretionary and other capital	**7 911**	**7 731**	**7 915**	**7 933**
Group equity value before adjustments to net worth	**64 798**	**61 521**	**65 685**	**65 193**
Net worth adjustments	**(1 277)**	**(1 276)**	**(1 277)**	**(1 277)**
Present value of holding company expenses	**(1 264)**	**(1 264)**	**(1 264)**	**(1 264)**
Fair value of outstanding equity compensation shares granted by subsidiaries on own shares	**(13)**	**(12)**	**(13)**	**(13)**
Group Equity Value	**63 521**	**60 245**	**64 408**	**63 916**
2010				
Covered business	31 045	29 804	31 563	31 272
Adjusted net worth	14 033	13 561	14 039	14 160
Value of in-force	17 012	16 243	17 524	17 112
Other Group operations	19 413	18 178	19 782	19 599
Valued at net asset value	1 120	1 120	1 120	1 120
Listed	8 790	7 911	8 790	8 790
Other	9 503	9 147	9 872	9 689
Group operations	50 458	47 982	51 345	50 871
Discretionary and other capital	8 157	7 972	8 169	8 252
Group equity value before adjustments to net worth	58 615	55 954	59 514	59 123
Net worth adjustments	(1 254)	(1 252)	(1 254)	(1 254)
Present value of holding company expenses	(1 232)	(1 232)	(1 232)	(1 232)
Fair value of outstanding equity compensation shares granted by subsidiaries on own shares	(22)	(20)	(22)	(22)
Group Equity Value	57 361	54 702	58 260	57 869

Shareholders' fund at fair value

at 31 December 2011

R million	2011 Fair value	2011 Fair value adjust-ment	2011 Net asset value	2010 Fair value	2010 Fair value adjust-ment	2010 Net asset value
Covered business, discretionary and other capital	**23 828**	**112**	**23 716**	23 623	217	23 406
Property and equipment	**332**	**–**	**332**	222	–	222
Owner-occupied properties	**416**	**–**	**416**	493	–	493
Goodwill(2)	**478**	**–**	**478**	497	–	497
Value of business acquired(2)	**694**	**–**	**694**	716	–	716
Other intangible assets	**29**	**–**	**29**	39	–	39
Deferred acquisition costs	**1 888**	**–**	**1 888**	1 528	–	1 528
Non-current assets held for sale	**512**	**–**	**512**	–	–	–
Investments	**20 422**	**112**	**20 310**	19 992	217	19 775
Equities and similar securities	**8 440**	**112**	**8 328**	7 947	112	7 835
Associated companies	**786**	**–**	**786**	1 168	105	1 063
Joint ventures – Shriram Life Insurance	**267**	**–**	**267**	257	–	257
Public sector stocks and loans	**13**	**–**	**13**	17	–	17
Investment properties	**489**	**–**	**489**	993	–	993
Other interest-bearing and preference share investments	**10 427**	**–**	**10 427**	9 610	–	9 610
Net term finance	**–**	**–**	**–**	–	–	–
Term finance	**(5 108)**	**–**	**(5 108)**	(5 577)	–	(5 577)
Assets held in respect of term finance	**5 108**	**–**	**5 108**	5 577	–	5 577
Net deferred tax	**111**	**–**	**111**	284	–	284
Net working capital	**(137)**	**–**	**(137)**	520	–	520
Minority shareholders' interest	**(917)**	**–**	**(917)**	(668)	–	(668)
Other Group operations	**22 012**	**11 436**	**10 576**	19 413	10 489	8 924
Sanlam Investments	**9 041**	**5 453**	**3 588**	8 078	5 023	3 055
Sanlam Investment Management	**7 715**	**5 257**	**2 458**	7 152	4 974	2 178
SIM Wholesale	**4 247**	**3 465**	**782**	4 201	3 476	725
International	**2 034**	**1 199**	**835**	1 508	977	531
Sanlam Collective Investments	**583**	**494**	**89**	512	438	74
Capital Management	**851**	**99**	**752**	931	83	848
Sanlam Employee Benefits: Infinit	**–**	**–**	**–**	25	15	10
Sanlam UK	**1 326**	**196**	**1 130**	901	34	867
Principal	**473**	**43**	**430**	318	17	301
Punter Southall Group	**307**	**18**	**289**	227	(43)	270
Nucleus	**229**	**146**	**83**	140	68	72
Preference shares, interest-bearing instruments and other	**317**	**(11)**	**328**	216	(8)	224
Sanlam Personal Finance	**2 189**	**1 407**	**782**	1 949	1 275	674
Glacier	**1 169**	**865**	**304**	965	685	280
Sanlam Personal Loans(4)	**494**	**141**	**353**	365	104	261
Multi-Data	**112**	**98**	**14**	149	130	19
Sanlam Trust	**168**	**150**	**18**	185	166	19
Anglo African Finance	**50**	**39**	**11**	50	33	17
Sanlam Healthcare Management	**196**	**114**	**82**	235	157	78

R million	Note	**2011** **Fair value**	**Fair value adjust-ment**	**Net asset value**	2010 Fair value	Fair value adjust-ment	Net asset value
Other Group operations *(continued)*							
Sanlam Emerging Markets		**1 167**	**80**	**1 087**	1 000	270	730
Sanlam Namibia Holdings		**119**	**88**	**31**	105	90	15
Shriram General Insurance		**152**	**—**	**152**	143	—	143
BIFM		**294**	**(35)**	**329**	302	47	255
Sanlam Emerging Markets other operations		**602**	**27**	**575**	450	133	317
Santam		**9 615**	**5 743**	**3 872**	8 386	5 168	3 218
Goodwill held on Group level in respect of the above businesses		**—**	**(1 247)**	**1 247**	—	(1 247)	1 247
Shareholders' fund at fair value		**45 840**	**11 548**	**34 292**	43 036	10 706	32 330
Value per share (cents)	10	**2 271**	**572**	**1 699**	2 114	526	1 588
Reconciliation to Group Equity Value							
Group equity value before adjustments to net worth		**64 798**	**44 476**	**20 322**	58 615	41 603	17 012
Add: Goodwill and value of business acquired replaced by value of in-force		**1 364**	**1 364**	**—**	1 433	1 433	—
Sanlam Investments and Pensions		**356**	**356**	**—**	356	356	—
Sanlam Developing Markets		**780**	**780**	**—**	849	849	—
Shriram Life Insurance[3]		**210**	**210**	**—**	210	210	—
Other		**18**	**18**	**—**	18	18	—
Less: Value of in-force		**(20 322)**	**—**	**(20 322)**	(17 012)	—	(17 012)
Shareholders' fund at fair value		**45 840**	**45 840**	**—**	43 036	43 036	—

[1] *Group businesses listed above are not consolidated, but reflected as investments at fair value.*

[2] *The value of business acquired and goodwill relate mainly to the consolidation of Sanlam Sky Solutions, Channel Life and Sanlam Investments and Pensions and are excluded in the build-up of the Group Equity Value, as the current value of in-force business for these life insurance companies are included in the embedded value of covered business.*

[3] *The carrying value of Shriram Life Insurance includes goodwill of R210 million (2010: R210 million) that is excluded in the build-up of the Group Equity Value, as the current value of in-force business for Shriram Life Insurance is included in the embedded value of covered business.*

[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.*

Shareholders' fund at net asset value

at 31 December 2011

		Sanlam Life(1)		Sanlam Emerging Markets(2)		Santam	
R million	Note	**2011**	2010	**2011**	2010	**2011**	2010
Property and equipment		**287**	263	**77**	59	**115**	122
Owner-occupied properties		**456**	523	**—**	—	**2**	2
Goodwill		**287**	275	**68**	85	**991**	963
Other intangible assets		**21**	21	**8**	18	**10**	—
Value of business acquired		**656**	688	**160**	169	**99**	117
Deferred acquisition costs		**2 043**	1 659	**3**	6	**—**	—
Investments		**23 863**	23 584	**3 492**	2 677	**8 059**	7 310
Properties		**370**	1 019	**186**	147	**—**	—
Associated companies	4.1	**—**	—	**1 321**	695	**264**	211
Joint ventures	4.2	**353**	261	**419**	399	**—**	—
Equities and similar securities	4.3	**12 042**	10 563	**402**	520	**3 802**	3 506
Public sector stocks and loans		**349**	600	**225**	141	**775**	927
Debentures, preference shares and other loans		**2 815**	3 584	**93**	161	**1 772**	1 627
Cash, deposits and similar securities		**7 934**	7 557	**846**	614	**1 446**	1 039
Net deferred tax		**116**	265	**(22)**	(33)	**90**	(18)
Deferred tax asset		**271**	442	**1**	2	**207**	251
Deferred tax liability		**(155)**	(177)	**(23)**	(35)	**(117)**	(269)
Net non-current assets held for sale		**512**	—	**—**	—	**—**	—
Net short-term insurance technical provisions		**—**	—	**—**	—	**(6 851)**	(6 385)
Short-term insurance technical assets		**—**	—	**—**	—	**1 831**	1 560
Short-term insurance technical provisions		**—**	—	**—**	—	**(8 682)**	(7 945)
Net working capital assets/(liabilities)		**(1 926)**	(1 341)	**(121)**	142	**5 313**	4 874
Trade and other receivables		**2 858**	2 339	**640**	387	**1 861**	1 773
Cash, deposits and similar securities		**3 240**	3 212	**317**	628	**5 483**	5 231
Trade and other payables		**(6 861)**	(5 489)	**(1 087)**	(834)	**(1 932)**	(1 806)
Provisions		**(281)**	(491)	**—**	—	**(28)**	(36)
Taxation		**(882)**	(912)	**9**	(39)	**(71)**	(288)
Term finance		**(2 779)**	(3 676)	**(15)**	(15)	**(964)**	(925)
Cell owners' interest		**—**	—	**—**	—	**(603)**	(577)
Minority shareholders' interest		**(43)**	(37)	**(1 165)**	(921)	**(2 389)**	(2 265)
Shareholders' fund at net asset value		**23 493**	22 224	**2 485**	2 187	**3 872**	3 218
Analysis of shareholders' fund							
Covered business		**13 291**	13 086	**1 012**	735	**—**	—
Other operations		**782**	684	**1 087**	730	**3 872**	3 218
Discretionary and other capital		**9 420**	8 454	**386**	722	**—**	—
Shareholders' fund at net asset value		**23 493**	22 224	**2 485**	2 187	**3 872**	3 218
Consolidation reserve		**—**	—	**—**	—	**—**	—
Shareholders' fund per Group statement of financial position on page 254		**23 493**	22 224	**2 485**	2 187	**3 872**	3 218

(1) *Includes the operations of Sanlam Personal Finance and Sanlam Employee Benefits as well as discretionary capital held by Sanlam Life. Equities and similar securities include an investment of R3 490 million (2010: R2 462 million) in Sanlam shares, which is eliminated in the consolidation column.*

(2) *Includes discretionary capital held by Sanlam Emerging Markets.*

(3) *Corporate and other includes the assets of Genbel Securities and Sanlam Limited Corporate on a consolidated basis.*

(4) *The investment in treasury shares is reversed within the consolidation column. Intercompany balances, other investments and term finance between companies within the Group are also eliminated.*

Sanlam Investment Management		**Capital Management**		**Sanlam UK**		**Corporate and Other[3]**		**Consolidation entries[4]**		**Total**	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
27	18	**4**	4	**4**	4	**—**	—	**—**	—	**514**	470
37	37	**—**	—	**—**	—	**—**	—	**(40)**	(30)	**455**	532
209	241	**—**	—	**393**	386	**1 247**	1 247	**—**	—	**3 195**	3 197
8	—	**—**	—	**—**	—	**—**	—	**—**	—	**47**	39
223	33	**—**	—	**473**	314	**—**	—	**—**	(1)	**1 611**	1 320
—	—	**—**	—	**—**	—	**—**	—	**—**	1	**2 046**	1 666
589	498	**173**	461	**794**	671	**4 270**	3 599	**(5 989)**	(4 716)	**35 251**	34 084
—	—	**15**	221	**—**	—	**—**	—	**1**	(122)	**572**	1 265
78	63	**—**	96	**372**	270	**90**	622	**—**	15	**2 125**	1 972
36	47	**5**	4	**—**	—	**—**	—	**—**	—	**813**	711
155	256	**—**	—	**3**	73	**1 636**	1 082	**(4 915)**	(3 522)	**13 125**	12 478
1	5	**—**	—	**—**	—	**—**	—	**—**	1	**1 350**	1 674
318	127	**153**	140	**327**	262	**1 591**	1 639	**(1 075)**	(1 088)	**5 994**	6 452
1	—	**—**	—	**92**	66	**953**	256	**—**	—	**11 272**	9 532
(4)	(12)	**27**	7	**2**	1	**25**	122	**27**	25	**261**	357
20	21	**39**	60	**2**	1	**60**	137	**27**	17	**627**	931
(24)	(33)	**(12)**	(53)	**—**	—	**(35)**	(15)	**—**	8	**(366)**	(574)
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**512**	—
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**(6 851)**	(6 385)
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**1 831**	1 560
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**(8 682)**	(7 945)
856	705	**641**	463	**146**	68	**(2 090)**	(2 121)	**3 805**	3 703	**6 624**	6 493
1 013	957	**18 871**	18 841	**159**	128	**7 874**	8 584	**(11 863)**	(10 998)	**21 413**	22 011
602	518	**4 156**	1 788	**201**	144	**2 144**	1 634	**(1 767)**	(976)	**14 376**	12 179
(725)	(749)	**(22 377)**	(20 162)	**(150)**	(160)	**(12 027)**	(12 277)	**17 435**	15 677	**(27 724)**	(25 800)
—	—	**—**	—	**(58)**	(41)	**(56)**	(49)	**—**	—	**(423)**	(617)
(34)	(21)	**(9)**	(4)	**(6)**	(3)	**(25)**	(13)	**—**	—	**(1 018)**	(1 280)
(65)	(16)	**(93)**	(87)	**(12)**	(8)	**(2 355)**	(2 106)	**559**	575	**(5 724)**	(6 258)
—	—	**—**	—	**—**	—	**—**	—	**—**	—	**(603)**	(577)
(34)	(4)	**—**	—	**(35)**	(1)	**—**	—	**620**	620	**(3 046)**	(2 608)
1 846	1 500	**752**	848	**1 765**	1 435	**1 097**	741	**(1 018)**	177	**34 292**	32 330
—	—	**—**	—	**250**	212	**—**	—	**—**	—	**14 553**	14 033
1 706	1 330	**752**	848	**1 130**	867	**1 247**	1 247	**—**	—	**10 576**	8 924
140	170	**—**	—	**385**	356	**(150)**	(506)	**(1 018)**	177	**9 163**	9 373
1 846	1 500	**752**	848	**1 765**	1 435	**1 097**	741	**(1 018)**	177	**34 292**	32 330
—	—	**—**	—	**—**	—	**—**	—	**(470)**	(552)	**(470)**	(552)
1 846	1 500	**752**	848	**1 765**	1 435	**1 097**	741	**(1 488)**	(375)	**33 822**	31 778

Shareholders' fund income statement

for the year ended 31 December 2011

		Sanlam Personal Finance	
R million	Note	**2011**	2010
Financial services income	5	**10 935**	9 758
Sales remuneration		**(1 968)**	(1 824)
Income after sales remuneration		**8 967**	7 934
Underwriting policy benefits		**(3 017)**	(2 640)
Administration costs	6	**(3 175)**	(2 941)
Result from financial services before tax		**2 775**	2 353
Tax on result from financial services		**(772)**	(664)
Result from financial services after tax		**2 003**	1 689
Minority shareholders' interest		**(13)**	(9)
Net result from financial services		**1 990**	1 680
Net investment income		**559**	437
Dividends received — Group companies		**128**	61
Other investment income	7	**552**	483
Tax on investment income		**(121)**	(107)
Minority shareholders' interest		**—**	—
Project expenses		**(1)**	(32)
Amortisation of value of business acquired and other intangibles		**(32)**	(38)
BEE transaction costs		**—**	—
Net equity-accounted headline earnings		**—**	—
Equity-accounted headline earnings		**—**	—
Minority shareholders' interest		**—**	—
Net investment surpluses		**443**	1 085
Investment surpluses — Group companies		**137**	515
Other investment surpluses		**354**	649
Tax on investment surpluses		**(48)**	(79)
Minority shareholders' interest		**—**	—
Secondary tax on companies — after minorities		**(48)**	65
Normalised headline earnings		**2 911**	3 197
Profit/(loss) on disposal of operations		**—**	—
Net profit on disposal of associated companies		**—**	—
Profit on disposal of associated companies		**—**	—
Tax on profit on disposal of associated companies		**—**	—
Impairments		**—**	51
Normalised attributable earnings		**2 911**	3 248
Fund transfers		**—**	—
Attributable earnings per Group statement of comprehensive income		**2 911**	3 248
Ratios			
Admin ratio[1]		**35,4%**	37,1%
Operating margin[2]		**30,9%**	29,7%
Diluted earnings per share	9		
Adjusted weighted average number of shares (million)			
Net result from financial services (cents)		**98,5**	82,1

[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.

[3] Corporate and Other includes the consolidation entries in respect of the dividends received and the investment surpluses on the Sanlam Limited shares held by Sanlam Life Insurance Limited.

Sanlam Emerging Markets		Sanlam Investments		Santam		Corporate and Other[3]		Total	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
2 279	2 401	**5 997**	5 558	**15 041**	14 010	**90**	112	**34 342**	31 839
(491)	(592)	**(102)**	(89)	**(2 003)**	(2 052)	**—**	—	**(4 564)**	(4 557)
1 788	1 809	**5 895**	5 469	**13 038**	11 958	**90**	112	**29 778**	27 282
(479)	(665)	**(1 915)**	(1 818)	**(9 404)**	(8 694)	**—**	—	**(14 815)**	(13 817)
(653)	(553)	**(2 750)**	(2 500)	**(2 117)**	(1 800)	**(261)**	(275)	**(8 956)**	(8 069)
656	591	**1 230**	1 151	**1 517**	1 464	**(171)**	(163)	**6 007**	5 396
(103)	(91)	**(278)**	(269)	**(426)**	(414)	**47**	51	**(1 532)**	(1 387)
553	500	**952**	882	**1 091**	1 050	**(124)**	(112)	**4 475**	4 009
(244)	(214)	**(7)**	—	**(451)**	(483)	**—**	—	**(715)**	(706)
309	286	**945**	882	**640**	567	**(124)**	(112)	**3 760**	3 303
61	47	**163**	198	**39**	73	**(30)**	96	**792**	851
—	—	**—**	—	**—**	—	**(128)**	(61)	**—**	—
82	79	**193**	249	**51**	133	**136**	166	**1 014**	1 110
(10)	(18)	**(30)**	(51)	**18**	(1)	**(38)**	(9)	**(181)**	(186)
(11)	(14)	**—**	—	**(30)**	(59)	**—**	—	**(41)**	(73)
(17)	(14)	**(7)**	—	**—**	—	**—**	(2)	**(25)**	(48)
(12)	(15)	**(40)**	(26)	**(24)**	(13)	**—**	—	**(108)**	(92)
—	—	**—**	—	**(7)**	(8)	**—**	—	**(7)**	(8)
3	16	**(5)**	—	**36**	48	**30**	77	**64**	141
6	32	**(5)**	—	**60**	84	**30**	77	**91**	193
(3)	(16)	**—**	—	**(24)**	(36)	**—**	—	**(27)**	(52)
60	20	**27**	307	**139**	234	**46**	(515)	**715**	1 131
—	—	**—**	—	**—**	—	**(137)**	(515)	**—**	—
81	36	**34**	345	**274**	506	**179**	—	**922**	1 536
21	(10)	**(7)**	(38)	**(42)**	(90)	**4**	—	**(72)**	(217)
(42)	(6)	**—**	—	**(93)**	(182)	**—**	—	**(135)**	(188)
—	(29)	**(5)**	1	**(22)**	(61)	**(93)**	(111)	**(168)**	(135)
404	311	**1 078**	1 362	**801**	840	**(171)**	(567)	**5 023**	5 143
17	(1)	**(3)**	328	**—**	—	**—**	—	**14**	327
—	—	**—**	—	**—**	71	**172**	6	**172**	77
—	—	**—**	—	**—**	71	**209**	6	**209**	77
—	—	**—**	—	**—**	—	**(37)**	—	**(37)**	—
(1)	—	**(34)**	(57)	**—**	3	**—**	—	**(35)**	(3)
420	310	**1 041**	1 633	**801**	914	**1**	(561)	**5 174**	5 544
—	—	**—**	—	**—**	—	**(8)**	(21)	**(8)**	(21)
420	310	**1 041**	1 633	**801**	914	**(7)**	(582)	**5 166**	5 523
36,5%	30,6%	**46,6%**	45,7%	**16,2%**	15,1%			**30,1%**	29,6%
36,7%	32,7%	**20,9%**	21,0%	**11,6%**	12,2%			**20,2%**	19,8%
								2 019,9	2 045,3
15,3	14,0	**46,8**	43,1	**31,7**	27,7	**(6,1)**	(5,5)	**186,1**	161,5

Notes to the shareholders' fund information

for the year ended 31 December 2011

1. Analysis of new business and total funds received

Analysed per business reflecting the split between life and non-life business

R million	Total 2011	Total 2010	Life Insurance[1] 2011	Life Insurance[1] 2010	Other[2] 2011	Other[2] 2010
Sanlam Personal Finance	**27 246**	25 422	**15 338**	13 074	**11 908**	12 348
Entry level	**1 323**	1 388	**1 323**	1 388	**–**	–
Recurring	**925**	897	**925**	897	**–**	–
Single	**398**	491	**398**	491	**–**	–
Middle-income	**8 226**	7 225	**7 908**	6 928	**318**	297
Recurring	**1 264**	1 194	**1 177**	1 150	**87**	44
Single	**6 962**	6 031	**6 731**	5 778	**231**	253
Affluent	**17 697**	16 809	**6 107**	4 758	**11 590**	12 051
Sanlam Emerging Markets	**10 995**	10 660	**2 205**	2 285	**8 790**	8 375
Namibia	**8 425**	8 192	**346**	486	**8 079**	7 706
Recurring	**108**	110	**108**	110	**–**	–
Single	**8 317**	8 082	**238**	376	**8 079**	7 706
Botswana	**1 675**	1 683	**1 133**	1 172	**542**	511
Recurring	**188**	231	**188**	231	**–**	–
Single	**1 487**	1 452	**945**	941	**542**	511
Rest of Africa	**526**	448	**526**	396	**–**	52
Recurring	**267**	199	**267**	199	**–**	–
Single	**259**	249	**259**	197	**–**	52
India	**369**	337	**200**	231	**169**	106
Recurring	**211**	224	**42**	118	**169**	106
Single	**158**	113	**158**	113	**–**	–
Sanlam Investments	**56 062**	50 304	**3 912**	1 740	**52 150**	48 564
South Africa	**47 804**	42 639	**2 534**	773	**45 270**	41 866
Employee benefits	**2 534**	773	**2 534**	773	**–**	–
Recurring	**325**	199	**325**	199	**–**	–
Single	**2 209**	574	**2 209**	574	**–**	–
Collective investment schemes	**23 325**	16 415	**–**	–	**23 325**	16 415
Private Investments	**7 678**	8 064	**–**	–	**7 678**	8 064
Segregated funds	**14 267**	17 387	**–**	–	**14 267**	17 387
Sanlam Multi-Manager	**4 217**	5 527	**–**	–	**4 217**	5 527
Other	**10 050**	11 860	**–**	–	**10 050**	11 860
Non-South African	**8 258**	7 665	**1 378**	967	**6 880**	6 698
Sanlam UK	**4 186**	3 059	**1 378**	967	**2 808**	2 092
Recurring	**24**	15	**24**	15	**–**	–
Single	**4 162**	3 044	**1 354**	952	**2 808**	2 092
SIM Global	**1 421**	892	**–**	–	**1 421**	892
SIIP	**2 319**	3 667	**–**	–	**2 319**	3 667
Other	**332**	47	**–**	–	**332**	47

1. Analysis of new business and total funds received *(continued)*

	Total		Life Insurance[1]		Other[2]	
R million	**2011**	2010	**2011**	2010	**2011**	2010
Santam	**14 653**	13 561	**—**	—	**14 653**	13 561
New business excluding white label	**108 956**	99 947	**21 455**	17 099	**87 501**	82 848
White label	**6 131**	5 579	**—**	—	**6 131**	5 579
Total new business	**115 087**	105 526	**21 455**	17 099	**93 632**	88 427
Recurring premiums on existing funds:						
Sanlam Personal Finance	**12 933**	11 802				
Sanlam Emerging Markets	**1 851**	1 441				
Sanlam Investments	**4 570**	4 511				
Sanlam Employee Benefits	**2 784**	2 568				
Sanlam UK	**378**	407				
Sanlam Investment Management	**1 408**	1 536				
Sanlam Multi-Manager	**941**	874				
Other	**467**	662				
Total funds received	**134 441**	123 280				

[1] *Life Insurance business relates to business written under a life licence that is included in the calculation of embedded value of covered business.*

[2] *Includes life licence investment and short-term insurance business. Life licence business relates to investment products provided by means of a life insurance policy where there is very little or no insurance risk. Life licence business is excluded from the calculation of embedded value of covered business.*

Notes to the shareholders' fund information continued

for the year ended 31 December 2011

2. Analysis of payments to clients

	Total		Life Insurance[1]		Other[2]	
R million	**2011**	2010	**2011**	2010	**2011**	2010
Sanlam Personal Finance	**34 281**	31 564	**23 965**	22 283	**10 316**	9 281
Entry level	**2 766**	2 592	**2 766**	2 592	**—**	—
Surrenders	**285**	359	**285**	359	**—**	—
Other	**2 481**	2 233	**2 481**	2 233	**—**	—
Middle-income	**18 976**	17 630	**18 673**	17 412	**303**	218
Surrenders	**3 115**	3 234	**3 115**	3 234	**—**	—
Other	**15 861**	14 396	**15 558**	14 178	**303**	218
Affluent	**12 539**	11 342	**2 526**	2 279	**10 013**	9 063
Sanlam Emerging Markets	**10 838**	11 302	**2 250**	1 854	**8 588**	9 448
Namibia	**7 477**	9 919	**894**	880	**6 583**	9 039
Surrenders	**108**	172	**108**	172	**—**	—
Other	**7 369**	9 747	**786**	708	**6 583**	9 039
Botswana	**2 870**	1 103	**999**	768	**1 871**	335
Surrenders	**391**	120	**391**	120	**—**	—
Other	**2 479**	983	**608**	648	**1 871**	335
Rest of Africa	**229**	147	**229**	147	**—**	—
Surrenders	**28**	18	**28**	18	**—**	—
Other	**201**	129	**201**	129	**—**	—
India	**262**	133	**128**	59	**134**	74
Surrenders	**128**	47	**128**	47	**—**	—
Other	**134**	86	**—**	12	**134**	74
Sanlam Investments	**49 188**	44 674	**6 338**	6 228	**42 850**	38 446
South Africa	**43 316**	37 367	**5 094**	4 720	**38 222**	32 647
Sanlam Employee Benefits	**5 094**	4 720	**5 094**	4 720	**—**	—
Terminations	**807**	556	**807**	556	**—**	—
Other	**4 287**	4 164	**4 287**	4 164	**—**	—
Collective investment schemes	**16 489**	12 784	**—**	—	**16 489**	12 784
Private Investments	**6 082**	3 494	**—**	—	**6 082**	3 494
Segregated funds	**15 651**	16 369	**—**	—	**15 651**	16 369
Sanlam Multi-Manager	**5 540**	6 122	**—**	—	**5 540**	6 122
Other	**10 111**	10 247	**—**	—	**10 111**	10 247
Non-South African	**5 872**	7 307	**1 244**	1 508	**4 628**	5 799
Sanlam UK	**2 638**	2 767	**1 244**	1 508	**1 394**	1 259
Surrenders	**2 340**	2 425	**946**	1 166	**1 394**	1 259
Other	**298**	342	**298**	342	**—**	—
SIM Global	**525**	358	**—**	—	**525**	358
SIIP	**1 802**	3 358	**—**	—	**1 802**	3 358
Other	**907**	824	**—**	—	**907**	824

2. Analysis of payments to clients *(continued)*

	Total		Life Insurance[1]		Other[2]	
R million	**2011**	2010	**2011**	2010	**2011**	2010
Santam	**9 404**	8 693	**–**	–	**9 404**	8 693
Payments to clients excluding white label	**103 711**	96 233	**32 553**	30 365	**71 158**	65 868
White label	**5 250**	5 021	**–**	–	**5 250**	5 021
Total payments to clients	**108 961**	101 254	**32 553**	30 365	**76 408**	70 889

3. Analysis of net inflow/(outflow) of funds

	Total		Life Insurance[1]		Other[2]	
R million	**2011**	2010	**2011**	2010	**2011**	2010
Sanlam Personal Finance	**5 898**	5 660	**4 143**	2 424	**1 755**	3 236
Entry level	**1 566**	987	**1 566**	987	**–**	–
Middle-income	**(826)**	(795)	**(1 004)**	(1 042)	**178**	247
Affluent	**5 158**	5 468	**3 581**	2 479	**1 577**	2 989
Sanlam Emerging Markets	**2 008**	799	**1 806**	1 873	**202**	(1 074)
Namibia	**1 564**	(1 200)	**68**	133	**1 496**	(1 333)
Botswana	**(435)**	1 189	**894**	962	**(1 329)**	227
Rest of Africa	**663**	526	**663**	526	**–**	–
India	**216**	284	**181**	252	**35**	32
Sanlam Investments	**11 444**	10 141	**736**	(1 513)	**10 708**	11 654
South Africa	**8 680**	9 376	**224**	(1 379)	**8 456**	10 755
Sanlam Employee Benefits	**224**	(1 379)	**224**	(1 379)	**–**	–
Collective investment schemes	**6 836**	3 631	**–**	–	**6 836**	3 631
Private Investments	**1 596**	4 570	**–**	–	**1 596**	4 570
Segregated funds	**24**	2 554	**–**	–	**24**	2 554
Sanlam Multi-Manager	**(382)**	279	**–**	–	**(382)**	279
Other	**406**	2 275	**–**	–	**406**	2 275
Non-South African	**2 764**	765	**512**	(134)	**2 252**	899
Sanlam UK	**1 926**	699	**512**	(134)	**1 414**	833
SIIP	**517**	309	**–**	–	**517**	309
SIM Global	**896**	534	**–**	–	**896**	534
Other	**(575)**	(777)	**–**	–	**(575)**	(777)
Santam	**5 249**	4 868	**–**	–	**5 249**	4 868
Net inflow excluding white label	**24 599**	21 468	**6 685**	2 784	**17 914**	18 684
White label	**881**	558	**–**	–	**881**	558
Total net inflow	**25 480**	22 026	**6 685**	2 784	**18 795**	19 242

[1] *Life Insurance business relates to business written under a life licence that is included in the calculation of embedded value of covered business.*

[2] *Includes life licence investment and short-term insurance business. Life licence business relates to investment products provided by means of a life insurance policy where there is very little or no insurance risk. Life licence business is excluded from the calculation of embedded value of covered business.*

Notes to the shareholders' fund information continued

for the year ended 31 December 2011

	R million	2011	2010
4.	**Investments**		
4.1	**Investment in associated companies**		
	Vukile	**–**	546
	Punter Southall Group	**289**	270
	Letshego	**976**	452
	Other associated companies	**860**	704
	Total investment in associated companies	**2 125**	1 972
	Details of the investments in the material associated companies are reflected in note 7 on page 262 of the Sanlam Group financial statements.		
4.2	**Investment in joint ventures**		
	Sanlam Personal Loans	**353**	260
	Shriram Life Insurance	**267**	257
	Shriram General Insurance	**152**	143
	Other joint ventures	**41**	51
	Total investment in joint ventures	**813**	711
	Details of the investments in material joint ventures are reflected in note 7 on page 262 of the Sanlam Group financial statements.		
4.3	**Equities and similar securities**		
	Listed on the JSE – at market value	**9 406**	9 016
	Unlisted equity and derivative investments – at directors' valuation	**733**	1 006
	Offshore equity investments	**2 195**	2 277
	Collective investment schemes	**791**	179
	Total equity investments	**13 125**	12 478
4.4	**Offshore investments**		
	Equities	**2 195**	2 277
	Interest-bearing investments	**1 143**	754
	Investment properties	**186**	145
	Total offshore investments	**3 524**	3 176

4. Investments *(continued)*

4.5 Derivative instruments

Details of the derivative instruments held by the shareholders' fund are as follows:

	Residual term to contractual maturity				Analysed by use		
R million	< 1 year	1—5 years	> 5 years	Total notional amounts	Trading	Asset liability manage-ment	Total fair value of amounts
2011							
Interest rate products over-the-counter							
Swap contracts – bought	**17 993**	**20 646**	**16 541**	**55 180**	**55 055**	**125**	**(2)**
Swap contracts – sold	**(22 343)**	**(17 495)**	**(14 664)**	**(54 502)**	**(54 502)**	**—**	**—**
Total interest rate products	**(4 350)**	**3 151**	**1 877**	**678**	**553**	**125**	**(2)**
Market risk products							
Cliquet structures – sold	**300**	**239**	**—**	**539**	**539**		**—**
Forward purchase of shares							
Local – bought	**190**	**—**	**—**	**190**	**190**	**—**	**—**
Fence structures							
Local – bought	**1 942**	**160**	**—**	**2 102**	**—**	**2 102**	**33**
Local – sold	**(1 191)**	**—**	**—**	**(1 191)**	**559**	**(1 750)**	**—**
Total market risk products	**1 241**	**399**	**—**	**1 640**	**1 288**	**352**	**33**
2010							
Interest rate products over-the-counter							
Swap contracts – bought	25 382	23 850	16 429	65 661	65 430	231	(4)
Swap contracts – sold	(27 583)	(24 957)	(14 830)	(67 370)	(67 570)	200	6
Total interest rate products	(2 201)	(1 107)	1 599	(1 709)	(2 140)	431	2
Market risk products							
Cliquet structures – bought	902	259	—	1 161	1 091	70	(13)
Collar structures – bought	58	190	—	248	—	248	1
Forward purchase of shares							
Local – bought	110	—	—	110	100	10	—
Fence structures							
Local – bought	3 066	499	—	3 565	—	3 565	(170)
Local – sold	(4 644)	(330)	—	(4 974)	(2 899)	(2 075)	(17)
Total market risk products	(508)	618	—	110	(1 708)	1 818	(199)

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.

Notes to the shareholders' fund information continued

for the year ended 31 December 2011

	R million	2011	2010
5.	**Financial services income**		
	Equity-accounted earnings included in financial services income:		
	Sanlam Personal Finance	**153**	113
	Sanlam Emerging Markets	**249**	110
	Sanlam Investments	**13**	5
		415	228
6.	**Administration costs**		
	Depreciation included in administration costs:		
	Sanlam Personal Finance	**93**	77
	Sanlam Emerging Markets	**13**	11
	Sanlam Investments	**22**	22
	Santam	**59**	47
		187	157
7.	**Investment income**		
	Equities and similar securities	**318**	329
	Interest-bearing, preference shares and similar securities	**603**	709
	Properties	**93**	72
	Rental income	**122**	91
	Rental related expenses	**(29)**	(19)
	Total investment income	**1 014**	1 110
	Interest expense netted off against investment income	**513**	502

8. Cluster information

8.1 Sanlam Personal Finance

	Life operations		Non-life operations[1]		Total	
R million	**2011**	2010	**2011**	2010	**2011**	2010
Analysis of attributable earnings						
Gross result from financial services	**2 476**	2 126	**299**	227	**2 775**	2 353
Entry-level market	**296**	154	**—**	—	**296**	154
Middle-income life and investments	**2 038**	1 870	**9**	—	**2 047**	1 870
Administration	**383**	312	**—**	—	**383**	312
Risk underwriting – long-term insurance	**557**	500	**—**	—	**557**	500
Non-participating risk business	**395**	352	**—**	—	**395**	352
Working capital management	**316**	369	**—**	—	**316**	369
Other	**387**	337	**9**	—	**396**	337
Glacier	**79**	49	**89**	76	**168**	125
Sanlam Personal Loans	**63**	53	**147**	94	**210**	147
Other operations	**—**	—	**54**	57	**54**	57
Tax on result from financial services	**(684)**	(582)	**(88)**	(82)	**(772)**	(664)
Minority shareholders' interest	**(1)**	(5)	**(12)**	(4)	**(13)**	(9)
Net result from financial services	**1 791**	1 539	**199**	141	**1 990**	1 680
Net investment return	**441**	743	**561**	779	**1 002**	1 522
Net other earnings	**—**	—	**(81)**	46	**(81)**	46
Normalised attributable earnings	**2 232**	2 282	**679**	966	**2 911**	3 248

Analysis of Group Equity Value (GEV)

R million	GEV at beginning of year	Earnings	Capital investment	Dividend paid	GEV at end of year
2011					
Life Insurance operations	**23 663**	**5 146**	**—**	**(2 122)**	**26 687**
Non-life operations	**1 949**	**373**	**(21)**	**(112)**	**2 189**
Glacier	**965**	**278**	**—**	**(74)**	**1 169**
Sanlam Personal Loans	**365**	**150**	**(21)**	**—**	**494**
Other	**619**	**(55)**	**—**	**(38)**	**526**
Group Equity Value	**25 612**	**5 519**	**(21)**	**(2 234)**	**28 876**
2010					
Life Insurance operations	21 696	4 108	—	(2 141)	23 663
Non-life operations	1 513	732	(146)	(150)	1 949
Glacier	762	348	(65)	(80)	965
Sanlam Personal Loans	133	223	9	—	365
Sanlam Home Loans	120	(5)	(115)	—	—
Other	498	166	25	(70)	619
Group Equity Value	23 209	4 840	(146)	(2 291)	25 612

[1] *Includes discretionary and other capital held in Sanlam Life.*

Notes to the shareholders' fund information continued

for the year ended 31 December 2011

8. Cluster information *(continued)*

8.1 Sanlam Personal Finance *(continued)*

	Life insurance		Investment		Total	
R million	**2011**	2010	**2011**	2010	**2011**	2010
Analysis of business volumes						
Recurring premiums	**2 102**	2 047	**87**	44	**2 189**	2 091
Risk	**1 349**	1 314	**–**	–	**1 349**	1 314
Investment	**267**	250	**58**	38	**325**	288
Retirement annuities	**273**	257	**6**	6	**279**	263
Premium changes	**213**	226	**23**	–	**236**	226
Single premiums	**13 236**	11 027	**11 821**	12 304	**25 057**	23 331
Discretionary savings	**3 882**	2 346	**11 772**	12 243	**15 654**	14 589
Retirement savings	**646**	667	**17**	24	**663**	691
Continuations	**2 046**	1 964	**–**	–	**2 046**	1 964
Contractual life business	**6 443**	5 861	**–**	–	**6 443**	5 861
Other	**219**	189	**32**	37	**251**	226
Total new business	**15 338**	13 074	**11 908**	12 348	**27 246**	25 422
Death and disability benefits	**3 685**	3 335	**–**	–	**3 685**	3 335
Maturity benefits	**11 921**	10 720	**–**	–	**11 921**	10 720
Life and term annuities	**4 627**	4 359	**–**	–	**4 627**	4 359
Surrenders	**3 400**	3 593	**–**	–	**3 400**	3 593
Other	**332**	276	**10 316**	9 281	**10 648**	9 557
Total payments to clients	**23 965**	22 283	**10 316**	9 281	**34 281**	31 564

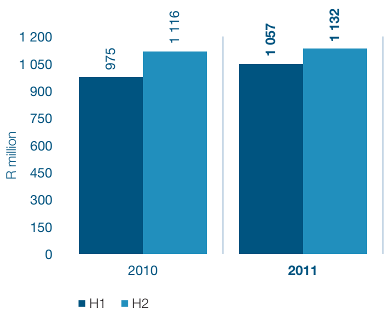
8. Cluster information *(continued)*
8.1 Sanlam Personal Finance *(continued)*

R million	Balance at beginning of year	Net fund flows	Investment return	Fees and other charges	Balance at end of year
Income base					
2011					
Life insurance operations	**186 300**	**7 147**	**13 566**	**(10 441)**	**196 572**
Other operations – Glacier	**42 860**	**1 577**	**1 494**	**—**	**45 931**
Assets under management	**229 160**	**8 724**	**15 060**	**(10 441)**	**242 503**
2010					
Life insurance operations	168 029	5 129	21 884	(8 742)	186 300
Other operations – Glacier	37 631	2 989	2 240	—	42 860
Assets under management	205 660	8 118	24 124	(8 742)	229 160

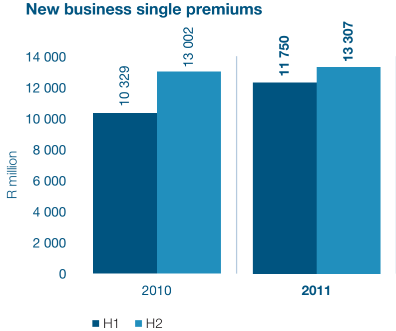
Includes business flows between Group businesses, which are eliminated in note 3. Note 3 includes risk underwriting benefits paid, which are excluded for assets under management as the risk premiums charged are included in this analysis.

	2011	2010
Sanlam Personal Loans		
Size of loan book (R million)	**2 316**	1 818
Interest margin	**15,3%**	14,4%
Bad debt ratio	**2,9%**	2,1%
Administration cost as % of net interest	**34,8%**	34,1%

New business recurring premiums



New business single premiums



Notes to the shareholders' fund information continued

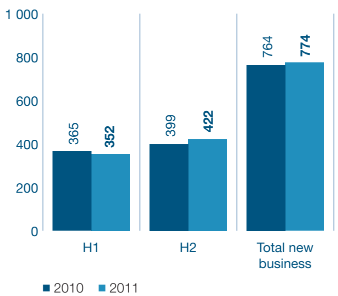
for the year ended 31 December 2011

8. Cluster information *(continued)*

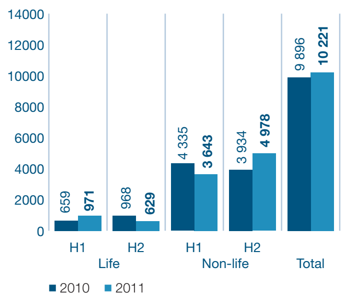
8.2 Sanlam Emerging Markets

R million	2011	2010
Analysis of attributable earnings		
Net result from financial services	**309**	286
Life insurance	**215**	205
Short-term insurance	**7**	4
Investment management	**44**	45
Credit and banking	**40**	32
Other	**3**	—
Net investment return	**121**	67
Net investment income	**61**	47
Net investment surpluses	**60**	20
Net other earnings	**(10)**	(43)
Normalised attributable earnings	**420**	310
Analysis of net result from financial services		
Life insurance operations	**215**	205
Botswana	**109**	127
Namibia	**88**	93
Rest of Africa	**16**	2
India	**2**	(17)
Non-life operations	**94**	81
Namibia	**26**	17
Botswana	**60**	60
Rest of Africa	**6**	—
India	**2**	4
Net result from financial services	**309**	286

New business recurring premiums



New business recurring premiums



8. Cluster information *(continued)*

8.2 Sanlam Emerging Markets *(continued)*

R million	GEV at beginning of year	Earnings	Capital investment	Dividend paid	GEV at end of year
Analysis of Group Equity Value (GEV)					
2011					
Life insurance operations	**1 777**	**571**	**130**	**(158)**	**2 320**
Non-life operations	**1 000**	**27**	**190**	**(50)**	**1 167**
Botswana	**706**	**(24)**	**190**	**(42)**	**830**
Namibia	**105**	**22**	**—**	**(8)**	**119**
Rest of Africa	**46**	**20**	**—**	**—**	**66**
India	**143**	**9**	**—**	**—**	**152**
Group Equity Value	**2 777**	**598**	**320**	**(208)**	**3 487**
2010					
Life insurance operations	1 618	350	6	(197)	1 777
Non-life operations	814	127	69	(10)	1 000
Botswana	560	102	49	(5)	706
Namibia	99	11	—	(5)	105
Rest of Africa	40	6	—	—	46
India	115	8	20	—	143
Group Equity Value	2 432	477	75	(207)	2 777

R million	Life insurance	Other	Total
Analysis of business volumes			
Recurring premiums – 2011	**605**	**169**	**774**
Risk	**350**	**—**	**350**
Investment and Short-term	**234**	**169**	**403**
Annuities	**21**	**—**	**21**
Recurring premiums – 2010	658	106	764
Single premiums – 2011	**1 600**	**8 621**	**10 221**
Risk	**1 185**	**—**	**1 185**
Savings	**309**	**—**	**309**
Continuations	**44**	**—**	**44**
Other	**62**	**8 621**	**8 683**
Single premiums – 2010	1 627	8 269	9 896
Total new business	**2 205**	**8 790**	**10 995**
Recurring premiums on existing business – 2011	**1 851**	**—**	**1 851**
Risk	**926**	**—**	**926**
Investment	**440**	**—**	**440**
Annuities	**485**	**—**	**485**
Total funds received from clients – 2011	**4 056**	**8 790**	**12 846**
Total funds received from clients – 2010	3 726	8 375	12 101
Death and disability benefits	**493**	**—**	**493**
Maturity benefits	**880**	**421**	**1 301**
Life and term annuities	**222**	**—**	**222**
Surrenders	**655**	**—**	**655**
Other	**—**	**8 167**	**8 167**
Total payments to clients – 2011	**2 250**	**8 588**	**10 838**
Total payments to clients – 2010	1 854	9 448	11 302

Notes to the shareholders' fund information continued

for the year ended 31 December 2011

8. Cluster information *(continued)*

8.2 Sanlam Emerging Markets *(continued)*

R million	Balance at beginning of year	Net fund flows	Investment return	Fees and other charges	Balance at end of year
2011					
Income base					
Life insurance operations	**20 567**	**1 839**	**824**	**(1 826)**	**21 404**
Other operations	**12 549**	**(2 942)**	**1 400**	**(42)**	**10 965**
Namibia	**4 746**	**205**	**233**	**(14)**	**5 170**
Botswana	**7 383**	**(2 961)**	**1 167**	**(28)**	**5 561**
Rest of Africa	**420**	**(186)**	**—**	**—**	**234**
Assets under management	**33 116**	**(1 103)**	**2 224**	**(1 868)**	**32 369**

Includes business flows between Group businesses, which are eliminated in note 3. Note 3 includes risk underwriting benefits paid, which are excluded for assets under management as the risk premiums charged are included in this analysis.

8. Cluster information *(continued)*

8.3 Sanlam Investments

	Sanlam Investment Management		Sanlam Employee Benefits		Sanlam UK		Total	
R million	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Analysis of attributable earnings								
Financial services income*	**2 522**	2 287	**2 910**	2 736	**436**	357	**5 868**	5 380
Sales remuneration	**—**	—	**(41)**	(41)	**(61)**	(48)	**(102)**	(89)
Income after sales remuneration	**2 522**	2 287	**2 869**	2 695	**375**	309	**5 766**	5 291
Underwriting policy benefits	**—**	—	**(1 915)**	(1 818)	**—**	—	**(1 915)**	(1 818)
Administration cost*	**(1 779)**	(1 563)	**(624)**	(629)	**(321)**	(265)	**(2 724)**	(2 457)
Result from financial services before performance fees	**743**	724	**330**	248	**54**	44	**1 127**	1 016
Net performance fees*	**103**	135	**—**	—	**—**	—	**103**	135
Result from financial services	**846**	859	**330**	248	**54**	44	**1 230**	1 151
Tax on result from financial services	**(190)**	(200)	**(88)**	(69)	**—**	—	**(278)**	(269)
Minority shareholders' interest	**(11)**	(2)	**—**	—	**4**	2	**(7)**	—
Net result from financial services	**645**	657	**242**	179	**58**	46	**945**	882
Net investment return	**(13)**	71	**196**	414	**7**	20	**190**	505
Net investment income	**4**	—	**151**	177	**8**	21	**163**	198
Net investment surpluses	**(17)**	71	**45**	237	**(1)**	(1)	**27**	307
Net other earnings	**(54)**	204	**(1)**	(3)	**(39)**	45	**(94)**	246
Normalised attributable earnings	**578**	932	**437**	590	**26**	111	**1 041**	1 633

**Financial services income on page 99, includes net performance fees and related administration costs.*

Notes to the shareholders' fund information continued

for the year ended 31 December 2011

8. Cluster information *(continued)*

8.3 Sanlam Investments *(continued)*

Sanlam Investment Management

	Support Services		Asset Management		Capital Management	
R million	2011	2010	2011	2010	2011	2010
Analysis of attributable earnings						
Financial services income*	33	47	651	618	594	573
Administration cost*	(90)	(94)	(396)	(354)	(332)	(319)
Results from financial services before performance fees	(57)	(47)	255	264	262	254
Net performance fees	—	—	78	65	—	—
Results from financial services	(57)	(47)	333	329	262	254
Tax on result from financial services	16	14	(94)	(91)	(52)	(53)
Minority shareholders' interest	—	—	(6)	—	—	—
Net result from financial services	(41)	(33)	233	238	210	201
Net investment return	6	57	(3)	5	3	—
Net other earnings	(10)	4	(1)	—	(8)	326
Normalised attributable earnings	(45)	28	229	243	205	527

R million	Balance at beginning of year	Net fund flows	Investment return net of fees	Balance at the end of year
Income base				
2011				
Asset Management	300 363	5 819	5 622	311 804
Capital Management – Private equity	4 089	—	(557)	3 532
Wealth Management	54 992	1 596	3 840	60 428
Investment Services	114 195	2 458	8 156	124 809
International	41 154	3 252	4 715	49 121
Inter-cluster consolidation	(40 693)	(2 953)	(3 045)	(46 691)
Assets under management	474 100	10 172	18 731	503 003

**Excludes performance fees and related costs.*

Wealth Management		Investment Services		International		Intra-cluster eliminations		Sanlam Investment Management	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
284	253	**835**	724	**270**	176	**(145)**	(104)	**2 522**	2 287
(230)	(188)	**(743)**	(619)	**(133)**	(93)	**145**	104	**(1 779)**	(1 563)
54	65	**92**	105	**137**	83	**—**	—	**743**	724
2	3	**11**	7	**12**	60			**103**	135
56	68	**103**	112	**149**	143	**—**	—	**846**	859
(14)	(20)	**(29)**	(29)	**(17)**	(21)			**(190)**	(200)
—	—	**(2)**	(2)	**(3)**	—			**(11)**	(2)
42	48	**72**	81	**129**	122	**—**	—	**645**	657
(7)	1	**(3)**	1	**(9)**	7			**(13)**	71
—	—	**(24)**	(51)	**(11)**	(75)			**(54)**	204
35	49	**45**	31	**109**	54	**—**	—	**578**	932

Notes to the shareholders' fund information continued

for the year ended 31 December 2011

8. Cluster information *(continued)*

8.3 Sanlam Investments *(continued)*

Sanlam Investment Management *(continued)*

R million	Fixed interest	Equities	Properties	Cash	Offshore	Total
Asset mix of assets under management						
2011						
Asset Management	90 423	121 604	12 472	59 243	28 062	311 804
Capital Management – Private equity	594	2 928	—	10	—	3 532
Wealth Management	—	49 536	—	2 948	7 944	60 428
Investment Services	19 709	57 357	3 685	28 763	15 295	124 809
International	—	—	—	—	49 121	49 121
	110 726	231 425	16 157	90 964	100 422	549 694
Inter-cluster consolidation						(46 691)
Assets under management	110 726	231 425	16 157	90 964	100 422	503 003

	Fee income (bps)	Administration costs (bps)	Margin (bps)
Profitability of assets under management*			
2011			
Asset Management	0,21	0,13	0,08
Capital Management – Private equity	1,55	0,61	0,94
Wealth Management	0,47	0,38	0,09
Investment Services	0,67	0,60	0,07
International	0,55	0,27	0,28

**Based on operating profit excluding performance fees and performance fee related administration cost.*

8. Cluster information *(continued)*

8.3 Sanlam Investments *(continued)*

Sanlam Employee Benefits

	2011	2010
Analysis of attributable earnings		
Net result from financial services	**242**	179
Risk underwriting	**169**	87
Investment and other	**109**	129
Working capital management	**18**	25
Administration	**(54)**	(62)
Net investment return	**196**	414
Net investment income	**151**	177
Net investment surpluses	**45**	237
Net other earnings	**(1)**	(3)
Normalised attributable earnings	**437**	590
Analysis of new business per product line		
Recurring premiums	**325**	199
Guaranteed	**106**	29
Risk	**219**	170
Single premiums	**2 209**	574
Guaranteed	**799**	383
Annuity	**1 409**	182
Risk	**1**	9

R million	Balance at beginning of year	Net fund flows	Investment return	Fees and other charges	Balance at the end of year
Income base					
Assets under management					
2011	**42 840**	**2 123**	**3 163**	**(2 576)**	**45 550**
2010	41 181	(1 166)	5 531	(2 706)	42 840

**Includes business flows between Group businesses, which are eliminated in note 3. Note 3 includes risk underwriting benefits paid, which are excluded for assets under management as the risk premiums charged are included in this analysis.*

Notes to the shareholders' fund information continued

for the year ended 31 December 2011

8. Cluster information *(continued)*

8.3 Sanlam Investments *(continued)*

Sanlam UK

	Life operations		Non-life operations		Total	
R million	**2011**	2010	**2011**	2010	**2011**	2010
Analysis of attributable earnings						
Financial services income	**204**	172	**232**	185	**436**	357
Sales remuneration	**(34)**	(28)	**(27)**	(20)	**(61)**	(48)
Income after sales remuneration	**170**	144	**205**	165	**375**	309
Administration costs	**(101)**	(103)	**(220)**	(162)	**(321)**	(265)
Result from financial services	**69**	41	**(15)**	3	**54**	44
Tax on result from financial services	**–**	–	**–**	–	**–**	–
Minority shareholders' interest	**–**	–	**4**	2	**4**	2
Net result from financial services	**69**	41	**(11)**	5	**58**	46
Net investment return	**2**	17	**5**	3	**7**	20
Net investment income	**2**	17	**6**	4	**8**	21
Net investment surpluses	**–**	–	**(1)**	(1)	**(1)**	(1)
Net other earnings	**–**	–	**(39)**	45	**(39)**	45
Attributable earnings	**71**	58	**(45)**	53	**26**	111

R million	Balance at beginning of year	Net fund flows	Acquisi-tions	Investment return	Fees and other charges	Foreign currency translation differences	Balance at end of year
Income base							
2011							
Life insurance business	**17 840**	**193**	**–**	**(870)**	**(204)**	**3 543**	**20 502**
Non-life operations: Principal	**12 746**	**1 413**	**3 233**	**(497)**	**(163)**	**3 017**	**19 749**
Assets under management	**30 586**	**1 606**	**3 233**	**(1 367)**	**(367)**	**6 560**	**40 251**
2010							
Life insurance business	18 884	(261)	–	1 928	(172)	(2 539)	17 840
Non-life operations: Principal	11 905	1 341	–	1 146	(116)	(1 530)	12 746
Assets under management	30 789	1 080	–	3 074	(288)	(4 069)	30 586

**Includes business flows between Group businesses, which are eliminated in note 3. Note 3 includes risk underwriting benefits paid, which are excluded for assets under management as the risk premiums charged are included in this analysis.*

8. Cluster information *(continued)*

8.3 Sanlam Investments *(continued)*

Sanlam UK *(continued)*

R million	Fixed interest	Equities	Cash	Total
Asset mix of assets under management – non-life operations				
2011				
Principal	**4 391**	**13 965**	**1 393**	**19 749**
Assets under management and advice	**4 391**	**13 965**	**1 393**	**19 749**

	Fee income (bps)	Admini-stration costs (bps)	Margin (bps)
Profitability			
2011			
Principal	**1,00**	**0,86**	**0,14**

**Based on operating profit excluding performance fees and performance fee related administration cost.*

Notes to the shareholders' fund information continued

for the year ended 31 December 2011

8. Cluster information *(continued)*

8.3 Sanlam Investments *(continued)*

R million	GEV at beginning of year	Earnings	Capital investment	Dividend paid	GEV at end of year
Analysis of Group Equity Value (GEV)					
2011					
Sanlam Investment Management	**7 152**	**851**	**317**	**(605)**	**7 715**
Sanlam Employee Benefits	**4 992**	**327**	**114**	**(356)**	**5 077**
Life insurance operations	**4 967**	**327**	**139**	**(356)**	**5 077**
Non-life operations	**25**	**—**	**(25)**	**—**	**—**
Sanlam UK	**1 539**	**491**	**163**	**(76)**	**2 117**
Life insurance operations	**638**	**229**	**—**	**(76)**	**791**
Non-life operations	**901**	**262**	**163**	**—**	**1 326**
Group Equity Value	**13 683**	**1 669**	**594**	**(1 037)**	**14 909**
2010					
Sanlam Investment Management	6 639	1 122	30	(639)	7 152
Sanlam Employee Benefits	4 960	629	2	(599)	4 992
Life insurance operations	4 960	606	—	(599)	4 967
Non-life operations	—	23	2	—	25
Sanlam UK	1 498	41	20	(20)	1 539
Life insurance operations	665	(7)	—	(20)	638
Non-life operations	833	48	20	—	901
Group Equity Value	13 097	1 792	52	(1 258)	13 683

8. Cluster information *(continued)*
8.3 Sanlam Investments *(continued)*
Valuation methodology

The fair value of the unlisted Sanlam Investments businesses has been determined by the application of the following valuation methodologies:

	Fair value	
R million	**2011**	2010
Valuation method		
Ratio of price to assets under management	**6 968**	6 493
Asset Management	**3 360**	3 345
Capital Management	**130**	166
Wealth Management	**604**	581
Investment Services	**1 029**	958
International operations	**1 372**	1 125
Sanlam UK	**473**	318
Discounted cash flows	**853**	608
Sanlam UK	**853**	583
Infinit	**–**	25
Net asset value	**1 220**	977
SIM International	**499**	212
Capital Management	**721**	765
	9 041	8 078

The main assumption applied in the primary valuation for the unlisted businesses below. The sensitivity analysis is based on the following changes in assumptions:

	Change in assumption
	2011
Ratio of price to assets under management (P/AuM)	**0,1**
Risk discount rate (RDR)	**1,0**
Perpetuity growth rate (PGR)	**1,0**

R million	Weighted average assumption	Basic value	Decrease in assumption	Increase in assumption
Ratio of price to assets under management	P/AuM = 1,16% (2010: 1,18%)	6 968	6 386	7 587
Discounted cash flows	RDR = 18,0% (2010: 17,4%)	853	877	830
	PGR = 2,5 – 5% (2010: 2,5 – 10%)	853	842	864

Notes to the shareholders' fund information continued

for the year ended 31 December 2011

8. Cluster information *(continued)*

8.4 Santam

R million	2011	2010
Business volumes		
Net earned premiums	**14 653**	13 561
Net fund flows	**5 249**	4 868
Analysis of earnings		
Gross result from financial services	**1 517**	1 464
Ratios		
Admin cost ratio	**16,2%**	15,1%
Claims ratio	**64,2%**	63,9%
Underwriting margin	**7,7%**	7,8%

9. Normalised diluted earnings per share

Cents	2011	2010
Net result from financial services	**186,1**	161,5
Headline earnings	**248,7**	251,5
Profit attributable to shareholders' fund	**256,2**	271,1

R million	2011	2010
Analysis of normalised earnings (refer shareholders' fund income statement on page 98)		
Net result from financial services	**3 760**	3 303
Headline earnings	**5 023**	5 143
Profit attributable to shareholders' fund	**5 174**	5 544
Reconciliation of normalised headline earnings:		
Headline earnings per note 28 on page 284	**5 015**	5 122
Less: Fund transfers	**8**	21
Normalised headline earnings	**5 023**	5 143

Million	2011	2010
Adjusted number of shares:		
Weighted average number of shares for diluted earnings per share (refer note 28 on page 284)	**2 004,9**	2 029,0
Add: Weighted average Sanlam shares held by policyholders	**15,0**	16,3
Adjusted weighted average number of shares for normalised diluted earnings per share	**2 019,9**	2 045,3

	2011	2010

10. Value per share

Fair value per share is calculated on the Group shareholders' fund at fair value of R45 840 million (2010: R43 036 million), divided by 2 018,9 million (2010: 2 035,5 million) shares.

Net asset value per share is calculated on the Group shareholders' fund at net asset value of R34 292 million (2010: R32 330 million), divided by 2 018,9 million (2010: 2 035,5 million) shares.

Equity value per share is calculated on the Group equity value of R63 521 million (2010: R57 361 million), divided by 2 018,9 million (2010: 2 035,5 million) shares.

	2011	2010
Number of shares for value per share:		
Number of ordinary shares in issue	**2 100,0**	2 100,0
Shares held by subsidiaries in shareholders' fund	**(158,1)**	(125,7)
Outstanding shares and share options in respect of Sanlam Limited long-term incentive schemes	**36,5**	34,9
Number of shares under option that would have been issued at fair value	**(1,0)**	(1,9)
Convertible deferred shares held by Ubuntu-Botho	**41,5**	28,2
Adjusted number of shares for value per share	**2 018,9**	2 035,5

11. Present value of holding company expenses

The present value of holding company expenses has been calculated by applying a multiple of 7,5 (2010: 7,1) to the after tax recurring corporate expenses.

12. Share repurchases

The Sanlam shareholders granted general authorities to the Group at the 2011 and 2010 annual general meetings to repurchase Sanlam shares in the market. The Group acquired 36,1 million shares from 11 March 2011 to 11 November 2011 in terms of the general authorities. The lowest and highest prices paid were R26,57 and R28,61 per share respectively. The total consideration paid of R979 million 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 counter parties. Authority to repurchase 410,8 million shares, or 19,6% 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 8 June 2011.

The financial effects of the share repurchases during 2011 on the IFRS earnings and net asset value per share are illustrated in the table below. Tangible net asset value excludes goodwill, value of business acquired, other intangible assets and deferred acquisition cost included in the shareholders' fund at net asset value.

Cents	Before re-purchases	After re-purchases
Basic earnings per share:		
Profit attributable to shareholders' fund	**264,9**	266,9
Headline earnings	**257,2**	259,1
Diluted earnings per share:		
Profit attributable to shareholders' fund	**255,8**	257,7
Headline earnings	**248,4**	250,1
Value per share:		
Equity value	**3 140**	3 146
Net asset value	**1 718**	1 699
Tangible net asset value	**1 382**	1 357

Notes to the shareholders' fund information continued

for the year ended 31 December 2011

13. Reconciliations

13.1 Reconciliation between Group statement of comprehensive income and shareholders' fund income statement

R million	31 December 2011 Total	Share-holder activities	Policy-holder activities[1]	IFRS adjust-ments[2]
Net income	54 278	36 464	17 147	667
Financial services income	36 663	34 342	–	2 321
Reinsurance premiums paid	(3 661)	–	–	(3 661)
Reinsurance commission received	392	–	–	392
Investment income	14 603	1 014	11 504	2 085
Investment surpluses	4 843	1 108	5 643	(1 908)
Finance cost – margin business	(203)	–	–	(203)
Change in fair value of external investors liability	1 641	–	–	1 641
Net insurance and investment contract benefits and claims	(31 437)	(14 815)	(16 646)	24
Long-term insurance contract benefits	(15 322)	(5 411)	(9 447)	(464)
Long-term investment contract benefits	(7 199)	–	(7 199)	–
Short-term insurance claims	(10 766)	(9 404)	–	(1 362)
Reinsurance claims received	1 850	–	–	1 850
Expenses	(14 187)	(13 552)	–	(635)
Sales remuneration	(4 959)	(4 564)	–	(395)
Administration costs	(9 228)	(8 988)	–	(240)
Impairments	(36)	(35)	–	(1)
Amortisation of intangibles	(128)	(108)	–	(20)
Net operating result	8 490	7 954	501	35
Equity-accounted earnings	421	91	–	330
Finance cost – other	(336)	–	–	(336)
Profit before tax	8 575	8 045	501	29
Tax expense	(2 510)	(1 953)	(501)	(56)
Shareholders' fund	(1 903)	(1 953)	–	50
Policyholders' fund	(607)	–	(501)	(106)
Profit for the year	6 065	6 092	–	(27)
Attributable to:				
Shareholders' fund	5 166	5 174	–	(8)
Minority shareholders' interest	899	918	–	(19)
	6 065	6 092	–	(27)

[1] Policyholder activities relate to the inclusion of policyholders' after-tax investment return, and the allocation thereof to policy liabilities, in the Group statement of comprehensive income.

[2] IFRS adjustments relate to amounts that have been set-off in the shareholders' fund income statement that is not permitted in terms of IFRS, and fund transfers relating to investments in treasury shares and subsidiaries held by the policyholders' fund.

31 December 2010			
Total	Share-holder activities	Policy-holder activities[(1)]	IFRS adjust-ments[(2)]
67 285	34 889	31 619	777
33 737	31 839	—	1 898
(3 040)	—	—	(3 040)
307	—	—	307
15 344	1 110	11 810	2 424
21 831	1 940	19 809	82
(216)	—	—	(216)
(678)	—	—	(678)
(44 640)	(13 817)	(30 841)	18
(22 928)	(5 123)	(17 397)	(408)
(13 444)	—	(13 444)	—
(9 520)	(8 694)	—	(826)
1 252	—	—	1 252
(13 290)	(12 682)	—	(608)
(4 870)	(4 557)	—	(313)
(8 420)	(8 125)	—	(295)
—	(3)	—	3
(103)	(92)	—	(11)
9 252	8 295	778	179
329	193	—	136
(309)	—	—	(309)
9 272	8 488	778	6
(2 757)	(1 925)	(778)	(54)
(1 911)	(1 925)	—	14
(846)	—	(778)	(68)
6 515	6 563	—	(48)
5 523	5 544	—	(21)
992	1 019	—	(27)
6 515	6 563	—	(48)

Notes to the shareholders’ fund information continued

for the year ended 31 December 2011

13. Reconciliations *(continued)*

13.2 Reconciliation between Group statement of financial position and shareholders’ fund at net asset value

31 December 2011

R million	Total	Shareholder activities	Policyholder activities	Consolidation reserve
Assets				
Property and equipment	514	514	–	–
Owner-occupied properties	586	455	131	–
Goodwill	3 195	3 195	–	–
Other intangible assets	47	47	–	–
Value of business acquired	1 611	1 611	–	–
Deferred acquisition costs	2 427	2 046	381	–
Long-term reinsurance assets	674	–	674	–
Investments	329 150	35 251	294 369	(470)
Properties	15 310	572	14 738	–
Associated companies	2 125	2 125	–	–
Joint ventures	813	813	–	–
Equities and similar securities	165 582	13 125	152 927	(470)
Public sector stocks and loans	58 831	1 350	57 481	–
Debentures, insurance policies, preference shares and other loans	35 002	5 994	29 008	–
Cash, deposits and similar securities	51 487	11 272	40 215	–
Deferred tax	640	627	13	–
Non-current assets held for sale	1 390	512	878	
Short-term insurance technical assets	1 831	1 831	–	–
Working capital assets	40 138	35 789	4 349	–
Trade and other receivables	25 761	21 413	4 348	–
Cash, deposits and similar securities	14 377	14 376	1	–
Total assets	382 203	81 878	300 795	(470)
Equity and liabilities				
Shareholders’ fund	33 822	34 292	–	(470)
Minority shareholders’ interest	3 046	3 046	–	–
Long-term policy liabilities	282 421	–	282 421	–
Insurance contracts	135 742	–	135 742	–
Investment contracts	146 679	–	146 679	–
Term finance	6 295	5 724	571	–
External investors in consolidated funds	11 592	–	11 592	–
Cell owners’ interest	603	603	–	–
Deferred tax	902	366	536	–
Derivative liabilities	212	–	212	
Short-term insurance technical provisions	8 682	8 682	–	–
Working capital liabilities	34 628	29 165	5 463	–
Trade and other payables	32 502	27 724	4 778	–
Provisions	423	423	–	–
Taxation	1 703	1 018	685	–
Total equity and liabilities	382 203	81 878	300 795	(470)

31 December 2010			
Total	Share-holder activities	Policy-holder activities	Consoli-dation reserve
470	470	—	—
653	532	121	—
3 197	3 197	—	—
39	39	—	—
1 320	1 320	—	—
2 270	1 666	604	—
588	—	588	—
310 091	34 084	276 559	(552)
17 362	1 265	16 097	—
2 915	1 972	943	—
711	711	—	—
151 190	12 478	139 264	(552)
57 347	1 674	55 673	—
31 586	6 452	25 134	—
48 980	9 532	39 448	—
932	931	1	—
—	—	—	—
1 560	1 560	—	—
40 071	34 190	5 881	—
27 883	22 011	5 872	—
12 188	12 179	9	—
361 191	77 989	283 754	(552)
31 778	32 330	—	(552)
2 608	2 608	—	—
265 695	—	265 695	—
132 985	—	132 985	—
132 710	—	132 710	—
6 766	6 258	508	—
11 655	—	11 655	—
577	577	—	—
1 178	574	604	—
—	—	—	—
7 945	7 945	—	—
32 989	27 697	5 292	—
30 422	25 800	4 622	—
617	617	—	—
1 950	1 280	670	—
361 191	77 989	283 754	(552)

Notes to the shareholders' fund information continued

for the year ended 31 December 2011

R million	Per share-holders[1] fund income statement on page 98	IFRS adjust-ments (refer note 13.1)	Total
14. Geographical analysis			
Financial services income			
Financial services income is attributed to individual countries, based on where the income was earned.			
2011	**34 342**	**2 321**	**36 663**
South Africa	**31 318**	**2 496**	**33 814**
Rest of Africa	**2 260**	**(175)**	**2 085**
Other international[(1)]	**764**	**—**	**764**
2010	31 839	1 898	33 737
South Africa	28 275	1 881	30 156
Rest of Africa	2 876	38	2 914
Other international[(1)]	688	(21)	667

R million	Per analysis of share-holders' fund on page 96	Policy-holders' fund	Total
Non-current assets[(2)]			
2011	**8 379**	**1 390**	**9 769**
South Africa	**7 251**	**1 274**	**8 525**
Rest of Africa	**142**	**116**	**258**
Other international[(1)]	**986**	**—**	**986**
2010	7 224	725	7 949
South Africa	6 212	629	6 841
Rest of Africa	145	96	241
Other international[(1)]	867	—	867

R million	2011	2010
Attributable earnings before impairments (per shareholders' fund income statement on page 98)	**5 201**	5 526
South Africa	**4 530**	4 694
Rest of Africa	**416**	334
Other international[(1)]	**255**	498

[(1)]Other international comprises business in the Netherlands, Europe, United Kingdom, Australia and India.

[(2)]Non-current assets include property and equipment, owner-occupied properties, goodwill, value of business acquired, other intangible assets, deferred acquisition costs and non-current assets held for sale.

Embedded value of covered business

at 31 December 2011

R million	Note	2011	2010
Sanlam Personal Finance		**26 687**	23 663
Adjusted net worth		**8 622**	8 513
Net value of in-force covered business		**18 065**	15 150
Value of in-force covered business		**19 813**	16 943
Cost of capital		**(1 721)**	(1 781)
Minority shareholders' interest		**(27)**	(12)
Sanlam Emerging Markets		**2 320**	1 777
Adjusted net worth		**1 012**	735
Net value of in-force covered business		**1 308**	1 042
Value of in-force covered business		**2 181**	1 805
Cost of capital		**(226)**	(181)
Minority shareholders' interest		**(647)**	(582)
Sanlam UK		**791**	638
Adjusted net worth		**250**	212
Net value of in-force covered business		**541**	426
Value of in-force covered business		**575**	455
Cost of capital		**(34)**	(29)
Minority shareholders' interest		**—**	—
Sanlam Employee Benefits		**5 077**	4 967
Adjusted net worth		**4 669**	4 573
Net value of in-force covered business		**408**	394
Value of in-force covered business		**1 319**	1 286
Cost of capital		**(911)**	(892)
Minority shareholders' interest		**—**	—
Embedded value of covered business		**34 875**	31 045
Adjusted net worth[1]		**14 553**	14 033
Net value of in-force covered business	1	**20 322**	17 012
Embedded value of covered business		**34 875**	31 045

[1] *Excludes subordinated debt funding of Sanlam Life.*

Change in embedded value of covered business

for the year ended 31 December 2011

R million	Note	2011 Total	2011 Value of in-force	2011 Cost of capital	2011 Adjusted net worth	2010 Total	2010 Value of in-force	2010 Cost of capital	2010 Adjusted net worth
Embedded value of covered business at the beginning of the year – reported		**31 045**	**19 840**	**(2 828)**	**14 033**	28 988	17 626	(2 885)	14 247
Change in accounting policies	10	**–**	**–**	**–**	**–**	(49)	201	36	(286)
Embedded value of covered business at the beginning of the year – restated		**31 045**	**19 840**	**(2 828)**	**14 033**	28 939	17 827	(2 849)	13 961
Value of new business	2	**958**	**2 313**	**(135)**	**(1 220)**	666	1 873	(93)	(1 114)
Net earnings from existing covered business		**3 125**	**(481)**	**105**	**3 501**	2 639	(200)	62	2 777
Expected return on value of in-force business		**2 404**	**2 269**	**135**	**–**	2 218	2 111	107	–
Expected transfer of profit to adjusted net worth		**–**	**(2 891)**	**–**	**2 891**	–	(2 388)	–	2 388
Operating experience variances	3	**681**	**212**	**(20)**	**489**	468	(10)	(18)	496
Operating assumption changes	4	**40**	**(71)**	**(10)**	**121**	(47)	87	(27)	(107)
Expected investment return on adjusted net worth		**1 062**	**–**	**–**	**1 062**	1 151	–	–	1 151
Embedded value earnings from operations		**5 145**	**1 832**	**(30)**	**3 343**	4 456	1 673	(31)	2 814
Economic assumption changes	5	**132**	**122**	**20**	**(10)**	430	334	99	(3)
Tax changes	6	**1 244**	**1 239**	**2**	**3**	–	2	–	(2)
Investment variances – value of in-force		**(136)**	**(219)**	**31**	**52**	332	127	(55)	260
Investment variances – investment return on adjusted net worth		**(259)**	**–**	**–**	**(259)**	4	–	–	4
Exchange rate movements		**151**	**163**	**(12)**	**–**	(119)	(128)	9	–
Net project expenses	7	**(4)**	**–**	**–**	**(4)**	(46)	–	–	(46)
Embedded value earnings from covered business		**6 273**	**3 137**	**11**	**3 125**	5 057	2 008	22	3 027
Acquired value of in-force		**235**	**142**	**(5)**	**98**	6	5	(1)	2
Transfers from/(to) other Group operations		**34**	**26**	**(1)**	**9**	–	–	–	–
Change in utilisation of capital diversification		**–**	**–**	**–**	**–**	(700)	–	–	(700)
Transfers from covered business		**(2 712)**	**–**	**–**	**(2 712)**	(2 257)	–	–	(2 257)
Embedded value of covered business at the end of the period		**34 875**	**23 145**	**(2 823)**	**14 553**	31 045	19 840	(2 828)	14 033
Analysis of earnings from covered business									
Sanlam Personal Finance		**5 146**	**2 855**	**60**	**2 231**	4 108	1 918	(2)	2 192
Sanlam Emerging Markets		**571**	**265**	**(25)**	**331**	350	129	4	217
Sanlam UK		**229**	**120**	**(5)**	**114**	(7)	(25)	3	15
Sanlam Employee Benefits		**327**	**(103)**	**(19)**	**449**	606	(14)	17	603
Embedded value earnings from covered business		**6 273**	**3 137**	**11**	**3 125**	5 057	2 008	22	3 027

Value of new business

for the year ended 31 December 2011

R million	Note	2011*	2011**	2010
Value of new business (at point of sale):				
Gross value of new business		**1 193**	**1 143**	866
Sanlam Personal Finance		**755**	**718**	556
Sanlam Emerging Markets		**248**	**239**	245
Sanlam UK		**11**	**11**	14
Sanlam Employee Benefits		**179**	**175**	51
Cost of capital		**(142)**	**(142)**	(104)
Sanlam Personal Finance		**(50)**	**(50)**	(46)
Sanlam Emerging Markets		**(25)**	**(25)**	(24)
Sanlam UK		**(3)**	**(3)**	(3)
Sanlam Employee Benefits		**(64)**	**(64)**	(31)
Value of new business		**1 051**	**1 001**	762
Sanlam Personal Finance		**705**	**668**	510
Sanlam Emerging Markets		**223**	**214**	221
Sanlam UK		**8**	**8**	11
Sanlam Employee Benefits		**115**	**111**	20
Value of new business attributable to:				
Shareholders' fund	2	**958**	**908**	666
Sanlam Personal Finance		**701**	**664**	507
Sanlam Emerging Markets		**134**	**125**	128
Sanlam UK		**8**	**8**	11
Sanlam Employee Benefits		**115**	**111**	20
Minority shareholders' interest		**93**	**93**	96
Sanlam Personal Finance		**4**	**4**	3
Sanlam Emerging Markets		**89**	**89**	93
Sanlam UK		**–**	**–**	–
Sanlam Employee Benefits		**–**	**–**	–
Value of new business		**1 051**	**1 001**	762
Geographical analysis:				
South Africa		**820**	**779**	522
Africa		**223**	**214**	224
Other international		**8**	**8**	16
Value of new business		**1 051**	**1 001**	762

**Excluding STC allowance.*
***Including STC allowance.*

Value of new business continued

for the year ended 31 December 2011

R million	2011*	2011**	2010
Analysis of new business profitability:			
Before minorities:			
Present value of new business premiums	**32 786**	**32 786**	27 334
Sanlam Personal Finance	**23 423**	**23 423**	20 373
Sanlam Emerging Markets	**3 642**	**3 642**	3 766
Sanlam UK	**1 374**	**1 374**	996
Sanlam Employee Benefits	**4 347**	**4 347**	2 199
New business margin	**3,21%**	**3,05%**	2,79%
Sanlam Personal Finance	**3,01%**	**2,85%**	2,50%
Sanlam Emerging Markets	**6,12%**	**5,88%**	5,87%
Sanlam UK	**0,58%**	**0,58%**	1,10%
Sanlam Employee Benefits	**2,65%**	**2,55%**	0,91%
After minorities:			
Present value of new business premiums	**31 449**	**31 449**	25 891
Sanlam Personal Finance	**23 353**	**23 353**	20 287
Sanlam Emerging Markets	**2 375**	**2 375**	2 409
Sanlam UK	**1 374**	**1 374**	996
Sanlam Employee Benefits	**4 347**	**4 347**	2 199
New business margin	**3,05%**	**2,89%**	2,57%
Sanlam Personal Finance	**3,00%**	**2,84%**	2,50%
Sanlam Emerging Markets	**5,64%**	**5,26%**	5,31%
Sanlam UK	**0,58%**	**0,58%**	1,10%
Sanlam Employee Benefits	**2,65%**	**2,55%**	0,91%

**Excluding STC allowance.*
***Including STC allowance.*

Notes to the embedded value of covered business

for the year ended 31 December 2011

	Gross value of in-force business R million	Cost of capital R million	Net value of in-force business R million	Change from base value %
1. Value of in-force sensitivity analysis				
2011				
Base value	**23 145**	**(2 823)**	**20 322**	
▪ Risk discount rate increase by 1%	**21 862**	**(3 453)**	**18 409**	**(9)**
▪ Investment return and inflation decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately	**23 692**	**(2 736)**	**20 956**	**3**
▪ Equity and property values decrease by 10%, without a corresponding change in dividend and rental yields	**22 142**	**(2 787)**	**19 355**	**(5)**
▪ Expected return on equity and property investments increase by 1%, without a corresponding change in discount rates	**23 643**	**(2 701)**	**20 942**	**3**
Expenses and persistency				
▪ Non-commission maintenance expenses (excluding investment expenses) decrease by 10%	**23 766**	**(2 822)**	**20 944**	**3**
▪ Discontinuance rates decrease by 10%	**23 751**	**(2 906)**	**20 845**	**3**
Insurance risk				
▪ Mortality and morbidity decrease by 5% for life assurance business	**24 218**	**(2 819)**	**21 399**	**5**
▪ Mortality and morbidity decrease by 5% for annuity business	**22 955**	**(2 822)**	**20 133**	**(1)**
2010				
Base value	19 840	(2 828)	17 012	
▪ Risk discount rate increase by 1%	18 708	(3 445)	15 263	(10)
▪ Investment return and inflation decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately	20 246	(2 722)	17 524	3
▪ Equity and property values decrease by 10%, without a corresponding change in dividend and rental yields	19 029	(2 786)	16 243	(5)
▪ Expected return on equity and property investments increase by 1%, without a corresponding change in discount rates	20 258	(2 538)	17 720	4
Expenses and persistency				
▪ Non-commission maintenance expenses (excluding investment expenses) decrease by 10%	20 410	(2 815)	17 595	3
▪ Discontinuance rates decrease by 10%	20 327	(2 904)	17 423	2
Insurance risk				
▪ Mortality and morbidity decrease by 5% for life assurance business	20 623	(2 821)	17 802	5
▪ Mortality and morbidity decrease by 5% for annuity business	19 670	(2 823)	16 847	(1)

Notes to the embedded value of covered business continued

for the year ended 31 December 2011

		Gross value of new business R million	Cost of capital R million	Net value of new business R million	Change from base value %
2.	**Value of new business sensitivity analysis**				
	Base value	1 093	(135)	958	
	▪ Risk discount rate increase by 1%	967	(171)	796	(17)
	▪ Investment return and inflation decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately	1 155	(131)	1 024	7
	Expenses and persistency				
	▪ Non-commission maintenance expenses (excluding investment expenses) decrease by 10%	1 172	(134)	1 038	8
	▪ Acquisition expenses (excluding commission and commission related expenses) decrease by 10%	1 198	(134)	1 064	11
	▪ Discontinuance rates decrease by 10%	1 223	(142)	1 081	13
	Insurance risk				
	▪ Mortality and morbidity decrease by 5% for life assurance business	1 222	(133)	1 089	14
	▪ Mortality and morbidity decrease by 5% for annuity business	1 071	(134)	937	(2)

	R million	2011	2010
3.	**Operating experience variances**		
	Risk experience	**431**	352
	Working capital and other	**250**	116
	Total operating experience variances	**681**	468
4.	**Operating assumption changes**		
	Mortality and morbidity	**13**	(13)
	Persistency	**(147)**	(89)
	Modelling improvements and other	**174**	55
	Total operating assumption changes	**40**	(47)
5.	**Economic assumption changes**		
	Investment yields	**130**	448
	Long-term asset mix assumptions and other	**2**	(18)
	Total economic assumption changes	**132**	430

6. Tax changes

Tax changes are mostly due to the removal of STC in the embedded value calculations. STC will be replaced by a new dividend withholding tax system in South Africa, effective 1 April 2012.

7. Net project expenses

Net project expenses relate to once-off expenditure on the Group's distribution platform that has not been allowed for in the embedded value assumptions.

R million	2011	2010
8. Reconciliation of growth from covered business		
The embedded value earnings from covered business reconciles as follows to the net result from financial services for the year:		
Net result from financial services of covered business[1]	**2 317**	1 975
Sanlam Personal Finance	**1 791**	1 539
Sanlam Emerging Markets	**215**	205
Sanlam Employee Benefits	**242**	196
Sanlam UK	**69**	35
Differences between profits recognised under IFRS and the embedded value methodology	**9**	15
Less: Net project expenses	**(4)**	(46)
Less: STC projected on dividends from covered business profits for the year	**—**	(72)
Investment return on adjusted net worth	**803**	1 155
Embedded value earnings from covered business: value of in-force	**3 148**	2 030
Embedded value earnings from covered business	**6 273**	5 057

[1]*Refer to note 8 of the shareholders' fund information.*

%	2011	2010
9. Economic assumptions		
Gross investment return, risk discount rate and inflation		
Sanlam Life		
Point used on the relevant yield curve	**9 year**	9 year
Fixed-interest securities	**8,2**	8,4
Equities and offshore investments	**11,7**	11,9
Hedged equities	**8,7**	8,9
Property	**9,2**	9,4
Cash	**7,2**	7,4
Return on required capital	**9,1**	9,3
Inflation rate[2]	**5,2**	5,4
Risk discount rate	**10,7**	10,9

[2]*Expense inflation of 7,2% (2010: 7,4%) assumed for retail business administered on old platforms*

%	2011	2010
SDM Limited		
Point used on the relevant yield curve	**5 year**	5 year
Fixed-interest securities	**7,4**	7,7
Equities and offshore investments	**10,9**	11,2
Hedged equities	**n/a**	n/a
Property	**8,4**	8,7
Cash	**6,4**	6,7
Return on required capital	**8,7**	9,0
Inflation rate	**4,4**	4,7
Risk discount rate	**9,9**	10,2
Sanlam Investments and Pensions[3]		
Point used on the relevant yield curve	**15 year**	15 year
Fixed-interest securities	**2,5**	4,0
Equities and offshore investments	**5,7**	7,2
Hedged equities	**n/a**	n/a
Property	**5,7**	7,2
Cash	**2,5**	4,0
Return on required capital	**2,5**	4,0
Inflation rate	**2,7**	3,5
Risk discount rate	**6,2**	7,7

[3]*Formerly Merchant Investors.*

Notes to the embedded value of covered business continued

for the year ended 31 December 2011

	%	2011	2010
9.	**Economic assumptions** *(continued)*		
	Botswana Life Insurance		
	Fixed-interest securities	**9,5**	9,5
	Equities and offshore investments	**13,0**	13,0
	Hedged equities	**n/a**	n/a
	Property	**10,5**	10,5
	Cash	**8,5**	8,5
	Return on required capital	**9,6**	9,6
	Inflation rate	**6,5**	6,5
	Risk discount rate	**13,0**	13,0

Illiquidity premiums

Investment returns on non-participating annuities and guaranteed plans include assumed illiquidity premiums due to matching assets being held to maturity.

Assumed illiquidity premiums generally amount to between 25bps and 50bps (2010: 25bps and 50bps) for non-participating annuities and between 25bps and 110 bps (2010: 25bps and 110bps) for guaranteed plans.

%	2011	2010
Asset mix for assets supporting required capital		
Sanlam Life		
Equities	**26**	24
Offshore investments	**10**	10
Hedged equities	**13**	13
Property	**—**	3
Fixed-interest securities	**15**	15
Cash	**36**	35
	100	100
SDM Limited		
Equities	**50**	50
Hedged equities	**—**	—
Property	**—**	—
Fixed-interest securities	**—**	—
Cash	**50**	50
	100	100
Sanlam Investments and Pensions		
Equities	**—**	—
Hedged equities	**—**	
Property	**—**	—
Fixed-interest securities	**—**	—
Cash	**100**	100
	100	100
Botswana Life Insurance		
Equities	**15**	15
Hedged equities	**—**	—
Property	**10**	10
Fixed-interest securities	**25**	25
Cash	**50**	50
	100	100

10. Change in accounting policies

During 2010, Channel Life's accounting policies for insurance contracts have been aligned with the rest of Sanlam Group. In terms of the amended accounting policies, no negative rand reserves are recognised on an individual policy level. Channel Life's capital and economic bases have also been aligned with that of SDM Limited.

Comparative information has not been restated based on the immaterial impact of the changes on the embedded value of covered business, embedded value earnings and value of new business. The full impact is recognised as a change to the opening embedded value of covered business on 1 January 2010.

Stock exchange performance

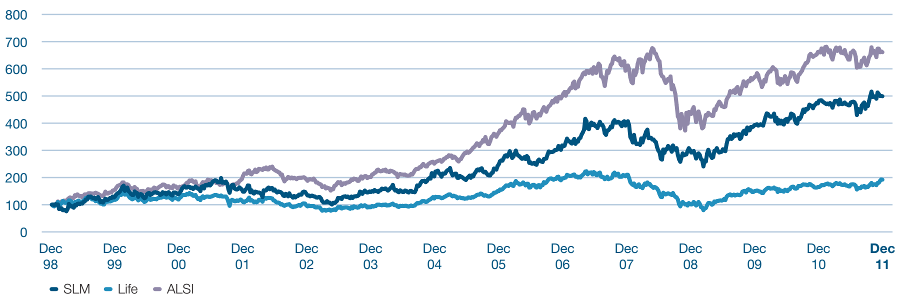
		2011	2010	2009	2008	2007
Number of shares traded	million	**1 082**	1 059	1 259	1 490	1 474
Value of shares traded	R million	**29 578**	25 986	23 714	27 175	32 300
Percentage of issued shares traded	%	**52**	50	58	66	64
Price/earnings ratio	times	**11,6**	11,1	10,4	12,9	10,3
Return on Sanlam share price since listing[(2)]	%	**17**	17	17	14	19
Market price	cps					
– Year-end closing price		**2 885**	2 792	2 275	1 700	2 275
– Highest closing price		**3 016**	2 829	2 305	2 330	2 412
– Lowest closing price		**2 414**	2 200	1 351	1 390	1 803
Market capitalisation at year-end	R million	**60 585**	58 632	49 140	37 232	52 407

[(1)] *Sanlam Limited was listed on 30 November 1998.*

[(2)] *Annualised growth in the Sanlam share price since listing plus dividends paid.*

Sanlam share price relative to FINI (indexed)

Sanlam vs ALSI vs Life Assurance index



Sanlam

Integrated annual report **2011**
Volume 2:
Governance and financial information

Sustainability through responsibility

...to our investors

Refer to page 8 for a review of our key performance indicators

clients and employees

Refer to page 12 for a review of our material sustainability pillars and performance

and the environment.

As a caring and responsible corporate citizen, Sanlam is acutely aware of the impact that climate change and the ongoing water crisis will have on our business, our people and the planet. **Refer to our web-based Sustainability Report (www.sanlam.co.za)**

Our ability to create value for our shareholders and other stakeholders over the short-, medium- and long-term is dependent upon our responsible actions and capacity to adapt to an increasingly challenging business environment.

While our 94-year history and our strong performance during the recent global financial crisis bear testimony to our resilience, we believe that we are likely to face continuing business turbulence given the context of current economic, social and environmental challenges. We recognise that we cannot rely on our past performance alone if we are to achieve our vision of being a leader in wealth creation and protection.

At Sanlam we therefore consider sustainability a strategic business component enabling us to remain responsive to the increasingly interconnected societal challenges and changing expectations of our stakeholders and the environment. With the aim of keeping our stakeholders informed of the key issues that impact on our ability to create and sustain value, the Sanlam Group has embraced the concept of integrated reporting. This is the Sanlam Group's second integrated annual report.

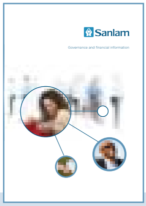
Contents

How to use this integrated report:

Volume 1

Volume 1 provides an overview of the Sanlam Group and its integrated performance. Detailed governance and financial information is included in Volume 2. In combination they comprise the Group's Integrated Annual Report, compliant with IFRS and the King III code on corporate governance.

Volume 2



Volume 1

Context

Our performance

Volume 2

Governance and risk

Additional financial information

References and notices

Navigation and content aids

Further reading boxes refer the reader to other parts of the report that contains relevant information to the current section.

Insight provides additional information on the topic.

Sustainability indicates that a sustainability topic has been covered in the text.

Corporate governance report

Sana-Ullah Bray, Company Secretary

The Board is committed to the highest standards of business integrity, ethical values and governance; it recognises the responsibility of Sanlam to conduct its affairs with prudence, transparency, accountability, fairness and social responsibility, thereby safeguarding the interests of all its stakeholders.

Statement of commitment

The Sanlam Board of Directors promotes and supports high standards of corporate governance and in so doing endorses the principles of the third report on Corporate Governance in South Africa (King III), which came into effect on 1 March 2010. Sanlam complies with the requirements for good corporate governance stipulated in the JSE SRI Index. Sanlam subscribes to a governance system whereby in particular ethics and integrity set the standards for compliance. It adapts its structures and processes to facilitate effective leadership, sustainability and corporate citizenship to reflect national and international corporate governance standards, developments and best practice.

With regard to the year under review, the directors of Sanlam believe that most of the King III principles are already entrenched in the Group's internal controls, policies and procedures governing corporate conduct. All reasonable efforts have been carried out to the extent that King III has largely been implemented since the beginning of the financial year and the Board is committed in continuing to carrying out the full implementation of King III throughout the Group. The only area of partial compliance at a Sanlam Limited level is the development of a formal Stakeholder Engagement Strategy and Communication Policy for the Group, which will be finalised during 2012.

The Board is committed to the highest standards of business integrity, ethical values and governance. It recognises the responsibility of Sanlam to conduct its affairs with prudence, transparency, accountability, fairness and social responsibility, thereby ensuring its sustainability and safeguarding the interests of all its stakeholders. The Board also acknowledges the relationship between good governance and risk management practices, equity performance and corporate profitability.

Sound governance principles remain one of the top priorities for the Board and Sanlam's executive management.

Application of and approach to King III

The Risk and Compliance committee is satisfied that Sanlam complies with the King III principles (except for a stakeholder strategy) and has taken steps to ensure adherence with the obligations placed on the Group as a consequence thereof. The company assesses its compliance level in respect of King III on a continuous basis. To ensure that Sanlam's governance framework will be of a superior standard and aligned with governance best practice developments, a King III task team has been established and will give continuous guidance on King III principles and practices. Sanlam uses these governance trends and developments as an opportunity to review its governance framework and structures throughout the Group. To this end, provisions impacting operations have and are being identified and addressed through action plans and regular monitoring and reporting to the appropriate governance structures. Ongoing progress reports in this regard are presented to the Sanlam Board as well as its Risk and Compliance committee. A number of policies and procedures have been addressed within the main operating companies in the Sanlam Group. The Board has embedded the principles and recommendations of King III across the Group.

During the past financial year these included the following:

- The existing Sanlam Group Corporate Governance Policy Framework was updated in December 2011 to ensure alignment with the King III recommendations on a subsidiary level. It includes the Group Business Philosophy, Code of Ethical Conduct as well as the Board Approval Framework;
- The annual evaluation of the independent status of Sanlam's directors was again conducted in accordance with the King III standards and criteria;
- Sanlam prepared an Integrated Report for 2010 (including a Group Sustainability Review) in which it endeavoured to comply with the new reporting requirements. A further comprehensive Integrated Report was prepared for 2011;
- Sanlam also prepared comprehensive Sustainability Reports for 2010 and 2011;
- Sanlam's Risk Appetite Statement has been approved by the Sanlam Board and will be reviewed annually;

Corporate governance report continued

- A Combined Assurance Model for Sanlam Life as well as significant businesses within the Group has been developed and approved by the Board;
- The Group IT Governance Framework and Charter as well as the IT Policy Framework have been approved and are being implemented;
- The Sustainability Management Framework has been developed and approved in 2011;
- The development of a comprehensive Stakeholder Engagement Strategy and Communication Policy has been initiated;
- With effect from the 2010 AGM, Sanlam has presented a Remuneration Report to its shareholders, enabling them to cast a non-binding advisory vote on the company's Remuneration Policy; and
- The members of the Sanlam Audit, Actuarial and Finance committee have been elected by the shareholders at the AGM held in June 2011 and this process will be repeated in 2012.

Information Technology (IT) is essential for Sanlam and is truly pervasive. The Board's governance of IT directs the strategic and operational use of IT, ensuring benefits are realised at an acceptable and articulated level of risk. IT receives appropriate focus and is viewed as an important enabler of projects that effect change to businesses in the Sanlam Group. Thus IT Governance is extended to include all major change projects. The IT Governance framework established at Group level is being extended into the businesses and is tailored to suit their specific needs. Similarly, IT Governance capacity and awareness are being established or in process of establishment through all Board and Management structures within the businesses.

The Board continues to entrench the principles and recommendations of King III across the Group. The roll-out and implementation of the King III principles at subsidiary level (including non-SA entities) will continue with special focus on the application of the Group governance policy, disclosure requirements regarding integrated reporting, as well as the composition of governance structures.

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 King III. 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 achievement of best practice in sustainability are set out in this Integrated Report. The full Sustainability Report will be available on Sanlam's website (www.sanlam.co.za).

Sanlam has once again qualified for the (2011) JSE's Socially Responsible Investment ("SRI") Index.

Board structures

All the non-executive directors of Sanlam Limited (Sanlam) also serve on the Board of Sanlam Life Insurance Limited (Sanlam Life), a wholly owned subsidiary of Sanlam Limited. The two Boards 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 are combined meetings and are held concurrently, thereby removing one layer of discussions in the decision-making process. This is an attempt to enhance productivity and efficiency of the two Boards, to prevent duplication of effort and to optimise the flow of information.

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

- Audit, Actuarial and Finance
- Risk and Compliance
- Human Resources
- Nominations
- Non-executive Directors
- Policyholders' Interest
- Social, Ethics and Sustainability.

The Sanlam Life Board is responsible for statutory issues across all Sanlam businesses, monitoring operational efficiency and operational risk issues throughout the Group, as well as compliance with Long-term Insurance Act requirements. 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 Finance
- Risk and Compliance
- Human Resources
- Policyholders' Interest.

Business divisions and cluster Boards

The Sanlam business clusters are Sanlam Investments (Asset Management, Employee Benefits and Sanlam UK) as well as Sanlam Personal Finance (including Sanlam Sky), Sanlam Emerging Markets (mainly Africa and India) and Santam (Property and Casualty).

Each business cluster is managed by a chief executive, supported by an executive committee and support functions that are appropriate to their particular operational needs.

The clusters function within the strategy approved by the Sanlam Board and according to a set of "tight" management principles established by the Group Office for the Sanlam Group.

Cluster Boards were established for the business clusters. Each of these (not all statutory) Boards has committees (or forums) with specific responsibilities for the operation of that particular cluster. Each of the cluster Boards has its own Financial and Risk as well as Human Resources (HR) forum/committee.

The cluster Boards consist of non-executive directors and executives. Non-executive directors include members of the Sanlam Life Board and, where appropriate, external appointments. Board committees are, where appropriate, strengthened through the appointment of independent experts.

Corporate governance report continued

The majority of the material business decisions are made by these Boards and Board committees under the guidance of the relevant cluster chief executive officer.

These structures are also responsible for the generation of memoranda and issues for consideration by the Sanlam Life Board.

Individual business units within the clusters have their own Boards and executive committees that structure their activities within appropriate delegated authority levels. Where required, the various business unit Boards will also act as the statutory Boards of subsidiary and associated companies.

Group Office

The Group Chief Executive Officer 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; assurance provision and the allocation of capital. A number of support functions are provided by the Group Office, grouped together under Group Services, headed by an executive director, Yvonne Muthien.

The Sanlam Board and Board committees (as at 31 December 2011)

Board charter

The Board charter (and the committee charters) embraces the Code of Practices and Corporate Conduct in the King III Report which contains the corporate governance guidelines and recommendations. The current Sanlam Board charter has been modelled on the principles of sound corporate governance, recommended by King III. The powers of the Board include:

- a determination of the overall objectives for the Group;
- a formulation of a clear and concise policy which is adhered to;
- an overview of the division of the Board's responsibilities and accountability;
- evaluating performance of the Group Board, its committee structures and individual directors; and
- developing strategies to meet those objectives in conjunction with management.

An annual evaluation process to review the effectiveness of the Board, its committees and individual directors has been entrenched.

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.

Board composition

As at the 2011 financial year-end the Sanlam Board comprised 18 members, two of whom were non-executive, 12 were independent non-executives (in accordance with King III's standards of independence) and four executive directors.

The roles of Chairman and Group Chief Executive remain separated, with Desmond Smith and Johan van Zyl holding these positions respectively. The Group Executive committee members are also attendees at the Board meetings. At least a third of all Board members retire every year at Sanlam's annual general meeting (AGM). Retiring directors are eligible for reappointment. None of the non-executive directors has a director's service contract, but all remuneration paid to non-executive directors is in terms of approval, by special resolution of the shareholders, at the AGM as required by the Companies Act, 2008. Executive directors are full-time employees and as such are subject to Sanlam's conditions of service.

Particulars of the Sanlam Board members and their capacities categorised as executive, non-executive and independent, are set out below.

The Sanlam Board of directors

Director	Executive (E) Non-executive (N) Independent (I)	Changes during 2011
MMM Bakane-Tuoane	I	—
MP Buthelezi	I	Appointed 28/03/2011
AD Botha	I	—
AS du Plessis	I	Retired 08/06/2011
FA du Plessis	I	—
MV Moosa	I	—
JP Möller	E	—
PT Motsepe	N	—
YG Muthien	E	—
TI Mvusi	E	—
SA Nkosi	I	—
I Plenderleith	I	—
P de V Rademeyer	I	Appointed 28/03/2011
GE Rudman	I	Retired 08/06/2011
RV Simelane	N	—
DK Smith (Chairman)	I	—
CG Swanepoel	I	Appointed 28/03/2011
ZB Swanepoel	I	—
J van Zyl	E	—
PL Zim	I	—

Composition of the Board as at 31 December 2011: Four black females, five black males, one white female, eight white males. More information on individual director's qualifications, experience, etc is provided in the Board of Directors section of this Integrated Report.

AS du Plessis and GE Rudman retired after serving on the Sanlam Board for more than nine years.

Corporate governance report continued

Independence of Board members

Through the Chairman of Sanlam Limited and the Nominations committee the Board annually considers and reconfirms the classification of directors as being independent. The guidelines of King III were used for the 2011 classification. 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, professional knowledge and skills to make sound judgement on various key issues relevant to the business of Sanlam, independent of management.

The Nominations committee is of the view that all the Sanlam directors meet the criteria set for independence except for PT Motsepe and RV Simelane owing to their involvement in Ubuntu-Botho, as well as J van Zyl, JP Möller, YG Muthien and TI Mvusi 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. The Nominations committee reviews the composition of the Board on a continuous basis to ensure the appropriate level of skills and experience in key areas such as strategy, industry knowledge, finance, human resources, corporate governance, risk management and sustainability. Consideration of gender and racial diversity, as well as diversity in business, geographic and academic backgrounds are also taken into account, in accordance with Sanlam's commitment to transformation.

Sanlam's Memorandum of Incorporation empowers the Board to appoint a director until the next AGM if a casual vacancy arises. In terms of the Memorandum of Incorporation, directors are subject to retirement by rotation every three years and, if put forward for re-election, are considered for reappointment at the AGM. Shareholders may also nominate directors for election at the AGM, in accordance with formal, prescribed procedures. In the Notice of the AGM, shareholders are referred to the biographical details of each of the candidates as contained in the Board of Directors section of this Integrated Report. All directors are consequently appointed on a individual basis at an AGM by a shareholders' resolution.

Education and induction

New Board member orientation and Board training are conducted in accordance with an induction programme, designed to meet the individual needs and circumstances of each new director, and approved by the Board. The directors are kept abreast of all applicable legislation and regulations, changes to rules, standards and codes as well as relevant developments that could affect the Group and its operations. The office of the Company Secretary manages the induction programme. Ongoing support and resources are also provided to Board members as required, in order to enable them to extend and refresh their skills, knowledge and understanding of the Group. Professional development and skills training are provided through regular updates on changes and proposed changes to laws and regulations affecting the Group or its businesses.

Board effectiveness evaluation

The Nominations committee annually assesses the contribution of each director standing for re-election, using an individual director evaluation process that is conducted by the Board Chairman or an external service provider. These assessments are transparent and well documented. 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 result 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 recommend the re-election.

The names and short CVs of the directors standing for re-election at the 2012 AGM are contained in the proposed resolutions for the AGM (refer to page 308).

Every year, a collective Board effectiveness evaluation is conducted. This assessment, which is performed in alternate years 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 results of the evaluation process and makes recommendations to the Board where deemed appropriate.

The annual Board effectiveness review was conducted internally during 2011. It was reported that the Sanlam Board and committees were functioning very well and there were no material matters to report.

Succession planning is a key focus area within the Group. The Nominations committee considers the composition of the Board and its committees on an ongoing basis. The Board is satisfied that the current talent pool available within the Group and the work being done to strengthen it, provides Sanlam with a pool of candidates that have the necessary skills and experiences to fill any vacancies that may arrive in the short- and long-term.

Board meetings

The Board meets at least quarterly to consider business philosophy and strategic issues, to set risk parameters, approve financial results, 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. In addition to the quarterly Board meetings, a two-day strategy session is held and attended by all Board members and Group Exco members, reviewing Group strategy which is considered and approved annually.

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 at all times resides in the Board and, as such, it does not abdicate this responsibility to the committees.

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. For the period under review, all the committees conducted their annual self-assessments to evaluate the effectiveness of the

Corporate governance report continued

respective committees and their procedures. The committee members are all satisfied that they have fulfilled their responsibilities in terms of their respective charters.

Risk and Compliance committee ("Risk committee")

In line with global best practice the functions of the Audit and Risk committee continue to be split into two separate committees, namely a Risk and Compliance committee and an Audit, Actuarial and Finance committee. This allows sufficient attention to be devoted to the Risk and Audit matters.

Members

CG Swanepoel (Chairman), MP Buthelezi, FA du Plessis, JP Möller, I Plenderleith and P de V Rademeyer.

Attendees

Group Chairman, Group Chief Executive, Group Risk Officer, Group Compliance Officer, Chief/ Statutory Actuary, Chief Audit Executive, the cluster heads (as needed) as well as expert invitees: AS du Plessis, PJ Cook and D Ladds.

This committee is chaired by an independent non-executive director and further comprises four other independent non-executive directors, as well as the Group Financial Director. In view of this committee's Group-wide relevance, the external audit partners as well as other assurance providers also attend the committee meetings.

The role of the Risk committee is to advise and assist the Board in fulfilling its responsibility with regard to its enterprise risk management framework and responsibilities as well as with regard to its compliance responsibilities. The Risk committee assists the Board, including on, but not limited to:

- evaluating the adequacy and efficiency of risk policies, procedures, practices and controls;
- identifying the buildup and concentration of risk and monitoring risk; and
- developing risk mitigation techniques and ensuring formal risk assessments.

The committee undertakes to evaluate risk areas, including but not limited to:

- market and trading risk;
- asset and liability management risk;
- investment exposure;
- stakeholder risks;
- IT risks; and
- compliance risks.

The committee annually reviews the performance of Sanlam's Chief Risk Officer. This committee's charter is reviewed annually by the Board to ensure that it is aligned with national and international corporate governance best practice. The Risk committee is satisfied with the performance of the Chief Risk Officer and the company's risk management processes.

The committee meets four times a year.

Audit, Actuarial and Finance committee ("Audit committee")

Members and dates of appointment

P de V Rademeyer (Chairman) (08/06/2011), *MP Buthelezi* (01/07/2011), *FA du Plessis* (03/06/2004), *I Plenderleith* (04/09/2006) *and CG Swanepoel* (08/06/2011).

Attendees

Group Chairman, Group Chief Executive, Group Financial Director, Chief Actuary, Chief Audit Executive, the cluster heads (as needed) as well as expert invitees: AS du Plessis, PJ Cook and D Ladds.

This committee is chaired by and comprises only independent non-executive directors. In accordance with the requirements of the Companies Act No 71 of 2008 (Companies Act), as amended, the individual members of the committee are appointed annually by the shareholders at the AGM for the ensuing financial year. The committee consists of five members with financial, actuarial and other relevant areas of experience (as described in its charter). The external audit partners as well as other assurance providers also attend committee meetings. This committee also discharges all the (statutory) Audit committee responsibilities in terms of the said Act on behalf of almost all of the subsidiary companies within the Group.

To strengthen the committee the Board appointed MP Buthelezi as an additional member to the committee with effect from 1 July 2011 until the next AGM.

To oversee the preparation of the sustainability information provided in the Integrated Report and to review the assurances provided regarding the sustainability information, the chairman of the Audit Committee is also a member of the Social, Ethics and Sustainability committee. Likewise, the chairman of last-mentioned committee also attends selected meetings of the Audit Committee to ensure that the Sustainability Report is addressed.

The Audit committee has a formal terms of reference approved by the Board, and is satisfied it has discharged these responsibilities. The role of the Audit committee is to fulfil all of the functions set out in the Companies Act, to assist the Board in fulfilling its responsibility with regard to financial and auditing oversight responsibilities, as well as the overall quality and integrity of financial and actuarial reporting and internal control matters. The Audit committee annually evaluates the company's internal controls and has satisfied itself that there were no material breakdowns in internal financial control systems during the year.

The Audit committee, after due consideration, has recommended the Integrated Report to the Board for approval. It also performs the prescribed statutory requirements including those applicable to the external auditor. The last-mentioned includes the annual recommendation of the external auditor to the shareholders at the AGM, agreeing to the scope of the audit and budgeted audit fees in the annual audit plan presentation and approval of the final audit fees. As required by the Companies Act, the committee annually reviews compliance of the external auditor with the non-audit services policy of the Group.

The committee also reviews and approves the Internal Audit Charter, reviews the effectiveness of the internal audit structures and considers the

Corporate governance report continued

findings of internal audit. The committee also meets with the Chief Audit Executive independently of management.

In terms of the JSE Listings Requirements, the Audit committee performs an annual evaluation of the financial function in Sanlam. The committee executed this responsibility at its meeting in December 2011 and was satisfied that the financial function has appropriate resources, skills and experience. The committee also confirmed that it is satisfied that JP Möller, the financial director of Sanlam, possesses the appropriate expertise and experience to meet the responsibilities required for that position. The committee also reviewed and confirmed positive performance of the Chief Audit Executive during the year.

As part of Sanlam's corporate governance practices, the interim financial results are reviewed by the external auditor.

As required by the Companies Act, the committee has, after consideration of the level and types of non-audit services provided and other enquiries and representations, satisfied itself that Sanlam's external auditor is independent of the company and has nominated the reappointment of Ernst & Young Inc. for the 2012 financial year. The Board has recommended to the shareholders the appointment of Ernst & Young Inc. as external auditor and MP Rapson as the designated individual registered auditor who will undertake the audit of Sanlam on behalf of Ernst & Young Inc.

Ernst & Young Inc. being the audit firm, as well as MP Rapson being Sanlam's designated individual auditor for 2011, has been accredited on the JSE Limited (JSE) list of Auditors in terms of the criteria in the JSE Listings Requirements.

This committee's charter is also reviewed annually by the Board. The Audit committee is satisfied it has discharged its legal, regulatory and other responsibilities.

The committee meets four times a year.

The Audit committee report for the 2011 financial year

The Audit committee has pleasure in submitting this report, as required in terms of the Companies Act. The Audit committee consists of five Independent non-executive directors who act independently as described in section 94 of the Companies Act. During the period under review, four meetings were held and all the committee members (with the exception of one) attended all the meetings. At the meetings, the members fulfilled all their functions as prescribed by the Companies Act as well as those additional functions as determined by the Board. A list of the functions of the Audit committee is contained in the Committee Charter, some of which are elaborated upon in the Corporate Governance report. The Audit committee evaluated the Company's internal financial controls and has satisfied itself that there were no material breakdowns in such controls during the year. The Audit committee did not receive any concerns or complaints from external stakeholders during the year. The Audit committee has satisfied itself that the auditors are independent of the company and are thereby able to conduct their audit functions without any undue influence from the company.

P de V Rademeyer
Audit Committee Chairman

Human Resources committee

Members

AD Botha (Chairman), DK Smith, PT Motsepe and MMM Bakane-Tuoane.

Attendees

Group Chief Executive and Group HR Executive.

This committee is responsible for monitoring and advising on the Group's human capital and transformation processes regarding employees. In particular, the committee approves executive appointments and reviews succession planning, including all the Group Executive committee members, as well as 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).

In accordance with the King III recommendations, the company's Remuneration Policy is tabled to the shareholders for a non-binding advisory vote at its AGM. This vote enables the shareholders to express their views on the remuneration policies adopted and their implementation. Sanlam supports the benefit of an advisory vote, which is to promote constructive dialogue between a company and its shareholders, and it would help to ensure that directors pay stronger attention to the elements of compensation that mattered most to investors, such as linking performance and business strategy. At the 2011 AGM, shareholders endorsed the company's executive compensation.

The committee meets four times a year.

Nominations committee

Members

DK Smith (Chairman), MMM Bakane-Tuoane and PT Motsepe.

Attendees

Group Chief Executive.

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 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.

Corporate governance report continued

Committee of non-executive directors

Members

DK Smith (Chairman), MMM Bakane-Tuoane, AD Botha, MP Buthelezi, FA du Plessis, MV Moosa, PT Motsepe, SA Nkosi, I Plenderleith, P de V Rademeyer, RV Simelane, CG Swanepoel, ZB Swanepoel and PL Zim.

This committee is responsible for the governance and functioning of the Board. The committee gives due regard to the general requirements of the JSE as well as King III, and ensures that appropriate and balanced corporate governance practices and processes are entrenched 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 directors. The committee meets subsequent to scheduled Board meetings.

Social, Ethics and Sustainability committee ("SES committee")

Members

MV Moosa (Chairman), YG Muthien, TI Mvusi, P de V Rademeyer, RV Simelane, ZB Swanepoel and PL Zim.

Attendees

Group Chief Executive, Group HR Executive and cluster heads (as required).

The Social, Ethics and Sustainability Committee is a committee established in terms of section 72 and Regulation 43 of the Companies Act No 71 of 2008 and replaced the Sustainability Committee from December 2011.

The committee's statutory functions are set out in the abovementioned regulation and are supplemented as set out in the committee charter, some of which are highlighted below.

The committee has the responsibility to recommend for approval, monitor and advise on all social, ethics and sustainability matters and relevant issues that have a significant impact on the company and its stakeholders. This committee also addresses transformational, safety, health and environmental matters. 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 issues, the committee's main responsibility is to recommend for approval, monitor and advise on matters pertaining to such issues throughout the Group.

The committee annually reviews Sanlam's SES strategy and structures. It also monitors performance against specific pre-set targets and objectives. The committee considers Sanlam's Sustainability Report (including the report from the independent assurance provider, Ernst & Young Inc.) and recommends the approval thereof to the Sanlam Board.

The committee meets four times a year.

Policyholders' Interest committee

Members

FA du Plessis (Chairperson), MMM Bakane-Tuoane and CG Swanepoel.

Attendees

Chairman of the Board, Group Chief Executive, Chief Actuary and selected members of senior management.

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 a year.

Ad hoc Board subcommittees

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

In addition to the abovementioned Board committees, there is also a:

Sanlam Group Executive committee

Members

J van Zyl (Group Chief Executive and Chairman), I Kirk, L Lambrechts, JP Möller, YG Muthien, TI Mvusi, JHP van der Merwe, HC Werth, AP Zeeman and PNB Zwane.

The Sanlam Group 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 executive directors, cluster heads, the Chief Actuary and the Chief Executive: Group Human Resources.

The committee meets every fortnight.

Corporate governance report continued

Attendance of meetings

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

Attendance: Board and committee meetings 2011

	Board meeting		Audit/ Risk commit-tees	HR commit-tee	Nomina-tions commit-tee	SES commit-tee	Policy-holders' interest commit-tee	Special sub-commit-tee meetings
Directors	**Planned/ held 5/5**	**Special 1**	**Planned/ held 4/4**	**Planned/ held 4/4**	**Planned/ held 4/4**	**Planned/ held 4/5 (1 Special)**	**Planned/ held 4/4**	**Held on 13/01 and 22/08**
MMM Bakane-Tuoane	5/5	1/1		4/4	4/4		4/4	
AD Botha	5/5	1/1		4/4				1/1
MP Buthelezi[(a)]	4/4	1/1	1/2[(c)]					
AS du Plessis[(b)]	2/2	1/1	2/2			1/1		
FA du Plessis	5/5	1/1	4/4				4/4	2/2
MV Moosa	5/5	0/1				5/5		
JP Möller	5/5	1/1	4/4					2/2
PT Motsepe	5/5	1/1		4/4	4/4			1/1
YG Muthien	5/5	1/1				5/5		
TI Mvusi	4/5	1/1				4/5		
SA Nkosi	5/5	0/1						
I Plenderleith	5/5	1/1	4/4					
GE Rudman[(b)]	1/2	1/1	2/2					1/1
RV Simelane	5/5	1/1				5/5		
DK Smith	5/5	1/1		4/4	4/4		4/4	2/2
J van Zyl	5/5	1/1						2/2
ZB Swanepoel	5/5	0/1				5/5		
PL Zim	5/5	1/1				5/5		
CG Swanepoel[(a)]	4/4	1/1	4/4				4/4	2/2
P de V Rademeyer[(a)]	4/4	1/1	4/4			1/1[(d)]		1/1

[(a)]Appointed to Board: 28/03/2011.

[(b)] Retired from Board: 08/06/2011.

[(c)]Appointed to committee: 01/07/2011 by the Board until the next AGM.

[(d)]Appointed to committee: 07/09/2011.

Company Secretary and professional advice

With effect from 1 January 2011 Sana-Ullah Bray had been appointed as the Group Company Secretary, serving as the Company Secretary of Sanlam Limited and Sanlam Life Insurance Limited. The Company Secretary is responsible for the execution of all relevant and regulatory requirements applicable to those positions, including those set out in the Companies Act, 2008. The Company secretariat oversees the induction of new directors, including directors of subsidiary companies, as well as the ongoing education of directors.

All directors have unlimited access to the advice and services of the Company Secretariat, which office 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.

The Company Secretary attends all Board and Committee meetings.

Dealings in JSE securities

Sanlam complies with the JSE requirements in respect of the share dealings of its directors. In terms of Sanlam's closed-period policy, all directors and staff with access to price-sensitive information, are precluded from dealing in Sanlam securities 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 with 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 and duly reported on to the Board. 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. The Company Secretary regularly disseminates written notices to inform the directors, executives and employees regarding the insider trading legislation and advises them of closed periods.

Sponsors

During the period under review, Deutsche Securities (SA) (Pty) Limited was Sanlam's appointed JSE sponsor.

Investor relations and communication with other stakeholders

Sanlam strives to be a leader in transparent, open and clear communication with all of its relevant shareholders and other stakeholders.

In this regard, the Group seeks to continuously improve upon its communication efforts through more detailed disclosure of relevant financial and other information. A formal Sanlam Stakeholder Engagement Strategy and Communication Policy is under development for the Sanlam Group of companies. 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.

Corporate governance report continued

Reports and announcements to all audiences and meetings with investment analysts, institutional investors, regulatory authorities 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.

Communication with institutional shareholders and the investment community is conducted by Sanlam's Group Finance department and a comprehensive programme is in place to ensure appropriate communication channels are maintained with domestic and international institutional shareholders, fund managers and investment analysts.

Political party support

While it is Sanlam's policy to support the development of democratic institutions and social initiatives across party lines, it does not provide support to any individual political party, financially or otherwise.

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 for the Group.

A Group Ethics committee functions under the chairmanship of the Chief Actuary (Risk Officer) and includes representatives of the business clusters. The Group Ethics committee monitors compliance with the principles underlying the code of ethical conduct 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. Although the 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, our preference is to create an open reporting environment, usually through our line managers. Over the past 10 years we have had 176 calls to the hotline of a staff complement of over 9 000. Of these, less than 10% of all callers felt the need to subsequently remain anonymous. All cases are investigated and a process is in place to track, report and close out all calls received. Actions taken as a consequence of resulting investigations include termination of employment, and cancellation of contracts in the case of suppliers and contractors.

In terms of Sanlam's code of ethical conduct, no 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 ethical conduct and to address any breaches of the code. The results of an independent ethical assessment conducted by KPMG during 2011 were very positive. The risk assessment study concluded that the integrity profile of the Group was strong and that this provides an excellent base for the strengthening of the ethical culture in Sanlam.

Across the Group, no material breaches of Sanlam's Code of Ethical Conduct were reported during 2011.

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 ethical conduct, and undermine 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 executives 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 division is responsible for the implementation of the policy in his or her respective business division and is accountable to the Group Chief Executive and the Sanlam Board.

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

Compliance

Sanlam considers compliance with applicable laws, industry regulations, codes and its own ethical standards and internal policies to be 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. Material deviations are reported to the Sanlam Risk and Compliance committee. No material deviations were reported in 2011.

Remuneration report

Introduction

Sanlam's remuneration philosophy and strategy supports the Group strategy in that it governs processes that align predetermined strategic goals with the organisational behaviour required to meet and exceed these goals. In setting up the reward structures, cognisance is taken of prevailing economic conditions, national and international governance principles and the management of risk in the context of both short- and long-term incentive allocations. During 2011, a great deal of attention was given to correctly position both the nature and the scale of remuneration relative to national comparator groups and international best practice. Steps were also taken to ensure alignment with the regulatory and governance requirements and specifically those of King III.

Corporate governance report continued

The Group Human Resources committee and its role

The Human Resources committee of the Board (GHRC) is responsible for developing the remuneration strategy of the Group and presenting it to the Sanlam Board for approval. Its activities include approving mandates for bonus and all long-term incentive schemes and taking decisions about the Sanlam Group Executive committee remuneration packages relative to local and international industry benchmarks. The GHRC has the prerogative to make all remuneration decisions it deems appropriate within an approved framework and may propose amendments to any part of the Group's remuneration policy as necessitated by changing circumstances. It also makes recommendations to the Board regarding the remuneration of Sanlam directors, other than the GHRC's committee fees. To fulfil the role described above, the GHRC undertakes the following:

- Develops and recommends to the Sanlam Board for approval the Group's remuneration strategy as far as the remuneration of executive directors and members of the Sanlam Group Executive committee is concerned;
- Develops and recommends to the Sanlam Board for approval short-term incentive schemes for the Group. Its activities include the setting of annual targets, monitoring those targets and reviewing the incentive schemes on a regular basis to ensure that there is a clear link between the schemes and performance;
- Develops and recommends to the Sanlam Board for approval long-term share incentive schemes for the Group. Its activities include the setting of guidelines for annual allocations and a regular review of the structure of the schemes;
- Sets appropriate performance drivers for both short-term and long-term incentives, as well as monitoring and testing those drivers;
- Manages the contracts of employment of executive directors and Executive committee members so that their terms are compliant with good practice principles;
- Determines specific remuneration packages for executive directors and Executive committee members, including basic salary, retirement benefits, short-term incentives, long-term incentives and conditions of employment; and
- Makes recommendations to the Board regarding the remuneration of non-executive directors.

A copy of the GHRC's charter can be found on the company's website (www.sanlam.co.za).

During 2011, the GHRC considered the following issues:

- Benchmarking of remuneration levels and practices with international and local comparator groups;
- Alignment of Sanlam remuneration practices with King III governance principles;
- Recruitment and appointment of executive staff members with the emphasis on black recruits;
- Monitoring and approval of short-term bonuses and the allocation of long-term incentives; and
- Participation of a select group of black Sanlam employees in the Santam BBBEE Business Partner Trust.

Sanlam's remuneration philosophy and strategy

Philosophy

The Board is convinced that appropriate remuneration for executive directors and members of the Executive Committee is inextricably linked to the development and retention of top-level talent and intellectual capital within the Group. Given the current economic climate, changes in the regulatory requirements and the ongoing skills shortage it is essential that adequate measures be implemented to attract and retain the required skills. In order to meet the strategic objective of a high-performance organisation, the remuneration philosophy is positioned to reward exceptional performance and to maintain that performance over time. Sanlam's remuneration philosophy aims to:

- inform stakeholders of Sanlam's approach to rewarding its employees;
- identify those aspects of the reward philosophy that are prescribed and to which all businesses should adhere;
- provide a general framework for all the other elements of the reward philosophy;
- offer guidelines for short- and long-term incentive and retention processes; and
- offer general guidelines about how the businesses should apply discretion in their own internal remuneration allocation and distribution.

Sanlam is the sole or part owner of a number of businesses and joint ventures. The organisation recognises the difference between these entities and where appropriate allows the businesses relative autonomy in positioning themselves to attract, retain and reward their employees appropriately within an overarching framework. In this regard, there are some areas where the dictates of good corporate governance, the protection of shareholder interests and those of the Sanlam brand or corporate identity require full disclosure, motivation and approval by the Human Resources committees either at Group or business level. The principle of management discretion, with regard to individual employees, is central to the remuneration philosophy on the basis that all rewards are based on merit. However, the overarching principles and design of the remuneration structure are consistent, to support a common philosophy and to ensure good corporate governance, with differentiation where appropriate. In other instances, the Sanlam remuneration philosophy implies that the businesses are mandated to apply their own discretion, given the role that their own Remuneration/Human Resources committees will play in ensuring good governance. To this end, the company has adopted a Total Reward Strategy for its staff members. This offering comprises remuneration (which includes cash remuneration and short- and long-term incentives), benefits (retirement funds, group life, etc.), learning and development, an attractive working environment and a range of lifestyle benefits.

Strategy

In applying the remuneration philosophy and implementing the Total Reward Strategy, a number of principles are followed:

- *Pay for performance:* Performance is the cornerstone of the remuneration philosophy. On this basis, all remuneration practices are structured in such a way as to provide for clear

Corporate governance report continued

differentiation between individuals with regard to performance. It is also positioned so that a clear link between the performance hurdle that is being rewarded and the company strategy is maintained.

- *Competitiveness:* A key objective of the remuneration philosophy is that remuneration packages should enable the company and its businesses to attract and retain employees of the highest quality in order to ensure the continued success of the organisation.
- *Leverage and alignment:* The reward consequences for individual employees are, as far as possible, aligned with, linked to and influenced by:
  - the interests of the shareholders;
  - the performance of the company as a whole;
  - the performance of any region, business unit or support function; and
  - the employee's own contribution.
- *Consistency:* The reward philosophy strives to be both consistent and transparent. Differentiation in terms of market comparison for specific skills groups or roles and performance is, however, imperative. Unfair discrimination is unacceptable and equal opportunities in respect of service practices and benefits must be guaranteed.
- *Attraction and retention:* Remuneration practices should be recognised as a key instrument in attracting and retaining the required talent to meet the company's objectives.
- *Shared participation:* Employee identification with the success of the Group is important owing to the fact that it is directly linked to both company and individual performance. All employees should have the chance to be recognised and rewarded for their contribution and the value they add to the Group, and, in particular, for achieving excellent performance and results in relation to the Group's stated strategic objectives. The performance management process contributes significantly towards obtaining this level of participation and towards lending structure to the process.
- *Best practice:* Reward packages and practices must reflect local and international best practice.
- *Communication:* The remuneration philosophy and practices, as well as the processes to determine individual pay levels, must be transparent and communicated effectively to all employees. In this process the link between remuneration and company strategic objectives must be understood by all employees.
- *Market information:* Accurate and up-to-date market information and information on trends is a crucial factor in determining the quantum of the remuneration packages.

For the Sanlam Group to remain competitive, remuneration policies and practices are evaluated against both national and international remuneration trends and governance frameworks. In response to developments on the international front and the implementation of King III, a number of amendments to Sanlam's remuneration policy were implemented during 2010. In 2011 a special benchmarking initiative was initiated to ensure that the remuneration of the Sanlam Executive committee was appropriate. This not only looked at the market relatedness of the remuneration but also focussed on the relationship between the guaranteed components relative to short-term bonuses and long-term incentives.

An overview of the executive remuneration structure

The different components of the remuneration paid to executive directors and members of the Executive committee are summarised in the table below. A detailed description of each component follows in the next section.

In general terms, the quantum of the different components of the package is determined as follows:

- The guaranteed component is based on market-relatedness in conjunction with the individual's performance, competence and potential.
- The short-term variable component of remuneration is based on a combination of individual and annual business performance.
- The long-term variable component is based on the individual's performance, potential and the overall value to the business.

Element	Purpose	Performance period and measures	Operation and delivery
Basic salary (guaranteed)*	Core element that reflects market value of role and individual performance	Reviewed annually based on performance against contracted output and market surveys	Benchmarked against comparator group and positioned on average on the 50th percentile
Benefits (guaranteed)*	Retirement and lifestyle benefits which assist employees in carrying out their duties	Reviewed annually	Included in comparator benchmarking
Annual bonus (short-term variable)	Create a high performance culture through a cash bonus in relation to performance against predetermined outputs	Annual	Based on different levels and predetermined performance hurdles of business and personal targets. Cash settlement capped at 200% of TGP in the first year, the rest is deffered
Long-term incentives (long-term variable)	Alignment with shareholder interests	Annual grants and three- to five-year vesting period	Upon satisfaction of return target/hurdles and individual performance

**Total Guaranteed Package (TGP).*

The above arrangements are reviewed on an ongoing basis to allow for significant changes in operating conditions or governance frameworks.

Corporate governance report continued

Remuneration details for executive directors and members of the Executive committee

In addition to the requirements of the disclosure of the executive directors in compliance with King III guidelines, Sanlam has decided to also disclose information on its Executive committee ("Exco"). Under normal circumstances members of the Exco will receive the highest annual remuneration in the Group. The following section provides a detailed description of each component of the remuneration paid to executive directors and members of the Executive committee – including the purpose of the component and its implementation – as far as these individuals are concerned.

Total guaranteed package (TGP)

Purpose

TGP is a guaranteed component of the remuneration offering. It forms the basis of the organisation's ability to attract and retain the required skills. In order to create a high performance culture, the emphasis is placed on the variable/performance component of remuneration rather than the guaranteed component. For this reason this component of remuneration is positioned on the 50th percentile of the market. Included in TGP, Sanlam provides its employees with a flexible structure of benefits that can be tailored, within certain limits, to individual requirements. These include:

- Retirement fund
- Group life cover
- Medical aid
- Travelling allowance/Motor-car scheme.

Process and benchmarking

TGP is set by reference to the median to upper quartile level paid by a group of comparator companies which Sanlam considers to be appropriate. The comparator group is made up of 20 to 22 companies and these companies have similar characteristics to Sanlam in terms of being in the financial services sector (but not limited only to this sector), market capitalisation and international footprint. In terms of the process followed in benchmarking TGP against these comparator companies, Sanlam obtains data from a number of global salary surveys and the data is then analysed using the Watson Wyatt grading system. In addition to this benchmarking process, when setting TGP levels Sanlam also takes into account the skills, potential and performance of the individual concerned.

GHRC's role

Upon conclusion of the benchmarking process, proposals regarding basic salary level increases for the following year are considered and approved by the GHRC. The GHRC also reviews and approves the adjustments to basic salary of each of the executive directors and members of the Executive committee.

Levels

TGP levels are generally positioned around the 50th percentile of the comparator market. In certain instances, however, there may be a salary sacrifice in favour of the variable component. Where specific skills dictate, TGP levels may be set in excess of the 50th percentile.

Fixed payments

The table below shows the TGP (rand) to each of the executive directors and members of the Executive committee:

Individual	TGP as at 1 January 2011	TGP as at 1 January 2012	Increases as % of TGP
Johan van Zyl*, ****	5 300 000	5 300 000	—
Lizé Lambrechts	3 205 937	3 400 000	6,05
Kobus Möller*	3 399 538	3 650 000	7,37
Yvonne Muthien*	2 354 000	2 520 000	7,05
Temba Mvusi*,**	2 288 455	2 410 000	5,31
Johan van der Merwe	4 045 918	4 300 000	6,28
Heinie Werth	2 907 689	3 150 000	8,33
André Zeeman	2 570 642	2 900 000	12,81
Buyani Zwane***	n/a	2 300 000	n/a
Ian Kirk#			

**Executive director.*

***Receives an additional amount equal to 10% of TGP from Santam for services rendered.*

****Appointed on 30 December 2011.*

*****See CEO arrangement below.*

#Ian Kirk is a member of the Executive committee. Full details of his emoluments amounting to R8,7 million (2010: R8,5 million) can be found in the 2011 Santam Annual Report.

The average salary increase paid to executive directors (excluding Johan van Zyl) for 2011 was 6,69% and that of members of the Executive committee for 2011 was 7,5% compared with an average salary increase paid to all employees of 7%.

Variable remuneration

CEO arrangement

The Sanlam Board entered into a new five year employment arrangement with the Sanlam Group CEO, Johan van Zyl, with effect from 1 January 2011. The objective of the arrangement was to address the leadership requirements for the Sanlam Group in order to deliver on the strategic objectives determined by the Sanlam Board.

The remuneration package associated with this new arrangement supports and is aligned to the delivery on the strategic objectives set for the Sanlam Group. The revised remuneration package was to substitute short-term cash remuneration with pre-dominantly share-based incentives with appropriate performance hurdles linked to the achievement of the short, medium and long-term strategic objectives for the company and the leadership as determined by the Sanlam Board.

The CEO's annual fixed cash remuneration package was fixed at R5,3 million (based on the 2010 remuneration level) for the full period until 31 December 2015, with no other variable cash incentives for this employment

Corporate governance report continued

period. He was allocated 5 million restricted Sanlam shares of which 3 million were transferred and delivered during 2011, while the remainder including an adjustment for dividends forfeited up to the date of transfer, will be transferred not later than 31 March 2013. The vesting of these shares will be measured over a six-year period until 31 December 2016. The shares being grouped into various distinct components – each with its own measurement period and detailed individual and company performance hurdles. A substantial portion (>75%) is linked to the out-performance of the Sanlam Group's cost of capital target and the successful delivery on the longer-term growth strategies of the Sanlam Group. Vesting is dependent on meeting the performance hurdles for each of the performance categories and complying with the time restrictions built into the arrangement. In terms of this new arrangement he will not participate in any new allocation under any of the existing long-term schemes of the Sanlam Group.

A summary of the position as at 31 December 2011 is as follows:

	Total
Shares transferred during 2011	3 000 000
Shares that have not met performance hurdles in 2011*	(40 000)
Sub-total	2 960 000
Shares outstanding (to be transferred not later than 31 March 2013)**	2 138 138
Total	5 098 138
Shares that have met the performance hurdles to date, but subject to time restrictions*	(360 000)
Shares subject to future measurement	4 738 138

*400 000 shares were subject to performance measurement in respect of 2011.

**Including an assumed 138 138 shares to be transferred in respect of dividends forfeited on these shares from 1 January 2011.

Executive committee arrangements

Annual bonus plan

Purpose

The purpose of the annual bonus plan is to align the performance of staff with the goals of the organisation and to motivate and reward staff who surpass the agreed performance hurdles. Over recent years, the focus has shifted from alignment and operational issues to growing the business and ensuring that it is managed in a sustainable way.

GHRC's role

The GHRC's role with regard to the annual bonus is to:

- determine the structure of the annual bonus plan and ensure that it provides a clear link to performance and is aligned with the Group's business strategy;
- agree on the performance drivers for the annual bonus plan;
- agree on the split between business, Group and personal performance criteria; and
- set the threshold, target and stretch targets for the annual bonus plan and the percentage of basic salary which can be earned at each level by each group of employees.

Performance targets

The performance targets for the annual bonus plan are set by the GHRC on an annual basis. In respect of the 2011 annual bonus, the split between business, Group and personal performance criteria for executive directors and members of the Executive Committee was as follows:

Individual	Business %	Group %	Personal %
Lizé Lambrechts	50	25	25
Kobus Möller	—	70	30
Yvonne Muthien	—	50	50
Temba Mvusi	—	50	50
Johan van der Merwe	70	10	20
Heinie Werth	50	25	25
André Zeeman	—	—	100
Buyani Zwane*	—	50	50

**Appointed in December 2011*

The Group performance measures which were applied in 2011 are:

- Return on Group equity value (RoGEV).

This is the key driver of the Group's strategy and the use of this measure means a direct link between the annual bonus plan and the Group's business strategy.

In order to exclude the impact of investment market volatility during the performance period in question, adjusted RoGEV is used. This assumes that the embedded value investment return assumptions as at the beginning of the reporting period were achieved for the purposes of the investment return earned on the supporting capital of covered business and the valuation of other Group operations. Any other *ad hoc* items which are not under the control of management are also excluded.

- Operating profit

This measure has been chosen because increasing the profitability of the Group is key to the business strategy and this is felt to be the most appropriate measure to track profitability.

- Value of new covered business (VNB)

This measure has been chosen as it links directly into the Group's business strategy in terms of growing VNB.

The business-level performance measures applied in 2011, were aligned to the specific strategic objectives of each business.

Personal performance measures are based on the contracted output with each individual at the start of the contracted period.

Vesting levels

The short-term bonus is a cash-based bonus scheme. Where the annual bonus targets are achieved in full, 100% of the bonus will be paid. In instances where expected target goals have been exceeded, the cash component is capped at a percentage of TGP.

Where the bonus targets are not achieved in full, a pro rata bonus will be paid only if the threshold performance level has been achieved.

Where the annual Group and/or business performance targets are not achieved, an amount may be set aside to reward exceptional individual performance at the discretion of the Group Chief Executive.

Corporate governance report continued

In respect of the executive directors and members of the Executive committee, the payments which can be achieved at the target and stretch levels are as follows:

Individual	% of TGP at target performance	Performance cash cap as % of TGP
Lizé Lambrechts	56	112
Kobus Möller	56	112
Yvonne Muthien	56	112
Temba Mvusi	56	112
Johan van der Merwe	100	250
Heinie Werth	56	112
André Zeeman	56	112
Buyani Zwane*	56	112

**Appointed in December 2011*

These levels are benchmarked with comparator groups together with other components of remuneration.

Ad hoc performance bonus rewards

Where it is determined by the Group CEO that an individual has exhibited exceptional performance within his or her area of expertise and a bonus payment should be awarded which justifies an amount in excess of the cash bonus, the GHRC may award restricted shares under the Sanlam Restricted Share Plan to acknowledge such out performance.

The rationale of this mechanism is to encourage retention of high performing individuals and ensure the sustainability of performance driven behaviour. To the extent that performance is not sustained, the performance condition attached to a portion of the restricted awards will not be satisfied and the award will not vest.

Payments

The table below shows the annual bonus payments (rand) made to each of the executive directors and members of the Executive committee in respect of the performance achieved in 2011. These bonuses were paid in 2012:

Individual	% of TGP achieved 2011	Payment 2012 R	% of TGP achieved 2010	Payment 2011 R
Johan van Zyl*	—	—	142	7 500 000
Lizé Lambrechts	82	2 800 000	81	2 600 000
Kobus Möller	88	3 200 000	88	3 000 000
Yvonne Muthien	71	1 800 000	72	1 650 000
Temba Mvusi	75	1 800 000	74	1 650 000
Johan van der Merwe	151	6 500 000	161	6 500 000
Heinie Werth	95	3 000 000	72	2 100 000
André Zeeman	103	3 000 000	109	2 800 000
Ian Kirk#				

**A new arrangement became effective on 1 January 2011.*

#Ian Kirk is a member of the Executive committee. Full details of his emoluments amounting to R8,7 million (2010: R8,5 million) can be found in the 2011 Santam Annual Report.

Long-term incentives

Overview and general policy

Sanlam currently grants awards to executives under the following four long-term incentive plans:

- The Sanlam Deferred Share Plan (DSP);
- The Sanlam Performance Deferred Share Plan (PDSP);
- The Sanlam Restricted Share Plan (RSP); and
- The Sanlam Out-Performance Plan (OPP).

With the exception of the OPP, these long-term incentive plans are equity-settled plans. The OPP is a cash-based plan, which rewards long-term performance.

In addition, the executives have outstanding awards under the following legacy plans that will vest and be settled under the rules in force at the time of grant, but the Group does not intend to make new awards under these plans:

- The Sanlam Share Purchase Plan (SPP);
- The Sanlam Long-term Incentive Plan (LTIP); and
- The Sanlam Share Option Scheme (SOS).

The LTIP is a cash-based plan.

Corporate governance report continued

As regards awards under the DSP and the PDSP, Sanlam's general policy is that awards are made annually to ensure that the total face value of outstanding awards (as measured by their face value at date of grant) is equal to a set multiple of the executive's TGP. In addition, the performance of the individual and the need to retain his/her services in the future are taken into account when determining the value of the annual grant. The multiple of TGP is determined by reference to the executive's role. The guideline level ranges from 175% to 280% for the executive team. However, in certain circumstances, the company may grant awards where the face value exceeds these guidelines. Such circumstances include, but are not limited to, being able to attract or retain a specific individual with particular skills to the company. Up to 2010 long-term incentive awards granted are split between retention awards (granted under the DSP and awards made without performance conditions under the RSP) and performance-related awards (granted under the PDSP and awards made with performance conditions under the RSP). All awards made from 2011 onwards under the DSP and RSP will include individual performance conditions, in addition to the retention condition. Awards granted to any one individual under all equity-settled plans (the DSP, the PDSP, the RSP, the SPP and SOS) are subject to an overall individual limit of 6 500 000 unvested shares.

GHRC's role

The GHRC's role as far as the long-term incentive plans are concerned is to:

- ensure that their structure contributes to shareholder value;
- set appropriate performance drivers and take responsibility for monitoring and testing those performance drivers; and
- approve award levels.

Non-executive directors

Non-executive directors do not participate in any of the long-term incentive plans operated by Sanlam.

Deferred Share Plan (DSP)

Awards granted under the DSP are conditional rights to acquire shares for no consideration subject to vesting conditions being satisfied. The vesting conditions are that the individual remains employed by the Group throughout the vesting period and maintains agreed individual performance hurdles. The vesting period is 5 years and staggered vesting occurs in years 3 to 5 as follows:

- 3 years – 40%
- 4 years – 30%
- 5 years – 30%

The award granted under the DSP is not subject to the satisfaction of company performance conditions but does require meeting individually contracted performance hurdles. Typically, the award granted under the DSP has a face value of up to 105% of the executive's TGP. To the extent that this percentage falls (whether through vesting or due to a promotion or salary increase), an additional award may be granted on an annual basis to maintain the level of retention award.

The following table sets out the participation by executive directors and members of the Executive committee in the DSP up to 31/12/11:

Individual	Balance 31-12-10	Awarded in 2011	Shares vested	Balance 31-12-11	Vesting in 2012	2013	2014	2015	2016
J van Zyl	355 934	*	66 874	289 060	125 130	106 911	56 625	394	—
L Lambrechts	148 575	43 875	22 068	170 382	39 544	48 165	45 571	23 939	13 163
J P Moller	174 568	52 011	23 054	203 525	49 688	55 964	55 884	26 385	15 604
Y Muthien	118 429	7 023	—	125 452	—	47 372	38 338	37 635	2 107
T Mvusi	120 082	25 969	7 958	138 093	34 354	38 947	40 444	16 558	7 790
JHP vd Merwe	227 250	62 410	48 361	241 299	65 900	71 403	56 868	28 405	18 723
H C Werth	172 767	26 761	21 902	177 626	41 149	57 451	46 107	24 890	8 029
A P Zeeman	139 819	35 653	14 981	160 491	35 304	46 165	44 971	23 355	10 696

**A new arrangement became effective from 1 January 2011.*

It is anticipated that awards will be granted in 2012 to executive directors (excluding the CEO) and members of the Executive Committee on a basis consistent with that described above.

Performance Deferred Share Plan (PDSP)

To the extent that the face value of the award granted under the DSP does not satisfy the individual's specified multiple of TGP to be granted as long-term incentive awards, the individual will be granted an award under the PDSP. Awards granted under the PDSP are conditional rights to acquire shares for no consideration subject to a performance vesting condition being satisfied.

The performance vesting condition is that, in general terms, the Group's adjusted return on Group equity value per share (RoGEV) must have exceeded its cost of capital (COC) for the relevant period (Group performance hurdle). The exact condition varies by reference to the value of the performance award as a proportion of the executive's TGP. The higher the value of the award, the more stretching the performance condition. For awards in excess of 175% of TGP the performance indicator also includes a business specific hurdle in addition to the Group performance hurdle.

The exact performance conditions are set by the GHRC at the relevant date of grant.

The use of performance in relation to adjusted RoGEV is considered appropriate as this is the key driver of the Group's strategy and the use of this measure means a direct link between the PDSP and the Group's business strategy.

Corporate governance report continued

The performance measurement period for PDSP awards is six years and the performance conditions will be finally tested at the end of this period. To the extent that they are not met at this point, the performance awards will lapse, unless the GHRC determines otherwise.

However, performance awards can vest prior to the end of the performance measurement period on a staggered basis to the extent that the condition is met earlier. To the extent that the performance condition is met, a proportion of the performance award can vest at this time on the following basis:

- 3 years – 40%
- 4 years – 30%
- 5 years – 30%

To the extent that the value of performance awards falls below the specified multiple of the executive's TGP (whether through vesting or due to a promotion or salary increase), an additional award may be granted on an annual basis to maintain the level of performance awards.

The following table sets out the participation by executive directors and members of the Executive committee in the PDSP with the assumption that all awards meet the performance targets up to 31 December 2011 – a final assessment is made at the end of the measurement period:

Individual	Balance 31-12-10	Awarded in 2011	Shares vested	Balance 31-12-11	Vesting in 2012	2013	2014	2015	2016
J van Zyl	553 621	*	82 732	470 889	97 139	153 719	115 814	104 217	—
L Lambrechts	116 800	30 956	33 202	114 554	35 500	22 963	26 461	20 343	9 287
J P Möller	217 352	44 328	40 178	221 502	54 967	54 128	57 899	41 210	13 298
Y Muthien	78 950	4 684	—	83 634	—	31 580	25 559	25 090	1 405
T Mvusi	85 743	12 141	12 408	85 476	14 847	28 338	21 726	16 922	3 643
J H P vd Merwe**	307 406	113 876	55 631	365 651	52 408	106 383	96 048	76 649	34 163
H C Werth	98 898	18 312	14 343	102 867	14 343	28 085	28 389	26 557	5 493
A P Zeeman	87 789	22 396	16 381	93 804	16 381	22 011	25 466	23 227	6 719

**A new arrangement became effective from 1 January 2011.*
***Some of these shares do not meet the performance criteria as at 31 December 2011.*

It is anticipated that awards will be granted in 2012 to executive directors (excluding the CEO) and members of the Executive committee on a basis consistent with that described above.

Restricted Share Plan (RSP)

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

A portion of the restricted shares awarded requires the executive to remain employed within the Group until the vesting date and maintain the agreed individual performance hurdles. This portion varies between 0% and 50% of the award and is dependent upon the executive's role. The remaining portion of the restricted shares awarded is subject to a business performance condition. The business performance condition for awards granted to date is that the Group's adjusted RoGEV per share exceeds the Group's cost of capital.

The measurement period is six years but vesting can occur on a staggered basis on the third, fourth and fifth anniversary of the date of grant on the following basis, provided that all vesting conditions are met on such dates:

- 3 years – 40%
- 4 years – 30%
- 5 years – 30%

The following table sets out the participation by executive directors and members of the Executive committee in the RSP. Except where indicated, all awards meet the performance targets up to 31 December 2011:

	Balance	Awarded	Shares	Balance	Vesting in				
Individual	**31-12-10**	**in 2011**	**vested**	**31-12-11**	**2012**	**2013**	**2014**	**2015**	**2016**
J van Zyl*	2 040 520	243 994	676 682	1 607 832	699 008	439 152	251 477	144 997	73 198
L Lambrechts	567 916	75 075	183 060	459 931	183 610	132 860	74 482	46 456	22 523
J P Möller	670 818	93 844	208 055	556 607	233 737	152 086	96 528	46 103	28 153
Y Muthien	39 888	37 538	—	77 426	—	15 956	26 982	23 227	11 261
T Mvusi	208 662	56 306	32 172	232 796	51 489	68 581	60 992	34 842	16 892
JHP vd Merwe	1 042 159	168 919	335 696	875 382	374 880	222 157	153 060	74 609	50 676
H C Werth	309 034	75 075	64 343	319 766	75 617	100 688	74 482	46 456	22 523
A P Zeeman	309 034	93 844	64 343	338 535	75 617	100 688	81 991	52 086	28 153

**The award made in 2011 was in respect of the financial year ended 31 December 2010.*

It is anticipated that awards granted in 2012 to executive directors (excluding the CEO) and members of the Executive committee, if any, would be on a basis consistent with that described above.

Corporate governance report continued

Out-Performance Plan (OPP)

From time to time, at the discretion of the GHRC, participation in the OPP is extended to certain executives who are leaders of the Group's main operating businesses. The OPP rewards superior performance over a three- to five-year measurement period and is used infrequently. No executive director currently participates in the OPP.

No payment is made under the OPP unless expected growth over the period is exceeded and full payment is only made if the stretched performance target is met. The maximum payment that can be made under the OPP is 200% of annual TGP over the respective three- or five-year measurement period (adjusted either with salary inflation or, where applicable, the IRR achieved by the relevant business over the measurement period).

Current participants to the OPP and achievement to date are as follows:

Individual	Measurement period	Achievement	Reward
L Lambrechts	1 January 2010 – 31 December 2012	66,7%	Final measurement and payment on 1 April 2013.
JHP vd Merwe	1 January 2009 – 31 March 2014	n/a	Final measurement and payment after 1 April 2014
HC Werth	1 January 2009 – 31 December 2010	50%	Payment in cash of R5 815 378 on 1 April 2011

To the extent that any awards are granted under the OPP in 2012, this will occur on a basis consistent with that described above.

Historical long-term incentive plans

In the past, awards have been granted by Sanlam under the Sanlam Share Purchase Plan, the Sanlam Long-term Incentive Plan and the Sanlam Share Option Scheme. Awards are no longer granted under these plans, although there are still outstanding awards held under them by executives.

Outstanding participation under the Sanlam Share Purchase Plan is set out in the following table:

Individual	Number of shares purchased	Loan balance 31-12-10 Rand	Interest charged Rand	Repayments 2010 Rand	Loan balance 31-12-11 Rand
JHP vd Merwe	193 297	4 617 431	123 434	4 740 865	—

Outstanding participation under the Sanlam Long-term Incentive Plan is set out in the following table:

Individual	Unamortised bonus 31-12-10 Rand	Amortised 2011 Rand	Unamortised bonus 31-12-11 Rand
L Lambrechts	322 980	322 980	—

Outstanding participation under the Sanlam Share Option Scheme is set out in the following table:

All outstanding awards are unrestricted until latest 1 June 2012.

Individual	Date granted	Balance 31-12-10	Strike price	Exercised 2011	Balance 31-12-11
L Lambrechts	1 May 2004	163 714	R9,80	—	163 714
JHP vd Merwe	1 June 2004	83 932	R8,40	—	83 932

Corporate governance report continued

Sanlam share scheme allocation

Pursuant to the amendments to Schedule 14 of the JSE Listings Requirements, the shareholders of the company approved a scheme allocation of 160 000 000 ordinary shares available to be utilised for long-term incentive purposes with effect from 1 January 2009, provided that the maximum allocation during any financial year cannot exceed 16 000 000.

The following table illustrates the position as at 31 December 2011:

Scheme allocation originally approved		160 000 000
Net movement during 2009		(10 701 155)
Balance of scheme allocation carried forward at 31 December 2009		149 298 845
Allocation under the DSP and PDSP in 2010	8 413 881	
Allocation under the RSP in 2010	937 375	(9 351 256)
Shares forfeited in 2010		698 538
Balance of scheme allocation at 31 December 2010		140 646 127
Allocation under DSP and PDSP in 2011	11 279 216	
Allocation under RSP in 2011 (CEO arrangement)	3 000 000	
Allocation under RSP in 2011 (Other)	1 070 284	(15 349 500)
Shares forfeited in 2011		1 521 131
Balance of scheme allocation available at 31 December 2011		126 817 758

Executive contracts

Executive directors and members of the Executive committee are contracted as full-time, permanent employees for employment contracting purposes. As a standard element of these contracts, a 12-month restraint of trade is included, which the company has the discretion to implement depending on the circumstances surrounding the individual's departure. Notice periods are three months' written notice. Bonus payments and the vesting of long-term incentives that are in place at the time of an individual's termination of service are subject to the rules of the relevant scheme with some discretion being allowed to the GHRC based on the recommendations of the Group Chief Executive. No change of control clauses or provision for special events are built into the employment contracts as well as in the rules of the schemes.

Non-executive directors

Fee structures are recommended to the Board by the GHRC (other than for services as a GHRC member) and reviewed annually with the assistance of external service providers. The GHRC 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 year, from 1 July until 30 June the following year, to the company's shareholders at the AGM for approval. Non-executive directors receive annual Board and committee retainers. In addition, a fee is paid for attending 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 and Companies Act is detailed below.

Payments made in 2011

Non-executive directors

Directors' emoluments for the year ended 31 December 2011 (R'000)

	Directors' fees	Allowance	Attendance fees	Committee fees	Fees from Group	Total
MMM Bakane-Tuoane	163	69	122	140	–	494
AD Botha	163	69	131	105	343	811
MP Buthelezi**	123	53	102	66	–	344
AS du Plessis*	78	34	68	123	164	467
FA du Plessis	163	69	141	232	–	605
MV Moosa	163	69	102	105	–	439
PT Motsepe	243	104	131	88	–	566
SA Nkosi	163	69	102	–	–	334
I Plenderleith	163	69	122	127	255	736
P de V Rademeyer**	123	53	112	184	515	987
GE Rudman*	78	34	48	61	159	380
RV Simelane	163	69	122	53	–	407
DK Smith (Chairman)	1 276	547	–	–	–	1 823
CG Swanepoel**	123	53	121	207	1 972	2 476
ZB Swanepoel	163	69	102	53	–	387
PL Zim	163	69	122	53	–	407
Total non-executive directors	**3 511**	**1 499**	**1 648**	**1 597**	**3 408**	**11 663**

Travel and subsistence paid in respect of attendance of Board and committee meetings amounted to R570 870.

**Retired 8 June 2011.*

***Appointed 28 March 2011.*

Corporate governance report continued

Directors' emoluments for the year ended 31 December 2010 (R'000)

	Directors' fees	Allowance	Attendance fees	Committee fees	Fees from Group	Total
RC Andersen (Chairman)*	512	220	—	—	—	732
MMM Bakane-Tuoane	152	65	95	156	—	468
AD Botha	152	65	95	131	474	917
AS du Plessis	152	65	105	266	245	833
FA du Plessis	152	65	113	215	—	545
MV Moosa	152	65	95	131	—	443
PT Motsepe	228	97	95	82	—	502
SA Nkosi	152	65	75	33	—	325
I Plenderleith	152	65	77	149	83	526
GE Rudman	152	65	113	149	363	842
RV Simelane	152	65	94	94	—	405
DK Smith (Chairman)**	745	320	46	137	290	1 538
ZB Swanepoel	152	65	95	82	—	394
PL Zim	152	65	37	49	—	303
Total non-executive directors	**3 157**	**1 352**	**1 135**	**1 674**	**1 455**	**8 773**

Travel and subsistence paid in respect of attendance of Board and committee meetings amounted to R281 000.

**Chairman until 9 June 2010.*

***New chairman from 9 June 2010.*

Fees from Group companies for the year ended 31 December 2011 (R'000)

	Directors' fees	Attendance fees	Committee fees	Total
AD Botha	**145**	**93**	**105**	**343**
AS du Plessis	**53**	**46**	**65**	**164**
I Plenderleith	**255**	**—**	**—**	**255**
P de V Rademeyer	**332**	**111**	**73**	**516**
GE Rudman	**159**	**—**	**—**	**159**
CG Swanepoel	**915**	**193**	**864**	**1 972**
Total fees from Group companies	**1 859**	**443**	**1 107**	**3 409**

Fees from Group companies for the year ended 31 December 2010 (R'000)

	Directors' fees	Attendance fees	Committee fees	Total
AD Botha	244	200	30	474
AS du Plessis	88	126	31	245
DK Smith	290	—	—	290
GE Rudman	168	75	120	363
I Plenderleith	83	—	—	83
Total fees from Group companies	**873**	**401**	**181**	**1 455**

Corporate governance report continued

Executive committee

Details of the remuneration attributable to the Executive committee during 2011 are set out in the table below:

Emoluments for the year ended 31 December 2011 (R'000)

Name	Months in service	Salary/ Fees	Bonus	Company contributions	Total
JP Möller	**12**	**3 013**	**3 200**	**789**	**7 002**
YG Muthien	**12**	**2 082**	**1 800**	**545**	**4 427**
TI Mvusi***	**12**	**1 956**	**1 800**	**512**	**4 268**
J van Zyl	**12**	**4 452**	**—**	**1 166**	**5 618**
Total executive directors		**11 503**	**6 800**	**3 012**	**21 315**
L Lambrechts	**12**	**2 949**	**2 800**	**402**	**6 151**
JHP vd Merwe	**12**	**3 778**	**6 500**	**459**	**10 737**
HC Werth	**12**	**2 719**	**3 000**	**371**	**6 090**
AP Zeeman	**12**	**2 367**	**3 000**	**451**	**5 818**
B Zwane*	**—**	**—**	**—**	**—**	**—**
I Kirk**	**12**				
Remainder of Executive committee		**11 813**	**15 300**	**1 683**	**28 796**

Emoluments for the year ended 31 December 2010 (R'000)

Name	Months in service	Salary/ Fees	Bonus	Company contributions	Total
JP Möller	12	2 835	3 000	742	6 577
YG Muthien	12	1 945	1 650	509	4 104
TI Mvusi***	12	1 724	1 650	452	3 826
J van Zyl	12	4 519	7 500	1 013	13 032
Total executive directors		11 023	13 800	2 716	27 539
L Lambrechts	12	2 801	2 600	382	5 783
JHP vd Merwe	12	3 494	4 745	513	8 752
HC Werth	12	2 501	2 100	341	4 942
AP Zeeman	12	2 110	2 333	869	5 312
I Kirk**	12				
Remainder of Executive committee		10 906	11 778	2 105	24 789

**Appointed in December 2011.*

***Ian Kirk is a member of the Executive committee. Full detail of his emoluments amounting to R8,7 million (2010: R8,5 million) can be found in the 2011 Santam Annual Report.*

****Receives an additional amount equal to 10% of TGP from Santam for services rendered.*

Sanlam Ltd Board

Total interest of directors in share capital at 31 December 2011

Directors	Beneficial			
	Direct	**Indirect**	**Non-beneficial**	**UB shares**
Executive Directors******				
J van Zyl	5 722 151	—	2 106 877	—
JP Möller	1 354 421	—	—	—
Y Muthien	77 426	—	—	—
TI Mvusi	293 384	—	—	4 000
Total executive directors	**7 447 382**	**—**	**2 106 877**	**4 000**
Non-executive directors				
DK Smith (Chairman)	—	35 000	—	—
PT Motsepe (deputy chairman)	—	—	—	Refer note**
MMM Bakane-Tuoane	—	—	—	7 142
MP Buthelezi	—	—	—	7 142
AD Botha	—	—	286 999	—
FA du Plessis	—	370	390	—
MV Moosa	—	—	—	7 142
SA Nkosi	—	—	—	7 142
I Plenderleith*	—	—	—	—
P de V Rademeyer	181 335	495 698	—	—
RV Simelane	—	—	—	7 142
CG Swanepeol	10 000	—	—	—
ZB Swanepoel	—	—	—	7 142
PL Zim	444	—	—	7 142
Total non-executive directors	**191 779**	**531 068**	**287 389**	**49 994**
Total	**7 639 161**	**531 068**	**2 394 266**	**53 994**

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***Ubuntu-Botho Investments (Pty) Limited (Ubuntu-Botho) is the direct beneficial holder of 226 000 000 Sanlam ordinary shares and 56 500 000 Sanlam "A" deferred shares.*

Sizanani-Thusanang-Helpmekaar Investments (Pty) Limited (Sizanani), beneficially holds 55% of the ordinary share capital in Ubuntu-Botho. The entire share capital of Sizanani is held by a company, the entire issued share capital of which is in turn held by trusts whose beneficiaries are Patrice Motsepe and his immediate family.

A number of other directors also have a beneficial interest in the share capital of Ubuntu-Botho through its shareholding structure. Their effective beneficial holdings in the 10 000 000 Ubuntu-Botho shares in issue are: MMM Bakane-Tuoane, MP Buthelezi, MV Moosa, SA Nkosi, R Simelane, ZB Swanepoel and PL Zim – 7 142 shares each. Temba Mvusi holds 4 000 Ubuntu-Botho shares after he sold 10 000 shares in November 2010.

As a result Motsepe and the above directors are indirect beneficial holders of the 226 000 000 Sanlam ordinary shares and 56 500 000 Sanlam "A" deferred shares.

****At the date of this report there are no material differences with the shareholding disclosed above as at 31 December 2011.*

*****Participation in the Restricted Share Plan included in the numbers.*

Corporate governance report continued

Interests in share capital

Total interest of directors in share capital at 31 December 2010

Directors	Beneficial	Non-beneficial	UB shares
Executive Directors			
J van Zyl	2 478 157	2 106 877	—
JP Möller	1 260 577	—	—
Y Muthien	39 888	—	—
TI Mvusi	269 250	—	4 000
Total executive directors	**4 047 872**	**2 106 877**	**4 000**
Non-executive directors			
DK Smith (Chairman)	35 000	—	—
PT Motsepe (deputy chairman)	—	—	Refer note**
MMM Bakane-Tuoane	—	—	7 142
AD Botha	—	286 999	—
AS du Plessis	30 000	—	—
FA du Plessis	370	390	—
MV Moosa	—	—	7 142
SA Nkosi	—	—	7 142
I Plenderleith*	—	—	—
GE Rudman	63 887	65 700	—
RV Simelane	—	—	7 142
ZB Swanepoel	—	—	7 142
PL Zim	444	—	7 142
Total non-executive directors	**129 701**	**353 089**	**42 852**
Total	**4 177 573**	**2 459 966**	**46 852**

**UK Citizen*

Capital and risk management report

Contents

Capital management

Risk management

Capital and risk management report continued

Capital management

Objective

Effective capital management is an essential component of meeting the Group's strategic objective of maximising shareholder value. The capital value used by the Group as the primary performance measurement base is Group Equity Value (GEV), as reported on page 90. The management of the Group's capital base requires a continuous review of optimal capital levels, including the use of alternative sources of funding, to maximise return on GEV. The Group has an integrated capital and risk management approach. The amount of capital required by the various businesses is directly linked to their exposure to financial and operational risks. Risk management is accordingly an important component of effective capital management.

Capital allocation methodology

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

The following methodology is used to determine the allocation of required capital to covered business:

The level and nature of the supporting capital is determined by minimum regulatory capital requirements as well as economic, risk and growth considerations. Regulatory capital must comply with specific requirements. For Sanlam Life a stochastic modelling process is used to assist in determining long-term required capital levels that, within a 95% confidence level, will be able to cover the minimum statutory capital adequacy requirement (CAR) at least 1,5 times over each of the next 10 year ends. For the other smaller life insurers the Group sets supporting capital levels as a multiple of their respective regulatory capital adequacy requirements.

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

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

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

Capital management

Covered business (life insurance operations)

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

- Appropriate matching of assets and liabilities for policyholder solutions. This is especially important for long-duration policyholder solutions that expose the Group to interest rate risk, e.g. non-participating annuities.
- Managing the impact of new business on capital requirements by limiting volumes of capital-intensive new business.
- The asset mix of the long-term required capital also impacts the overall capital requirement. An increased exposure to hedged equity and interest-bearing instruments reduces the volatility of the capital base and accordingly also the capital requirement. Over the longer term, the expected investment return on these instruments is however lower than equity with a potential negative impact on the return on GEV. There is accordingly a trade-off between lower capital levels and the return on capital. The Group's stochastic capital model is used as input to determine the optimal asset mix in this regard.
- The introduction of long-term debt into the life insurance operations' capital structure and the concurrent investment of the proceeds in bonds and other liquid assets, to reduce the volatility in the regulatory capital base with a consequential lower overall capital requirement.
- Management of operational risk. Internal controls and various other operational risk management processes are used to reduce operational risk and commensurately the allowance for this risk in the calculation of required capital.

The Group continues to improve and further develop its capital management models and processes in line with international best practice and the current significant international and South African developments surrounding solvency and capital requirements.

Capital and risk management report continued

Other Group operations

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

Group Capital committee

The Group Capital committee, an internal management committee, is responsible to review and oversee the management of the Group's capital base in terms of the specific strategies approved by the Board.

Discretionary capital

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

Capital adequacy

Capital adequacy for the South African operations is measured with reference to the cover provided by the Group's prudential regulatory capital in relation to the Capital Adequacy Requirements. The capital adequacy of Sanlam Investments and Pensions, the Group's life insurance operations in the United Kingdom (UK), is measured in terms of the Financial Services Authority's guidelines in the UK, which are materially in line with those of the South African operations.

The valuation of assets and policy liabilities for prudential capital adequacy 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 deferred acquisition cost (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 relevant prudential regulations).

Capital adequacy requirements (CAR)

The excess of assets over liabilities of life insurance operations on the prudential regulatory basis should be sufficient to cover the CAR in terms of the relevant regulations as well as professional guidance notes issued by the Actuarial Society in South Africa and the UK. The CAR provides a buffer against experience worse than that assumed in the valuation of assets and liabilities.

On the valuation date, the ordinary CAR was used for the South African operations as they exceeded the termination and minimum CAR.

The largest element of the CAR 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 CAR 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).

At 31 December 2011, 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 highest total capital adequacy requirements); and
- assets denominated in foreign currencies decline by at least 20% on the valuation date and do not subsequently recover within the short term.

Provision is made for credit and operational risk in the calculation of the CAR.

The excess of the actuarial values of assets over liabilities is disclosed in the table below. The values disclosed for Sanlam Life capture the solvency position of the entire Sanlam Life Group, including subsidiaries such as Sanlam Life Namibia, SDM Limited, Channel Life and Botswana Insurance Holdings. Sanlam Investments and Pensions is the only life insurance company in the Group that is not a subsidiary of Sanlam Life, and its solvency position is therefore shown separately. All subsidiaries of Sanlam Life were adequately capitalised.

Capital and risk management report continued

	Sanlam Life Insurance Limited		Sanlam Investments and Pensions	
R million	**2011**	2010	**2011**	2010
Assets				
Fair value of assets	**289 624**	272 584	**21 649**	18 931
Less: Liabilities	**244 452**	232 063	**21 237**	18 574
Actuarial value of policy liabilities	**228 726**	218 133	**20 502**	17 841
Investment contracts	**108 850**	99 066	**17 220**	14 934
Insurance contracts	**119 876**	119 067	**3 282**	2 907
Long-term and current liabilities	**15 726**	13 930	**735**	733
Excess of assets over liabilities for financial reporting	**45 172**	40 521	**412**	357
Adjustment for prudential regulatory purposes	**(19 780)**	(17 344)	**(168)**	(167)
Adjustment for group undertakings				
Sanlam Investment Management	**(3 063)**	(3 673)	**–**	–
Santam	**(5 812)**	(5 391)	**–**	–
SDM Limited	**(4 229)**	(3 129)	**–**	–
Capital requirements of life insurance subsidiaries, adjusted for minority interests	**(2 359)**	(1 755)	**–**	–
Inadmissible assets	**(497)**	(399)	**(168)**	(167)
Other	**(3 820)**	(2 997)	**–**	–
Unsecured subordinated bond	**2 151**	2 128	**–**	–
Excess of assets over liabilities for prudential regulatory purposes	**27 543**	25 305	**244**	190
Capital adequacy requirements				
Capital adequacy requirements (CAR) before management actions	**13 225**	12 800	**89**	83
Management actions assumed	**(5 875)**	(5 425)	**–**	–
Reduction in future bonus rates	**(3 513)**	(3 176)	**–**	–
Reduction in non-vested bonuses	**(309)**	(308)	**–**	–
Capitalisation of portion of expected future profits held as discretionary margins	**(705)**	(596)	**–**	–
Reduction in grossing up of the assets covering CAR and other	**(1 348)**	(1 345)	**–**	–
CAR after management actions assumed	**7 350**	7 375	**89**	83
Times CAR covered by excess of assets over liabilities for prudential regulatory purposes	**3,7**	3,4	**2,7**	2,3

Credit rating

Fitch Ratings, an international ratings agency, issues independent ratings of the following Sanlam Group entities and instruments:

	Most recent ratings issued during 2011
Sanlam Limited	National Long-term: AA- (zaf)
Sanlam Life Insurance Limited	National Insurer Financial Strength: AA+ (zaf) National Long-term: AA (zaf) National Short-term: F1+ (zaf)
Sanlam Developing Markets Limited	National Insurer Financial Strength: AA+ (zaf) National Long-term: AA (zaf)
Subordinated debt issued by Sanlam Life Insurance Limited	Subordinated debt: A+ (zaf)
Santam Limited	National Insurer Financial Strength: AA+ (zaf)
Subordinated debt issued by Santam Limited	Subordinated debt: A+ (zaf)

The independent credit ratings provide assurance to the investors in securities issued by the Group as well as the Group's business partners and other stakeholders. It also enables the Group to issue debt and equity instruments at market-related rates. The above ratings were confirmed during 2011 and are unchanged from 2010.

Risk management

Governance structure

In terms of the Group's overall governance structure, the meetings of the Sanlam Limited Board (Sanlam Board) and Sanlam Life Insurance Limited Board (Sanlam Life Board) are combined to improve the flow of information and to increase the efficiency of the Boards. The agenda of the Sanlam Board focuses on Group strategy, capital management, accounting policies, financial results, dividend policy, human resource development and corporate governance and JSE requirements. The Sanlam Life Board is responsible for statutory matters across all Sanlam businesses as well as monitoring operational efficiency and risk issues throughout the Group. In respect of separately listed subsidiaries, this is done within the limitations of sound corporate governance practices. Refer to the Corporate Governance Report on page 141 for further information on the responsibilities of the Sanlam and Sanlam Life Boards and their committees.

Capital and risk management report continued

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

Sanlam Life Board

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

Sanlam Life Risk and Compliance committee

Assists the Sanlam Life Board in fulfilling its responsibilities

Sanlam Group Executive committee

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

Group Risk Management

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

Business (and sub-business) level risk management

Identifies and manages risks faced by the business

Business level management committees

Additional committees that may be established by a business to assist their Executive committees in certain areas of risk management

Business level Audit and Risk committees/forums

Assists the business level Board in fulfilling its responsibilities to the Sanlam Life Board

Role of Group Risk Management

The role of Group Risk Management is one of setting Group standards and guidelines, coordinating and monitoring risk management practices and ultimately reporting to the Sanlam and Sanlam Life Boards.

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

- Permanent invitees of business units' Risk and Audit committees;
- Member of the Central Credit committee (see description below);
- Transactional approval incorporated in approval frameworks of business units where appropriate;
- Involvement and approval of corporate activity transactions;
- Chairs the Capital, Asset and Liability and Non-listed Asset committees at Group level and the Group Risk Forum (see descriptions below);
- Guidance on risk-related matters at a business level; and
- Involvement with specialist risk management issues at business level.

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

Other risk management/monitoring mechanisms

Capital committee Reviews and oversees the management of the Group's capital base	**Asset and Liability committee** Determines appropriate investment policies and guidelines for policyholder portfolios where guarantees are provided	**Central Credit committee** Identifies, measures and controls credit risk exposure
Investment committees Determines and monitors appropriate investment strategies for policyholder solutions	**Group Treasury** Manages the liquidity risks in the borrowing functions of Sanlam	**Non-listed Asset committee** Reviews and approves the valuation of all unlisted assets in the Group for recommendation to the Sanlam Limited and Sanlam Life Boards
Group Risk forum Aids coordination and transfer of knowledge between businesses and the Group, and assists Group Risk Management in identifying risks requiring escalation to the Sanlam Life Board	**Financial Director** Ensures that sound financial practices are followed, adequate and accurate reporting occurs, and financial statement risk is minimised	**Actuarial** Monitors and reports on key risks affecting the life insurance operations. Determines capital requirements of the life insurance operations and the potential impact of strategic decisions thereon, by using appropriate modelling techniques
Forensics Investigates and reports on fraud and illegal behaviour in businesses	**Group Secretariat and Public Officers** Reviews and reports on corporate governance practices and structures. Reports on applicable legal and compliance matters	**Group Compliance Office** Facilitates management of compliance through analysing and advising on statutory and regulatory requirements, and monitoring implementation and execution thereof
Group IT Manages and reports Group-wide IT risks	**Risk Officer (per business)** Assists business management in their implementation of the Group risk management framework and policies, and to monitor the business' entire risk profile	**Internal Audit** Assists the Sanlam Life Board and management by monitoring the adequacy and effectiveness of risk management in businesses

Capital and risk management report continued

Group risk policies, standards and guidelines

The main policies, standards and guidelines are:

- Sanlam Group Enterprise Risk Management (ERM) policy and plan;
- Sanlam Group Risk Escalation policy;
- Sanlam Group Business Continuity Management policy;
- Definitions of Risk categories standard;
- Risk Appetite guidance note;
- Sanlam Group Risk Appetite Statement;
- Sanlam Risk Management Maturity Model;
- Sanlam Risk and Compliance committee charter; and
- Group Risk forum terms of reference.

[Key: A policy sets out mandatory minimum standards for all businesses.
A standard endeavours to ensure consistent use of terminology.
A guidance note is aimed at providing information.]

The following also cover aspects with linkage to risk management:

- Sanlam Life Combined Assurance Model;
- Sanlam Group Information and Information Technology (I and IT) Risk Management policy;
- Representations from Group businesses to the Sanlam and Sanlam Life Audit, Actuarial and Finance committees;
- Sanlam Corporate Credit Risk strategy and policy;
- Sanlam Financial Crime Combating policy;
- Sanlam Human Resources policies;
- Sanlam Group governance structures;
- Sanlam Group High-level Authorisation Framework;
- Sanlam Life Insurance Audit, Actuarial and Finance committee charter.

Sanlam Group Enterprise Risk Management policy

The Group ERM policy includes the following main components:

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

Sanlam Group Risk Escalation policy

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

Summary of Sanlam Group Risk Appetite

- The Sanlam Group consists of a number of decentralised businesses. These businesses have different risk profiles and appetites. They are capitalised appropriately based on these risk profiles.

- The Group determines the hurdle rates required from these businesses. These hurdle rates are set out for each business in accordance with its risk profile. On average the Sanlam Group aims to yield a return on GEV equal to at least 1% above its cost of capital, being equal to the return on nine-year government bonds plus 4%.
- Each decentralised business needs to operate within the restrictions of its allocated capital. For businesses using value at risk (VAR) as measurement, a 99,5% confidence level is required over a one-year time horizon. For businesses using capital adequacy (risk-based capital) techniques, a 95% confidence over a 10-year time horizon is required.
- Each business needs to manage their risks within the Group ERM policy parameters.

Risk Process and Status

The risk management process in the individual businesses comprises three distinct phases:

- Detailed identification of risk factors, risk analysis, evaluation, treatment and the risk monitoring and review mechanisms.
- Performance measurement by means of Key Risk Indicators and Key Performance Indicators. These can be measured in terms of financial and non-financial indicators.
- Stress testing and scenario analysis as a forward-looking methodology.

The appropriate Boards or committees thereof have approved all the policies at Group and individual business level.

Furthermore, the individual businesses have fully adopted and implemented the ERM policy, the Group Risk Escalation policy and Business Continuity Management policy as part of the individual governance structures.

The other policies are adopted by businesses where appropriate, although in the vast majority of cases this implies full adoption (as determined by business size/Group governance principles and the tight/loose principles).

Risk management has formally been incorporated into the charters of the various Risk and/or Finance committees.

Independent Assurance reviews

During 2009, the Group developed with an external assurance provider, a Risk Management Maturity Model to assess the risk management processes across the Group. Annually, all businesses conduct self-assessments against the Maturity Model. Larger businesses have been assessed by an external assurance provider against the Maturity Model. Internal audit conducts assessments on a rolling annual basis and the overall results are presented to the Sanlam Life Risk and Compliance committee.

Capital and risk management report continued

Risk types

The Group is exposed to the following main risks:

	RISK CATEGORY (PRIMARY)	RISK TYPE (SECONDARY) AND DESCRIPTION	POTENTIAL SIGNIFICANT IMPACT
General risks	**1. Operational**	Operational risk is the risk that there is a loss as a result of inadequate or failed internal processes, people or systems and external events. Operational risk includes:	All Group businesses
		Information and technology risk: the risk of obsolescence of infrastructure, deficiency in integration, failures/ inadequacies in systems/networks and the loss of accuracy, confidentiality, availability and integrity of data.	
		Going concern/business continuity risk: the risk that inadequate processes, people, financial controls and resources exist to continue business in the foreseeable future.	
		Legal risk: the risk that the Group will be exposed to contractual obligations which have not been provided for.	
		Compliance risk: the risk of not complying with laws and regulations, as well as investment management mandates.	
		Human resources risk: the risk that the Group does not have access to appropriate skills and staff complement to operate and effectively manage other operational risk.	
		Fraud risk: the risk of financial crime and unlawful conduct occurring within the Group.	
		Taxation risk: the risk of financial loss owing to changes in tax legislation that result in the actual tax on shareholders' fund earnings being higher than expected, with a corresponding reduction in return on GEV; or the actual policyholder tax being higher than that assumed in the determination of premium rates and guaranteed policy benefits.	

	RISK CATEGORY (PRIMARY)	RISK TYPE (SECONDARY) AND DESCRIPTION	POTENTIAL SIGNIFICANT IMPACT
General risks *(continued)*	**1. Operational** *(continued)*	**Regulatory risk:** the risk that new acts or regulations will result in the need to change business practices that may lead to financial loss.	
		Process risk: the risk of loss as a result of failed or inadequate internal processes.	
		Project risk: the risks inherent in major projects.	
	2. Reputational	Reputational risk is the risk that the actions of a business (e.g. the treatment of clients, employment equity and social responsibility) harm its reputation and brand.	All Group businesses
	3. Strategic	Strategic risk is the risk that the Group's strategy is inappropriate or that the Group is unable to implement its strategy.	All Group businesses
Financial and business-specific risks	**1. Market**	Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market. Market risk includes:	Life insurance Retail credit Capital markets Short-term insurance
		Equity risk: the risk that the value of a financial instrument will fluctuate as a result of changes in equity prices.	
		Interest rate risk: the risk that the value of a financial instrument will fluctuate as a result of changes in interest rates and the risk that a mismatch loss will be incurred in respect of a matched asset/liability position following changes in interest rates.	
		Currency risk: the risk that the rand value of a financial instrument or liability will fluctuate owing to changes in foreign exchange rates.	
		Property risk: the risk that the value of investment properties will fluctuate as a result of changes in the environment.	

Capital and risk management report continued

Financial and business-specific risks *(continued)*

RISK CATEGORY (PRIMARY)	RISK TYPE (SECONDARY) AND DESCRIPTION	POTENTIAL SIGNIFICANT IMPACT
1. Market *(continued)*	**Asset liability mismatching risk:** the risk that losses will be incurred as a result of a deviation between asset and liability cash flows, prices or carrying amounts.	
	Concentration risk: the risk of losses associated with inadequately diversified asset portfolios. This may arise either from a lack of diversification in the asset portfolio, or from large exposure to default risk by a single issuer of securities or a group of related issuers (market risk concentrations).	
	Market Liquidity Risk (also known as trading liquidity risk or asset liquidity risk): risk stemming from the lack of marketability of a financial instrument that cannot be bought or sold quickly enough to prevent or minimise a loss (or realise the required profit).	
2. Credit	Credit risk is the risk of default and change in the credit quality of issuers of securities, counterparties and intermediaries to whom the company has exposure. Credit risk includes:	Life insurance Retail credit Capital markets Short-term insurance Corporate
	Default risk: credit risk arising from the inability or unwillingness of a counterparty to a financial instrument to discharge its contractual obligations.	
	Downgrade or **Migration risk:** risk that changes in the possibility of a future default by an obligator will adversely affect the present value of the contract with the obligator.	
	Settlement risk: risk arising from the lag between the transaction and settlement dates of securities transactions.	
	Reinsurance counterparty risk: concentration risk with individual reinsurers, owing to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings.	
	Credit spread risk: the sensitivity of financial instruments to changes in the level or volatility of credit spreads over the risk-free interest rate term structure.	

Financial and business-specific risks *(continued)*

RISK CATEGORY (PRIMARY)	RISK TYPE (SECONDARY) AND DESCRIPTION	POTENTIAL SIGNIFICANT IMPACT
3. Liquidity	Liquidity risk is the risk relating to the difficulty/inability to access funds to meet commitments associated with financial instruments or policy contracts.	Life insurance Retail credit Capital markets Short-term insurance Corporate
4. Insurance risk (life business)	Insurance risk (life business) is the risk arising from the underwriting of life insurance contracts, in relation to the perils covered and the processes used in the conduct of business. It includes:	Life insurance
	Underwriting risk: the risk that the actual experience relating to mortality, disability and medical risks will deviate negatively from the expected experience used in the pricing of solutions and valuation of policy liabilities.	
	Persistency risk: the risk of financial loss owing to negative lapse, surrender and paid-up experience.	
	Expense risk: the risk of loss owing to actual expense experience being worse than that assumed in premium rates and the valuation of policy liabilities.	
	Concentration risk: the risk of financial loss owing to having written large proportions of business with policyholders of the same/similar risk profile.	

Capital and risk management report continued

Financial and business-specific risks (continued)

RISK CATEGORY (PRIMARY)	RISK TYPE (SECONDARY) AND DESCRIPTION	POTENTIAL SIGNIFICANT IMPACT
5. Insurance risk (short-term insurance business)	Insurance risk (short-term insurance business) is the risk arising from the underwriting of non-life insurance contracts, in relation to the perils covered and the processes used in the conduct of business. It includes:	Short-term insurance
	Claims risk: refers to a change in value caused by the ultimate costs for full contractual obligations varying from those assumed when these obligations were estimated.	
	Catastrophe risk: the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty relating to the pricing and provisioning assumptions for extreme or exceptional events.	

Risk management: General risks

1. Operational risk

The Group mitigates this risk through its culture and values, a comprehensive system of internal controls, internal audit, forensic and compliance functions and other measures such as back-up facilities, contingency planning and insurance. The initiation of transactions and their administration is conducted on the basis of the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions.

The management of risks associated with human resources is not addressed in this Report, but elsewhere in the Integrated Annual Report.

The following functionaries assist in mitigating operational risk:

Internal audit

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

External audit

The Group's external auditors are Ernst & Young Inc. The reports of the independent auditors for the year under review are contained on pages 232 and 233 of this Integrated Annual Report. The external auditors provide an independent assessment of certain systems of internal financial control which they may rely on to express an independent opinion on the annual financial statements. Non-audit services rendered by the external auditors are strictly governed by a Group policy in this regard. The Group applies a policy of compulsory rotation of audit partners.

Information and technology risk

IT risks are managed across the Group in an integrated manner following the Enterprise Risk Management framework. Group IT is the custodian of the Group's IT Policy framework and ensures explicit focus on, and integration with the Group's IT Governance framework, which includes the governance of Information Security.

The Head of Group IT facilitates the process of identifying emerging IT risks as well as unpacking significant IT risks with Group-wide strategic or operational impact.

A quarterly IT Governance report, summarising the Group-wide situation is also delivered to the Risk and Compliance committee.

Going concern/business continuity risk

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

Legal risk

During the development stage of any new product and for material transactions entered into by the Group, the legal resources of the Group monitor the drafting of the contract documents to ensure that 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.

Compliance risk

Laws and regulations

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

Compliance with client mandates

Rules for clients' investment instructions are loaded on an order management system, which produces post-trade compliance reports that are continuously monitored. On a monthly basis, these reports are manually compared with the investment instructions. When a possible breach is detected, the portfolio manager is requested to confirm whether a breach

Capital and risk management report continued

has taken place, to explain the reason for the breach and indicate when it will be rectified (which is expected to be as soon as possible). Further action may be taken, depending on the type of breach. The detailed results of the mandate monitoring process are discussed with the head of investment operations on a monthly basis. Derivative exposures are monitored on a daily basis for compliance with approval framework limits, as well as client investment guidelines where the guidelines are more restrictive than the investment manager's own internal limits. This means that a system rule will generally prevent any transaction that may cause a breach.

Fraud risk

The Sanlam Group recognises that financial crime and unlawful conduct are in conflict with the principles of ethical behaviour, as set out in the Group's code of ethics, and undermines the organisational integrity of the Group. The financial crime combating policy for the Sanlam Group is designed to counter the threat of financial crime and unlawful conduct. A zero-tolerance approach is applied in combating financial crime and all offenders are prosecuted. The forensic services function at Group level oversees the prevention, detection and investigation of incidents of unlawful conduct that are of such a nature that they may have an impact on the Group or the executive of a business cluster. Group Forensic Services 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 and is accountable to the Group Chief Executive and the Sanlam Board. Quarterly reports are submitted by Group Forensic Services to the Sanlam Life Risk and Compliance committee on the incidence of financial crime and unlawful conduct in the Group and on measures taken to prevent, detect, investigate and deal with such conduct.

Taxation risk

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

Regulatory risk

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

Process risk

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

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

Project risk

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

2. Reputational risk

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

3. Strategic risk

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

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

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

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

Capital and risk management report continued

Risk management: By business area

Investment management

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

Investment performance

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

- The recruitment and retention of high quality investment professionals and support staff who are organised into stable teams with a performance culture that receive pertinent training and development and regular employee appraisals;
- The optimisation of a robust investment process to effect good investment decisions;
- The rigour of the procedures for portfolio implementation;
- The effectiveness of the dealing desk; and
- The analyses of fund performance.

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

Life insurance

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

The table below summarises the various risks associated with the different policyholder solutions as well as the capital portfolio. Please refer to the “Policy liabilities and profit entitlement section” on page 250 for a description of the different policyholder solutions; as well as to note 15 on page 274, which discloses the monetary value of the Group’s exposure to the various solutions.

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

[1] Only market-related policies (not linked policies) expose the life insurance businesses to this risk, due to these policies providing guaranteed minimum benefits at death or maturity.

[2] The life insurance businesses are exposed to this risk, only if the assets backing these policies have underperformed to the extent that there are negative bonus stabilisation reserves that will not be recovered by declaring lower bonuses in the subsequent years.

[3] Although liquidity risk is present, it is not a significant risk for the insurance businesses due to appropriate matching of asset and liability cash flow values and duration.

[4] An immaterial amount of assets are exposed to this risk.

√ Risk applicable to item

x Risk not applicable to item

Capital and risk management report continued

The management of these risks is described below.

1. Market risk

	Market risk			
Life insurance businesses exposed to risk via:	Equity	Interest rate	Currency	Property
Policyholder solutions				
Linked and market-related	√	√	√	√
Smoothed-bonus business				
Stable bonus	√	√	√	√
Reversionary bonus	√	√	√	√
Participating annuities	√	√	√	√
Non-participating annuities	x	√	x	x
Other non-participating liabilities				
Guarantee plans	x	√	x	x
Other	x	√	x	√
Capital portfolio	√	√	√	x

√ Risk applicable to item
x Risk not applicable to item

Linked and market-related

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

Smoothed bonus business

These policies provide for the payment of an after-tax and after-cost investment return to the policyholder, in the form of bonuses. The use of bonuses is a mechanism to smooth returns to policyholders in order to reduce the effects of volatile investment performance, and bonus rates are determined in line with the product design, policyholder reasonable expectations, affordability and the approved bonus philosophy. Any returns not yet distributed are retained in a policyholder bonus stabilisation reserve, for future distribution to policyholders. In the event of adverse investment performance, this reserve may become negative. Negative bonus stabilisation reserves are allowed for in the valuation of these liabilities to the extent that the shortfall is expected to be recovered by declaring lower bonuses in the subsequent three years. The funding level of portfolios is bolstered through loans from the capital portfolio in instances where negative stabilisation reserves will not be eliminated by these management actions. At 31 December 2011, all stable and reversionary bonus business portfolios had a funding level in excess of the minimum reporting level of 92,5%.

Market risk is borne by policyholders to the extent that the after-tax and after-cost investment return is declared as bonuses. The capital portfolio is however exposed to some market risk as an underperformance in investment markets may result in an underfunded position that will require financial support by the capital portfolio. The Group manages this risk through an appropriate 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 unlisted equities, derivative instruments, property and hedge funds; and
- Regulatory constraints.

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

Non-participating annuities

Non-participating annuity business relates to contracts where income is paid to an annuitant for life or for a fixed term, in return for a lump sum consideration paid on origination of the policy. The income may be fixed, or increased at a fixed rate or in line with inflation. The Group guarantees this income and is therefore subject to interest rate risk.

Capital and risk management report continued

Liabilities are matched as far as possible with assets, mostly interest-bearing, to ensure that the change in value of assets and liabilities is closely matched for a change in interest rates. The impact of changes in interest rates is continuously tested, and for a 1% parallel movement in interest rates the impact on profit will be immaterial.

Guarantee plans

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

Other non-participating business

The Group is exposed to market risk to the extent of the investment of the underlying assets in interest-bearing and property investments. The risk is managed through investments in appropriate asset classes.

Currency risk

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

Capital

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

The exposure of the capital portfolio to currency risk is for the purpose of seeking international diversification of investments. Exposure to different foreign currencies is benchmarked against the currency composition of the Morgan Stanley Developed Equity Markets Index and the Barclays Capital Global Aggregate Bond Index.

This exposure is analysed in the table below:

R million	Euro	United States dollar	British pound	Botswana pula	Other currencies	Total
31 December 2011						
Equities and similar securities	205	1 605	182	29	587	2 608
Interest-bearing instruments	24	12	330	155	52	573
Cash, deposits and similar securities	24	123	100	390	144	781
Investment properties	—	—	—	102	84	186
Net other liabilities	1	(3)	1	(15)	—	(16)
Net working capital	1	121	154	(27)	22	271
Total	255	1 858	767	634	889	4 403
Exchange rates (rand)						
Closing rate	10,48	8,07	12,55	1,11		
Average rate	10,06	7,22	11,59	1,08		
31 December 2010						
Equities and similar securities	181	906	103	298	406	1 894
Interest-bearing instruments	23	22	193	235	46	519
Cash, deposits and similar securities	7	453	67	364	75	966
Investment properties	—	—	—	101	44	145
Net working capital	13	147	276	(48)	18	406
Total	224	1 528	639	950	589	3 930
Exchange rates (rand)						
Closing rate	8,88	6,62	10,36	1,05		
Average rate	9,68	7,30	11,29	1,10		

The capital portfolio 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.

Sensitivities

Refer to page 133 for an analysis of the Group's sensitivity to market risk.

2. Credit risk – policyholder solutions and capital

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

Capital and risk management report continued

Sanlam recognises that a sound credit risk policy is essential to minimise the effect on the Group as a result of loss owing to a major corporate failure and the possible systemic risk such a failure could lead to. The Sanlam Investments cluster Credit Risk policy and strategy has been established for this purpose. Credit risk occurs owing to trading, investment, structured transactions and lending activities. These activities in the Group are conducted mostly by either Sanlam Capital Markets (SCM) or Sanlam Investments (SIM) in terms of the investment guidelines granted to them by the life insurance operations. The Boards of SIM and SCM have delegated responsibility for credit risk management to the Central Credit committee. On a smaller scale, Botswana Insurance Fund Management (BIFM) also performs investment activities in the Group.

The governance structures ensure that an appropriate credit culture and environment is maintained, such that no transactions are concluded outside areas of competence, nor without following normal procedures. This credit culture is the product of a formal credit risk strategy and credit risk policy.

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

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

All facilities are reviewed on at least an annual basis by the appropriate approval authority. Where possible, Sanlam's interest is protected by obtaining acceptable security. Covenants are also stipulated in the loan agreements, specifying actions that are agreed to. A credit administration and reporting department is in place to implement risk control measures and maintain ongoing review of the credit reports and conditions, to ensure overall compliance with the credit risk strategy and policy.

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

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

- Unacceptable concentrations of credit risk to groups of counterparties, business sectors and product types are avoided by dealing with a variety of major banks and spreading debtors and loans among a number of major industries, 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; and
- Exposure to external financial institutions concerning deposits and similar transactions is monitored against approved limits.

The Group has considered the impact of changes in credit risk on the valuation of its liabilities. Credit risk changes will only have an impact in extreme situations and are not material for the 2011 and 2010 financial years. Given the strong financial position and rating of the Group, the credit rating of its liabilities remained unchanged.

Capital and risk management report continued

The tables below provide an analysis of the ratings attached to the Group's exposure to instruments subject to credit risk.

Credit risk concentration by credit rating*

Assets backing policy liabilities	AAA %	AA+ %	AA %	AA- %	A+ %	A %	A- %	BBB %	Other %	Not rated %	Total %	Carrying value R million
31 December 2011												
Public sector stocks and loans	**76,5**	**0,1**	**1,4**	**2,7**	**0,6**	**0,1**	**0,8**	**0,1**	**0,6**	**17,1**	**100,0**	**54 505**
Debentures, insurance policies, preference shares and other loans	**4,3**	**10,5**	**14,1**	**17,1**	**10,4**	**2,9**	**0,4**	**3,7**	**2,6**	**34,0**	**100,0**	**26 699**
Cash, deposits and similar securities	**2,4**	**19,7**	**3,5**	**32,9**	**5,9**	**1,8**	**1,5**	**1,3**	**0,1**	**30,9**	**100,0**	**38 263**
Net working capital	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,1)**	**102,1**	**100,0**	**(191)**
Total	**36,7**	**8,7**	**5,0**	**15,6**	**4,5**	**1,3**	**1,0**	**1,3**	**0,9**	**25,0**	**100,0**	**119 276**
31 December 2010												
Public sector stocks and loans**	74,3	0,1	7,8	0,9	0,7	0,2	1,3	1,8	0,3	12,6	100,0	51 790
Debentures, insurance policies, preference shares and other loans	3,5	8,0	21,0	22,6	8,7	3,2	0,3	3,5	1,8	27,4	100,0	23 131
Cash, deposits and similar securities	6,1	9,3	23,6	18,4	5,4	4,7	0,9	0,4	4,7	26,5	100,0	36 940
Net working capital	—	—	—	—	—	—	—	—	0,1	99,9	100,0	1 155
Total	36,8	4,7	15,6	11,1	3,8	2,3	1,0	1,7	2,1	20,9	100,0	113 016

**Rated externally or by using internationally recognised credit rating techniques.*

***Prior year restated due to prior inappropriate classification of public sector stocks and loans resulting in shifts between AAA, A- and Not rated. AAA decreased by 2,4%, A- increased by 0,7% and Not rated increased by 1,7%.*

Credit risk concentration by credit rating*

Capital portfolio	AAA %	AA+ %	AA %	AA- %	A+ %	A %	A- %	BBB %	Other %	Not rated %	Total %	Carrying value R million
31 December 2011												
Public sector stocks and loans	**47,5**	**—**	**7,4**	**8,8**	**11,9**	**2,8**	**—**	**—**	**—**	**21,6**	**100,0**	**570**
Debentures, insurance policies, preference shares and other loans	**4,8**	**6,4**	**7,9**	**15,6**	**16,1**	**12,5**	**—**	**7,3**	**5,3**	**24,1**	**100,0**	**3 713**
Cash, deposits and similar securities	**3,3**	**33,6**	**0,5**	**36,6**	**8,0**	**3,1**	**0,9**	**0,4**	**0,9**	**12,7**	**100,0**	**9 701**
Net working capital	**0,4**	**148,8**	**0,1**	**24,6**	**—**	**—**	**—**	**—**	**41,8**	**(115,7)**	**100,0**	**1 669**
Total	**5,0**	**38,2**	**2,5**	**29,3**	**9,2**	**5,0**	**0,6**	**2,0**	**6,3**	**1,9**	**100,0**	**15 653**
31 December 2010												
Public sector stocks and loans	71,0	—	16,2	—	6,1	0,1	2,7	2,2	—	1,7	100,0	742
Debentures, insurance policies, preference shares and other loans	1,2	1,8	14,3	20,3	20,5	5,6	—	3,3	2,6	30,4	100,0	4 277
Cash, deposits and similar securities	6,3	19,8	29,9	16,9	7,2	4,5	0,5	2,1	5,7	7,1	100,0	8 192
Net working capital	—	151,6	—	26,8	0,1	—	—	—	(0,4)	(78,1)	100,0	2 051
Total	7,2	31,5	20,8	18,4	9,9	4,0	0,4	2,1	3,7	2,0	100,0	15 262

** Rated externally or by using internationally recognised credit rating techniques.*

Equity derivatives are included in equities and similar securities and interest-rate swaps are included in debentures, insurance policies, preference shares and other loans above. The majority of the counterparties to these agreements are institutions with at least an AA- rating. The Group's short-term positions are included in the above table under the counterparties' long-term rating where Sanlam has both a long-term and short-term exposure to the entities.

Maximum exposure to credit risk

The life insurance businesses' maximum exposure to credit risk is equivalent to the amounts recognised in the statement of financial position, as there are no financial guarantees provided to parties outside the Group, nor are there any loan commitments provided that are irrevocable over the life of the facility or revocable only in adverse circumstances.

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

Capital and risk management report continued

Reinsurance credit risk

Sanlam makes use of reinsurance to:

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

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

3. Liquidity risk

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

√ *Risk applicable to item*
x *Risk not applicable to item*

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

3.2 The liabilities are matched as far as possible with assets, mostly interest-bearing, to ensure that the duration of assets and liabilities are closely aligned.

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

3.4 Policyholder portfolios supporting linked and market-related business, participating annuities and other non-participating life business are invested in appropriate assets, taking into account expected cash outflows.

3.5 The following table summarises the overall maturity profile of the policyholder business:

R million	< 1 year	1-5 years	> 5 years	Open ended	Total
31 December 2011					
Insurance contracts	**4 362**	**19 679**	**55 198**	**56 503**	**135 742**
Investment contracts	**3 915**	**18 208**	**49 456**	**75 100**	**146 679**
Total policy liabilities	**8 277**	**37 887**	**104 654**	**131 603**	**282 421**
Properties	**919***	**—**	**—**	**13 692**	**14 611**
Equities and similar securities	**1 330**	**19**	**—**	**147 570**	**148 919**
Public sector stocks and loans	**5 197**	**6 934**	**41 771**	**603**	**54 505**
Debentures, insurance policies, preference shares and other loans	**7 647**	**10 183**	**6 383**	**2 486**	**26 699**
Cash, deposits and similar securities	**22 269**	**14 595**	**909**	**490**	**38 263**
Deferred acquisition cost	**—**	**—**	**—**	**381**	**381**
Long-term reinsurance assets	**12**	**137**	**521**	**5**	**675**
Derivative liability	**(8)**	**(22)**	**(135)**	**(47)**	**(212)**
Net working capital	**(863)**	**—**	**(3)**	**(554)**	**(1 420)**
Total policyholder assets	**36 503**	**31 846**	**49 446**	**164 626**	**282 421**

** Includes properties classified as non-current assets held for sale.*

R million	< 1 year	1-5 years	> 5 years	Open ended	Total
31 December 2010					
Insurance contracts	4 665	18 357	56 293	53 670	132 985
Investment contracts	3 891	15 753	45 469	67 597	132 710
Total policy liabilities	8 556	34 110	101 762	121 267	265 695
Properties	10	11	31	16 083	16 135
Equities and similar securities	123	149	355	135 948	136 575
Public sector stocks and loans	4 349	5 987	39 833	1 621	51 790
Debentures, insurance policies, preference shares and other loans	7 003	9 510	5 373	1 245	23 131
Cash, deposits and similar securities	27 299	7 856	1 342	443	36 940
Deferred acquisition cost	—	—	—	604	604
Long-term reinsurance assets	19	52	517	—	588
Net working capital	483	—	—	(551)	(68)
Total policyholder assets	39 286	23 565	47 451	155 393	265 695

3.6 The life insurance businesses' capital is not subject to excessive levels of liquidity risk. The publicly issued unsecured bonds issued by Sanlam Life are managed on a corporate level (refer to page 229 for more information).

Capital and risk management report continued

4. Insurance risk

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

√ Risk applicable to item

x Risk not applicable to item

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

Persistency risk

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

Other insurance risk

Underwriting risk

The Group manages underwriting risk through:

- its product development process and underwriting policy to prevent anti-selection and ensure appropriate premium rates (loadings) for 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 and the Group's regular profit reporting process assist in the timely identification of experience variances. The following policies and practices are used by the Group as part of its underwriting strategy to mitigate underwriting risk:

- All long-term insurance product additions and alterations are required to pass through the approval framework that forms part of the life insurance business's governance process. The 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;
- Appropriate income replacement levels apply to disability insurance;
- The experience of reinsurers is used where necessary for the rating of substandard risks;
- The risk premiums for Group risk business and some of the in-force individual risk business can be adjusted within 12 months should claims experience deteriorate to the extent that such an adjustment is considered necessary. Most of the individual new business is sold with a guarantee that risk premiums would not be increased for the first five to 15 years;
- Risk profits are determined on a regular basis; and
- Regular investigations into mortality and morbidity experience are conducted to ensure that corrective action, for example rerating of premiums, is taken where necessary.

Expense risk

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

Concentration risk

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

The Group's operations in the entry-level market segment is not exposed to excessive concentration risk given the nature of business sold in this market, which comprises small value policies to a large number of policyholders. The main concentration risk is assumed by Sanlam Life, which serves the middle-income and high net worth market segments in South Africa and Namibia. The tables below provide an analysis of the exposure to the value of benefits insured in respect of non-participating life business as well as the annuity payable per policy in respect of non-participating annuities for the Group's operations in the middle income and high net worth markets.

Capital and risk management report continued

Non-participating annuity payable per annum per life insured

R'000	Number of lives 2011	Number of lives 2010	Before reinsurance 2011 %	Before reinsurance 2010 %	After reinsurance 2011 %	After reinsurance 2010 %
0 – 20	**214 467**	216 107	**48**	50	**48**	50
20 – 40	**17 795**	17 046	**18**	17	**18**	17
40 – 60	**5 468**	5 218	**9**	9	**9**	9
60 – 80	**2 626**	2 428	**6**	6	**6**	6
80 – 100	**1 328**	1 212	**4**	4	**4**	4
>100	**2 495**	2 067	**15**	14	**15**	14
	244 179	244 078	**100**	100	**100**	100

Value of benefits insured: non-participating life business

Benefits insured per individual life R'000	Number of lives 2011	Number of lives 2010	Before reinsurance 2011 %	Before reinsurance 2010 %	After reinsurance 2011 %	After reinsurance 2010 %
0 – 500	**1 196 472**	1 035 183	**22**	24	**25**	27
500 – 1 000	**179 708**	161 912	**18**	19	**19**	20
1 000 – 5 000	**158 656**	133 884	**43**	42	**43**	42
5 000 – 8 000	**8 128**	6 330	**8**	7	**7**	6
>8 000	**4 643**	3 636	**9**	8	**6**	5
	1 547 607	1 340 945	**100**	100	**100**	100

The tables indicate that the Group's exposure is spread over a large number of lives insured, thereby mitigating concentration risk.

The geographical exposure of the Group's life insurance operations is illustrated in the table below, based on the value of policy liabilities in each region. The majority of life insurance exposure is to the South African market.

R million	2011	2010
South Africa	**240 516**	228 034
Africa	**21 404**	19 823
Other International	**20 501**	17 838
Total policy liabilities	**282 421**	265 695

Retail credit

Retail credit business relates mainly to loan business provided by Sanlam Personal Loans (SPL). The Group is exposed to financial risk through the following:

- SPL is a joint-venture investment of the capital portfolio that has been equity-accounted based on Sanlam's percentage interest in its net asset value.
- The Group has also provided financing to SPL.

The balance of loans advanced by SPL to clients at 31 December 2011 is shown below:

R million	2011	2010
Sanlam Personal Loans		
Gross balance	**2 316**	1 818
Provisions	**(106)**	(71)
Net balance	**2 210**	1 747

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

- As SPL is a joint venture that has been equity-accounted based on Sanlam's percentage interest in its net asset value, the Group is exposed to credit risk to the value of the investment, which is disclosed in note 7 on page 265.
- The Group Treasury function has also provided financing to SPL as indicated above. This exposure is managed by the Capital Management operations.

Credit risk consists of credit standing and default risk. It is the companies' policy to subject their potential customers to credit verification procedures. In addition, balances of advances are monitored on an ongoing basis. Collections strategies are in place to mitigate credit risk and all accounts in arrear are given due priority.

Capital and risk management report continued

Capital markets

SCM is the largest division in the Capital Management cluster. 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 are measured against pre-approved exposure limits. These risk measurements are supplemented with stress testing and scenario analysis. While VaR models are relatively sophisticated, the quantitative market risk information generated is limited by the assumptions and parameters established when creating the related models. Sanlam believes that statistical models alone do not provide a reliable method of monitoring and controlling market risk. Therefore, such models are tools and inputs in the decision-making process, but do not substitute for the experience or judgement of senior management.

Business-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.

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. 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.

SCM is also exposed to credit risk in respect of its working capital assets and loans extended as part of its debt finance and equity structuring activities. Collateral is placed or received for transactions entered into by SCM, including (but not limited to) securities lending and derivative exposures.

1. Market risk

SCM uses VaR to calculate market risk capital. VaR measures the maximum loss over a given horizon with a specified level of confidence. VaR is computed as follows:

- At a 99,5% confidence level (to be consistent with SCM's risk appetite relating to SCM's business);
- Over a 10-day holding period (which takes account of market liquidity risk in the VaR calculation through setting the liquidity period at 10 days);
- Multiplied by a factor of 3 (to allow for uncertainty in estimating VaR at high confidence levels); and
- VaR is calculated on a diversified basis for SCM as a whole and takes the diversification among portfolios into account.

Equity risk

Equity price stress tests are performed on the SCM portfolios. The scenarios used in the stress tests incorporate a combination of equity price movements of between -30% and +20%. In the equity price stress test results, the maximum loss is R131,4 million (2010: R2,9 million).

	Maximum net loss (R million)	
Incremental change in price	**31 Dec 2011**	31 Dec 2010
-5% to 5%	**4,2**	1,5
-10% to 10%	**16,1**	2,9
-15% to 15%	**37,5**	2,0
-30% to 20%	**131,4**	2,9

Interest rate risk

Various interest rate stress tests are performed on the SCM portfolios. The relative parallel interest rate stress test calculates the market exposure based on interest rate movements of between +50% and -20%, *ceteris paribus.*

Capital and risk management report continued

The market exposure that was calculated at 31 December for these tests was as follows:

	Maximum net loss (R million)	
Incremental change in yield	**31 Dec 2011**	31 Dec 2010
10% to -10%	**1**	—
20% to -20%	**3**	1
50% to -20%	**11**	2

2. Credit risk

For credit risk capital, SCM utilises the concept of unexpected losses. Based on historical default data, expected losses are computed on a portfolio of credits. Economic principles dictate that a provision should be created for expected losses, although this is not the approach taken from an accounting perspective. An unexpected loss, on the other hand, is the maximum amount over and above the expected loss that SCM could incur over the particular time horizon with a certain level of confidence. In SCM's economic capital model, an unexpected loss over a one-year time horizon at a 99,5% confidence is used to compute the credit risk capital. This is consistent with the one-year 99,5% VaR used for market risk capital, although market risk capital is computed over a 10-day liquidation period.

At the end of the financial year, SCM's maximum unexpected loss (credit risk capital) was R182,1 million (2010: R80,5 million) based on a 21-day average of the daily economic capital amounts.

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

- The credit ratings for credit assets and funding are deteriorated by 1, 2 and 3 rating notches;
- The impact of these deteriorations on credit spreads are determined with reference to a pre-defined credit spread matrix used in the marked-to-market of both credit assets and funding;
- The changed credit spreads are used to revalue credit assets and funding; and
- The resultant net changes in the valuations of credit assets and funding are seen as the test results.

The table below shows the possible effect of a 1, 2 and 3 notch deterioration in credit rating. The total impact on the valuation of the assets is slightly offset by the impact on the valuation of the funding that is used to acquire the positions in the market. The total effect of a 1 notch deterioration is therefore -R61 million (2010: -R46 million).

	31 Dec 2011	31 Dec 2010
Stress results 1 (1 Notch)	**(61)**	(46)
Stress results 2 (2 Notch)	**(112)**	(72)
Stress results 3 (3 Notch)	**(196)**	(100)

Maximum exposure to credit risk

SCM's maximum exposure to credit risk is equivalent to the amounts recognised in the statement of financial position, as there are no financial guarantees provided to parties outside the Group that is expected to result in an outflow of resources, nor are there any loan commitments provided that are irrevocable over the life of the facility or revocable only in adverse circumstances.

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

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

Concentration risk

Management determines concentrations by counterparty, with reference to the proportion of total credit risk capital held in respect of that counterparty compared to the overall credit risk capital of the entire portfolio. The 10 largest contributors to credit risk capital make up 50% (2010: 60%) of total credit risk capital, but only 18% (2010: 18%) of the total exposure. SCM is therefore not exposed to significant concentration risk.

3. Liquidity risk

The maximum available facilities of R8,5 billion significantly exceed the amount utilised of R6,6 billion (2010: R5,8 billion), indicating widely available unutilised funding sources. In order to keep commitment fees within the Sanlam Group, facilities are negotiated with Sanlam at market-related terms, before external facilities are sought.

Capital and risk management report continued

Committed facilities granted by SCM were R478 million (2010: R519 million). A significant portion of trading account assets and liabilities is due within one year.

Short-term insurance

The Group's short-term insurance operations comprise of the Santam Group.

Risk management framework

Santam has an established enterprise risk management framework that is designed to identify, assess, measure and manage exposure to risk. Its primary objective is to protect the Group from events that hinder the sustainable achievement of the Group's performance objectives, including failing to exploit opportunities.

Regulatory impact on risk and risk assessments

Santam's short-term insurance operations are subject to regulatory requirements that prescribe the type, quality and concentrations of investments, and the level of assets to be maintained in local currency to meet insurance liabilities. These requirements help to maintain market risk at an acceptable level.

Santam monitors specific risks on a regular basis through its risk monitoring framework. Business units are required to disclose to the Group risk function all material risks, along with information on likelihood and severity of risks, and the mitigating actions taken or planned. This enables Santam to assess its overall risk exposure and to develop a Group-wide risk map, identifying any concentration of risk that may exist, and to define which risks and what level of risk Santam is prepared to accept. The risk map is refreshed quarterly, and business units are required to escalate material changes intra-quarter.

Market risk

Market risk arises in business units due to fluctuations in both the value of liabilities and the value of investments held. At a Santam Group level, it also arises in relation to the value of investment assets owned directly by the shareholders' fund.

Santam has established a policy on market risk which sets out the principles that businesses are expected to adopt in respect of management of the key market risks to which Santam is exposed. Santam monitors adherence to this market risk policy and regularly reviews how business units are managing these risks through the Santam Investment committee. For each of the major components of market risk, described in more detail below, Santam has put in place additional policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

Price risk

Santam is subject to price risk due to daily changes in the market values of its equity and debt securities portfolios. Santam is not exposed to commodity price risk.

The objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling methods. Holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by management and statutory requirements.

Short-term insurance liabilities are not directly sensitive to equity price risk. Long-term investment contract liabilities are sensitive to price risk of linked assets.

The Santam Board actively monitors equity assets owned directly by Santam, which include some material shareholdings in the strategic business partners. Concentrations of specific equity holdings, e.g. strategic holdings, are also monitored.

Interest rate risk

Interest rate risk arises primarily from investments in long-term debt and fixed income securities, which are exposed to fluctuations in interest rates. Exposure to interest rate risk is monitored through several measures that include scenario testing and stress testing using measures such as duration.

Interest rate risk is also managed using derivative instruments, including futures, options and swaps, to provide a degree of hedging against unfavourable market movements in interest rates inherent in the assets backing technical liabilities. At 31 December 2011, Santam had an interest rate swap agreement to partially mitigate the effects of potential adverse interest rate movements on financial assets underlying the unsecured subordinated callable notes.

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing.

Foreign currency risk

Santam does not have material exposure to financial instruments denominated in foreign currencies.

Derivatives risk

Derivatives are primarily used for efficient investment management, risk hedging purposes or to structure specific products. Santam does not use derivative financial instruments for speculative purposes, but instead to manage financial risks and to preserve its capital base. Predetermined mandates control the use of derivative financial instruments.

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

Credit risk

Key areas where the Group is exposed to credit risk are:

- Financial assets and cash and cash equivalents;
- Amounts due from insurance policyholders;
- Amounts due from insurance contract intermediaries;
- Amounts due from reinsurers; and
- Reinsurers' share of insurance liabilities.

Santam determines counterparty credit quality by reference to ratings from independent ratings agencies such as Standard and Poor's or, where such ratings are not available, by internal analysis. Santam seeks to avoid concentration of credit risk to groups of counterparties, to business sectors, product types and geographical segments.

The following table provides information regarding the aggregated credit risk exposure for financial assets with external credit ratings.

Capital and risk management report continued

R million	AAA	AA+	AA	AA–	A+	A	A–	BBB	Not rated	Carrying value
					Credit rating					
31 December 2011										
Debt securities – quoted	**404**	**336**	**709**	**1 012**	**321**	**186**	**5**	**547**	**—**	**3 520**
Debt securities – unquoted	**284**	**196**	**1 128**	**580**	**431**	**6**	**15**	**—**	**—**	**2 640**
Receivables due from contract holders/ intermediaries	**—**	**18**	**16**	**—**	**18**	**—**	**—**	**—**	**1 095**	**1 147**
Reinsurance receivables	**—**	**3**	**(4)**	**45**	**5**	**3**	**10**	**81**	**79**	**222**
Other loans and receivables	**52**	**15**	**18**	**13**	**9**	**2**	**—**	**7**	**351**	**467**
Cash and other short-term interest-bearing instruments	**331**	**1 303**	**799**	**422**	**293**	**43**	**55**	**86**	**41**	**3 373**
Total	**1 071**	**1 871**	**2 666**	**2 072**	**1 077**	**240**	**85**	**721**	**1 566**	**11 369**
31 December 2010										
Debt securities – quoted	1 372	106	463	942	246	193	—	62	4	3 388
Debt securities – unquoted	70	—	313	288	145	—	30	—	12	858
Receivables due from contract holders/ intermediaries	21	—	18	—	16	—	—	—	970	1 025
Reinsurance receivables	11	70	1	26	22	14	23	79	54	300
Other loans and receivables	23	1	14	17	29	4	—	1	321	410
Cash and other short-term interest-bearing instruments	1 682	153	1 263	625	829	44	34	99	99	4 828
Total	3 179	330	2 072	1 898	1 287	255	87	241	1 460	10 809

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

Unrated receivables that are due from contract holders and intermediaries emanating from the Southern African business amounted to R1 147 million (2010: R970 million). Santam is protected by guarantees provided by the Intermediary Guarantee Facility for the non-payment of premiums collected by intermediaries and through direct control over certain bank accounts used by intermediaries. The protected portion of receivables due from contract holders and intermediaries amounts to 58,6% (2010: 37,2%).

The financial instruments, except amounts owed by reinsurers, do not represent a concentration of credit risk, as Santam deals with a variety of major banks and its accounts receivable are spread among a number of major companies, intermediary parties, clients and geographic areas.

Reinsurance credit exposures

Reinsurance is used to manage insurance risk. However, this does not discharge Santam's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, Santam remains liable for the payment to the policyholder. Santam has some exposure to concentration risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The creditworthiness of reinsurers is considered annually by reviewing their financial strength prior to finalisation of any contract. Santam's largest reinsurance counterparty is Lloyds (2010: Lloyds). This exposure is monitored on a regular basis with the forecast to completion monitored for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for Santam will arise. BBB-rated reinsurance receivables of R81 million (2010: R97 million) relate to reinsurance brokers for the Group. The reinsurance receivable balances, disclosed as not-rated on a group level, relate to cell owners and reinsurance brokers.

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

There is no concentration of credit risk with respect to loans and receivables, other than reinsurance debtors, as Santam has a large number of dispersed debtors.

Insurance risk

Santam issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way Santam manages them.

Terms and conditions of insurance contracts

Engineering – Provides cover for risks relating to:

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

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

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

Capital and risk management report continued

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

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

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

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

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

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

Insurance risk in Santam arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source;
- Inaccurate pricing of risks when underwritten;
- Inadequate reinsurance protection or other risk transfer techniques; and
- Inadequate reserving.

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 reserving, the principal risks Santam face are that the actual claims and benefit payments exceed the premiums charged for the risks assumed and that the reserves set aside for policyholders' liabilities, whether they are known or still to be reported, prove to be insufficient.

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, economic 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.

Pricing

Santam bases its pricing policy on the theory of probability. Underwriting limits are set for underwriting managers and brokers to ensure that this policy is consistently applied. Santam also has the right to re-price and change the conditions for accepting risks on renewal. It also has the ability to impose deductibles and reject fraudulent claims.

Through the use of extensive expertise, well-maintained data resources, selective underwriting practices and pricing techniques it is able to produce appropriate and competitive premium rates.

The net claims ratio for Santam (continuing activities only), which is important in monitoring insurance risk, has developed as follows over the past seven years:

Loss history	**2011**	2010	2009	2008	2007	2006	2005
Claims paid and provided %*	**64,2**	64,1	70,6	68,4	68,2	68,6	65,3

**Expressed as a percentage of net earned premiums*

Factors that aggravate insurance risk include a lack of risk diversification in terms of type and amount of risk, geographical location and the industries 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 diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.
Santam 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. A specialised catastrophe reinsurance programme mitigates the risk arising from this.

Claims development tables

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

Capital and risk management report continued

Payment development

– Conventional short-term insurance claims – gross

Claims paid in respect of

Reporting year R million	Total	2011	2010	2009	2008	2007	2006	2005 and prior
Actual claims costs:								
– 2011	10 327	**7 767**	2 141	247	52	54	60	6
– 2010	9 999	**–**	7 144	2 236	411	116	41	51
– 2009	10 016	**–**	–	7 702	1 959	197	92	66
– 2008	8 996	**–**	–	–	7 181	1 547	156	112
– 2007	7 971	**–**	–	–	–	6 219	1 385	367
– 2006	6 988	**–**	–	–	–	–	5 521	1 467
– 2005	5 955	**–**	–	–	–	–	–	5 955
– 2004	4 797	**–**	–	–	–	–	–	4 797
– 2003	5 076	**–**	–	–	–	–	–	5 076
Cumulative payments to date	70 125	**7 767**	9 285	10 185	9 603	8 133	7 255	17 897

– Conventional short-term insurance claims – net

Claims paid in respect of

Reporting year R million	Total	2011	2010	2009	2008	2007	2006	2005 and prior
Actual claims costs:								
– 2011	8 989	**7 082**	1 673	148	39	23	19	5
– 2010	8 710	**–**	6 401	1 816	323	103	35	32
– 2009	8 805	**–**	–	6 928	1 651	131	41	54
– 2008	7 727	**–**	–	–	6 172	1 381	93	81
– 2007	6 672	**–**	–	–	–	5 292	1 197	183
– 2006	6 020	**–**	–	–	–	–	4 924	1 096
– 2005	5 185	**–**	–	–	–	–	–	5 185
– 2004	4 064	**–**	–	–	–	–	–	4 064
– 2003	4 194	**–**	–	–	–	–	–	4 194
Cumulative payments to date	60 366	**7 082**	8 074	8 892	8 185	6 930	6 309	14 894

Reporting development

– Short-term insurance claims provision – gross

Reporting year R million	Total	2011	2010	2009	2008	2007	2006	2005 and prior
			Financial year during which claim occurred					
Provision raised:								
– 2011	4 192	**2448**	652	333	303	191	113	152
– 2010	3 809	**—**	2 357	556	312	171	146	267
– 2009	4 288	**—**	—	2 617	712	401	281	277
– 2008	4 075	**—**	—	—	2 579	630	356	510
– 2007	3 774	**—**	—	—	—	2 804	405	565
– 2006	3 922	**—**	—	—	—	—	2 929	993
– 2005	3 187	**—**	—	—	—	—	—	3 187
– 2004	2 436	**—**	—	—	—	—	—	2 436
– 2003	2 303	**—**	—	—	—	—	—	2 303
Cumulative provisions to date	31 986	**2 448**	3 009	3 506	3 906	4 197	4 230	10 690

– Short-term insurance claims provision – net

Reporting year R million	Total	2011	2010	2009	2008	2007	2006	2005 and prior
			Financial year during which claim occurred					
Provision raised:								
– 2011	3 273	**1 919**	509	260	220	149	93	123
– 2010	2 896	**—**	1 813	402	228	132	117	204
– 2009	2 952	**—**	—	1 861	435	280	200	176
– 2008	2 699	**—**	—	—	1 805	403	195	296
– 2007	2 444	**—**	—	—	—	1 807	268	369
– 2006	2 484	**—**	—	—	—	—	1 916	568
– 2005	1 909	**—**	—	—	—	—	—	1 909
– 2004	1 056	**—**	—	—	—	—	—	1 056
– 2003	1 104	**—**	—	—	—	—	—	1 104
Cumulative provisions to date	20 817	**1 919**	2 322	2 523	2 688	2 771	2 789	5 805

Capital and risk management report continued

Reserving

Claims are analysed separately for long-tail and short-tail claims. Short-tail claims can be estimated with greater reliability, and the Santam 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 allow Santam to achieve a higher degree of certainty about the estimated cost of claims, and relatively lower levels of IBNR are held at year-end.

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, Santam 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. At year-end, Santam believes that its liabilities for long-tail and short-tail claims are adequate.

In calculating the estimated cost of unpaid claims, Santam's estimation methodology is based on standard statistical techniques. For claims that have been reported to Santam by the valuation date, expert assessors estimate the expected cost of final settlement. In addition to this, testing of the entire portfolio is done to determine whether or not these estimates are likely to be sufficient in aggregate or if an additional reserve amount is required.

For claims that have not been reported to Santam by the valuation date, the chain-ladder methodology is used to determine the expected cost of these unreported claims.

A stochastic reserving process is performed and Santam holds its reserves for unpaid claims at at least the 75th percentile level of sufficiency.

Claim provisions for all classes of business are regularly reviewed and audited internally 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.

Accumulation risk

Santam is exposed to accumulation risk in the form of geographical (large metropolitan) areas as well as class of business concentrations of risk. The risk appetite policy dictates how much capital the company is willing to put at risk in the pursuit of value. It is within this risk appetite framework that the reinsurance programme has been selected to mitigate accumulation risk within its portfolio.

Reinsurance

Santam obtains third-party reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or capital.

This cover is placed on the local and international reinsurance market. Santam uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses to measure the effectiveness of the reinsurance programme and the net exposure of Santam. The core components of the reinsurance programme comprise:

- Individual excess-of-loss cover for property, liability and engineering risks, which provides protection to limit losses to R50 million per event, excluding reinstatement premiums due as a result of the claim against the cover; and
- Catastrophe cover to the extent of 1,6% (2010: 1,6%) of the total exposure of the significant geographical areas, amounting to protection of up to R6,5 billion per event in excess of an attachment point of R50 million.

The Santam Board approves the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is placed with external reinsurers that have an international credit rating of no less than A- from Standard and Poor's or AM Best.

Liquidity risk

Santam is exposed to daily calls on its available cash resources from claims. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Santam Board sets limits on the minimum proportion of maturing funds available to meet such calls.

Santam actively manages its cash resources, split between short-term and long-term to ensure sufficient cash is at hand to settle insurance liabilities, based on monthly float projections. Santam has sufficient liquid resources to cover its obligations. R7 billion (2010: R6,4 billion) of insurance liabilities are payable within one year, with the remaining balance predominantly payable within two to five years. Cell owners' interest liabilities are predominantly payable within two to five years.

Corporate

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

1. Liquidity risk

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

Capital and risk management report continued

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

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
31 December 2011					
Term finance liabilities	**(1 067)**	**(1 734)**	**(53)**	**–**	**(2 854)**
Interest-bearing liabilities held in respect of margin business (refer to note 16.1 in annual financial statements)	**(731)**	**(1 630)**	**(53)**	**–**	**(2 414)**
Add: Preference shares issued to subsidiaries and eliminated on consolidation	**(336)**	**(104)**	**–**	**–**	**(440)**
Assets held in respect of term finance	**254**	**1 758**	**53**	**789**	**2 854**
Debentures, insurance policies, preference shares and other loans	**205**	**1 553**	**–**	**789**	**2 547**
Cash, deposits and similar securities	**33**	**–**	**–**	**–**	**33**
Working capital assets and liabilities	**16**	**205**	**53**	**–**	**274**
Net term finance liquidity position	**(813)**	**24**	**–**	**789**	**–**
31 December 2010					
Term finance liabilities	(1 675)	(1 651)	(46)	–	(3 372)
Interest-bearing liabilities held in respect of margin business (refer to note 16.1 in annual financial statements)	(1 652)	(1 417)	(46)	–	(3 115)
Add: Preference shares issued to subsidiaries and eliminated on consolidation	(23)	(234)	–	–	(257)
Assets held in respect of term finance	1 098	1 737	46	491	3 372
Public sector stocks and loans	4	4	–	–	8
Debentures, insurance policies, preference shares and other loans	377	1 668	–	491	2 536
Cash, deposits and similar securities	590	65	–	–	655
Working capital assets and liabilities	127	–	46	–	173
Net term finance liquidity position	(577)	86	–	491	–

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

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

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
31 December 2011					
Term finance liabilities	**–**	**–**	**(2 079)**	**–**	**(2 079)**
Interest-bearing liabilities	**–**	**–**	**(2 054)**	**–**	**(2 054)**
Add: Unsecured bonds issued to subsidiaries and eliminated on consolidation	**–**	**–**	**(25)**	**–**	**(25)**
Assets held in respect of term finance	**(40)**	**1 663**	**330**	**126**	**2 079**
Public sector stocks and loans	**(2)**	**90**	**114**	**–**	**202**
Debentures, insurance policies, preference shares and other loans	**69**	**1 374**	**151**	**126**	**1 720**
Cash, deposits and similar securities	**(42)**	**199**	**65**	**–**	**222**
Working capital assets and liabilities	**(65)**	**–**	**–**	**–**	**(65)**
Net term finance liquidity position	**(40)**	**1 663**	**(1 749)**	**126**	**–**
31 December 2010					
Term finance liabilities	–	–	(2 056)	–	(2 056)
Interest-bearing liabilities	–	–	(2 031)	–	(2 031)
Add: Unsecured bonds issued to subsidiaries and eliminated on consolidation	–	–	(25)	–	(25)
Assets held in respect of term finance	(265)	1 717	487	117	2 056
Public sector stocks and loans	(4)	296	126	–	418
Debentures, insurance policies, preference shares and other loans	89	1 251	196	117	1 653
Cash, deposits and similar securities	(288)	170	165	–	47
Working capital assets and liabilities	(62)	–	–	–	(62)
Net term finance liquidity position	(265)	1 717	(1 569)	117	–

2. Sensitivity analysis – market risk

Refer to page 93 for an analysis of the Group's exposure to market risk as measured by GEV.

Sanlam Group – Annual financial statements

Contents

The preparation of the Group's audited consolidated results was supervised by the Financial Director, Kobus Möller CA(SA).

Directors' responsibility for financial reporting

The board of Sanlam Limited takes responsibility for the integrity, objectivity and reliability of the Group and company annual financial statements of Sanlam Limited in accordance with International Financial Reporting Standards. Adequate accounting records have been maintained. The board endorses the principle of transparency in financial reporting. The responsibility for the preparation and presentation of the annual financial statements has been delegated to management.

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

The Audit, Actuarial and Finance committee has confirmed that effective systems of internal control and risk management are being maintained. There were no breakdowns in the functioning of the internal financial control systems during the year, which had a material impact on the Sanlam Group annual financial statements. The board is satisfied that the annual financial statements fairly present the financial position, the results of operations and cash flows in accordance with International Financial Reporting Standards and supported by reasonable and prudent judgements consistently applied.

The board of Sanlam Limited takes responsibility for the integrity, objectivity and reliability of the Shareholders' Information. The responsibility for the preparation and presentation of the Shareholders' Information has been delegated to management.

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

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

The board is of the opinion that Sanlam Limited is financially sound and operates as a going concern. The annual financial statements have accordingly been prepared on this basis.

The annual financial statements on pages 234 to 304, including the disclosure in the Capital and Risk Management Report on pages 179 to 229, the analysis of shareholders on page 7 and the Shareholders' Information on pages 80 to 136 were approved by the board and signed on its behalf by:

Desmond Smith
Chairman

Johan van Zyl
Group Chief Executive

Cape Town
7 March 2012

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 2011, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

Sana-Ullah Bray
Company Secretary

7 March 2012

Report of the Independent auditors

To the shareholders of Sanlam Limited

We have audited the consolidated and separate annual financial statements of Sanlam Limited, which comprise the Directors' Report, the consolidated and separate Statements of Financial Position as at 31 December 2011, the consolidated and separate Statements of Comprehensive Income, the consolidated and separate Statements of Changes in Equity and the consolidated and separate Cash Flow Statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 234 to 304.

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 the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 management, 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 consolidated and separate financial position of the company and Group as of 31 December 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Ernst & Young Inc.
Director: Malcolm Rapson
Registered Auditor
Chartered Accountant (SA)

Ernst & Young House
35 Lower Long Street
Cape Town
7 March 2012

Independent auditors' report on the Sanlam Limited shareholders' information

To the directors of Sanlam Limited

We have audited the Sanlam Limited Shareholders' Information ("Shareholders' Information") set out on pages 80 to 136 for the year ended 31 December 2011, which comprises the Report on Group Equity Value, Report on Shareholders' Fund and Report on Embedded Value of Covered Business and related notes which has been prepared in accordance with the basis of preparation and presentation set out on pages 81 to 89. This report should be read in conjunction with the audited annual financial statements and basis of presentation and accounting policies as set out on pages 235 to 253.

Directors' responsibility for the Shareholders' Information

The company's directors are responsible for the annual financial statements, as described on page 231, as well as for the preparation and presentation of the Shareholders' Information in terms of the basis of preparation and presentation, and for such internal control as the directors determine is necessary to enable the preparation of the Shareholders' Information that are free from material misstatement, whether due to fraud or error. This responsibility includes selecting and applying appropriate preparation principles and making valuation estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the Shareholders' Information. 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 Shareholders' Information has been prepared, in all material respects, in accordance with the basis of preparation and presentation set out on pages 81 to 89.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Shareholders' Information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Shareholders' Information, 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 Shareholders' Information 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 the basis of preparation and presentation used and the reasonableness of valuation estimates made by the directors, as well as evaluating the overall presentation of the Shareholders' Information.

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 Sanlam Limited Shareholders' Information has been prepared, in all material respects, in accordance with the basis of preparation and presentation set out on pages 81 to 89 of the Sanlam Limited Shareholders' Information Report.

Ernst & Young Inc.
Director: Malcolm Rapson
Registered Auditor
Chartered Accountant (SA)

Ernst & Young House
35 Lower Long Street
Cape Town
7 March 2012

Directors' report

for the year ended 31 December 2011

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 integrated annual report.

Sanlam Limited is a public company incorporated in terms of the Companies Act No 71 of 2008, 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 Report on Corporate Governance. Disclosures with regard to compliance with the Code are provided in the Corporate Governance Report.

Group results

Profit attributable to shareholders decreased from R5 523 million in 2010 to R5 166 million in 2011, largely due to the weaker market performance in 2011, which resulted in a decrease in the net investment return earned on the capital portfolio. Further details regarding the Group's results and prospects are included in the Financial Review. The information in the Financial Review and Corporate Governance Report, requiring disclosure in the Directors' Report in terms of the Companies Act and JSE Listing Requirements, has been audited.

The holding company's interest in the after tax profit of the Group subsidiaries, summarised per cluster, is set out in the Shareholder's fund income statement on page 98.

Share capital

The issued ordinary share capital of the company is 2 100 million shares. Refer to page 271 for further information.

Dividend

The Board has declared a cash dividend of 130 cents per share (2010: 115 cents), payable on Wednesday, 9 May 2012, to shareholders registered on 19 April 2012. All payments through electronic bank transfer will take place on this date. Dividend cheques to be issued to shareholders who elected not to receive electronic payment, will be mailed on or about this date.

Subsidiaries

Details of the company's principal subsidiaries are set out on page 304.

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 integrated 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 integrated annual report.

Post-balance sheet events

No material facts or circumstances have arisen between the date of the balance sheets and this report which materially affects the financial position of the Sanlam Limited Group at 31 December 2011 as reflected in these financial statements.

Approval of annual financial statements

The annual financial statements have been approved by the directors as reflected on page 231, including the certificate by the company secretary on page 231, the audit committee report for the 2011 financial year on page 148 and the analysis of shareholders on page 7.

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, listed term finance and long-term policy liabilities, in accordance with International Financial Reporting Standards (IFRS), the Companies Act, No. 71 of 2008, as amended, in South Africa, and the AC 500 Standards as issued by the Accounting Practices Board and its successor. The financial statements are presented in South African rand rounded to the nearest million, unless otherwise stated.

The following new or revised IFRSs and interpretations are applied in the Group's 2011 financial year:

- Amendment to IAS 32 – Classification of Rights Issues (effective 1 February 2010)
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- IAS 24 revised – Related Party Disclosures (effective 1 January 2011)
- Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement (effective 1 January 2011)
- May 2010 Improvements to IFRS (mostly effective 1 January 2011)

The application of these standards and interpretations did not have a significant impact on the Group's financial position, reported results and cash flows.

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

- Amendments to IFRS 1 – Severe hyperinflation and removal of fixed dates for first-time adopters (effective 1 July 2011)
- Amendment to IFRS 7 – Disclosures – Transfers of Financial Assets (effective 1 July 2011)
- Amendment to IFRS 7 – Disclosures relating to offsetting of financial assets and liabilities (effective 1 January 2013)
- Amendment to IAS 12 – Deferred tax: Recovery of underlying assets (effective 1 January 2012)
- Amendment to IAS 32 – Clarification of the instances in which the set off of financial assets and liabilities is allowed (effective 1 January 2014)
- IAS 1 Presentation of financial statements – Amendment regarding presentation of other comprehensive income (effective 1 July 2012)
- IFRS 9 Financial Instruments (effective 1 January 2013)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11 Joint Arrangements (effective 1 January 2013)
- IFRS 12 Disclosure of Interests if Other Entities (effective 1 January 2013)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 19 Employee Benefits – Amendment regarding removal of corridor method and other comprehensive income treatment (effective 1 January 2013)
- IAS 27 Separate Financial Statements – Consequential amendments resulting from consolidation project (effective 1 January 2013)
- IAS 28 Investments in Associates and Joint Ventures – Consequential amendments resulting from consolidation project (effective 1 January 2013)

The application of these revised standards and interpretations in future financial reporting periods 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 305.

The following sections provide additional information in respect of the presentation of selected items in the Group financial statements on pages 254 to 304.

Use of estimates, assumptions and judgements

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

- the fair value of unlisted investments;
- deferred taxation;

Basis of presentation and accounting policies continued

- 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 statement of financial position date, the actual outcome may differ from these estimates, possibly significantly. Refer to note 31 for further information on critical estimates and judgements and note 34 for information on contingencies.

Policyholders' and shareholders' activities

The Group financial statements set out on pages 254 to 304 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 80 to 136.

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 250 to 253.

Insurance contracts

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

Cash, deposits and similar securities

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

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

Financial instruments

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

- Audited Capital and Risk Management report on pages 179 to 229;
- Note 7: Investments;
- Note 15: Long-term policy liabilities;
- Note 16: Term finance; and
- Note 31: Critical accounting estimates and judgements.

Segmental information

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

- Sanlam Personal Finance,
- Sanlam Emerging Markets,
- Sanlam Institutional Cluster, which includes Sanlam Investments, Sanlam Employee Benefits, Capital Management and Sanlam UK,
- Santam; and
- Corporate and Other.

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

The audited segmental information is disclosed in the shareholders' fund information on pages 81 to 128. Refer to the financial review on pages 60 to 79 for additional information on these business segments and to the Group structure on page 4 for a description of these businesses and the cluster to which they are allocated.

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. These include policies relating to insurance liabilities, deferred acquisition costs, the ascertainment of fair values of financial assets, financial liabilities and derivative financial instruments, and the determination of impairment losses. In each case, the determination of these is fundamental to the financial results and position, and requires management to make complex judgements based on information and financial data that may change in future periods. Since these involve the use of assumptions and subjective judgements as to future events and are subject to change, the use of different assumptions or data could produce materially different results.

These policies (as set out below) are in accordance with and comply with IFRS and have been applied consistently for all periods presented unless otherwise noted.

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 expensed in the statement of comprehensive income with effect from the 2010 financial year. These costs were capitalised against the investment acquired in financial years up to the end of 2009. Identifiable assets and liabilities acquired and contingent liabilities assumed are recognised at fair value at acquisition date. The excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets and contingent liabilities represents goodwill and is accounted for in terms of the accounting policy note for goodwill. If the cost of an acquisition is less than the fair value of the net identifiable assets and contingent liabilities, the difference is recognised in the statement of comprehensive income.

The results of subsidiaries and consolidated funds are included from the effective dates when 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 as negative reserves against minority shareholders' interest.

A financial liability is recognised, and classified as at fair value through profit or loss, for the fair value of external investors' interest in consolidated funds where the issued units of the fund are classified as financial liabilities in terms of IFRS. Changes in the fair value of the external investors' liability are recognised in the statement of comprehensive income. In all other instances, the interests of external investors in consolidated funds are not financial liabilities and are recognised as 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. The assets relating to the cell captives are under the control of the insurer and are therefore reflected as part of the financial assets at fair value through income or cash and cash equivalents, depending on the nature of the assets.

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 20 years. If the expected residual value is equal to or greater than the carrying value, no depreciation is provided for. The

Basis of presentation and accounting policies continued

residual values, estimated useful lives of the assets and depreciation methods are reviewed at each statement of financial position date and adjusted as appropriate. Cost prices include costs directly attributable to the acquisition of 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 statement of comprehensive income when incurred. 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 statement of comprehensive income.

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, 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 statement of financial position date and adjusted as appropriate. If the expected residual value is equal to or greater than the carrying value, no depreciation is provided for. Owner-occupied property is tested bi-annually for impairment. When owner-occupied properties become investment properties, they are reclassified to investment properties at the fair value of the properties at the date of reclassification. The difference between the carrying value and fair value of the properties at the date of reclassification is recognised directly in other comprehensive income as a revaluation surplus. Owner-occupied property is derecognised at disposal date or at the date when it is permanently withdrawn from use without the ability to be disposed of. The difference between the carrying amount at the date of derecognition and any disposal proceeds, as applicable, is recognised in the statement of comprehensive income.

Goodwill

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

Goodwill is not recognised when an interest in an existing subsidiary is increased. The difference between the cost of the acquisition and the minority interest acquired is accounted for directly in equity. These differences were recognised as goodwill for business combinations occurring before 1 January 2010. When an interest in an existing subsidiary is decreased without a loss of control, the difference between the proceeds received and the share of the net assets disposed of, including an appropriate portion of the related goodwill, is accounted for directly in equity. These profits and losses were recognised in the statement of comprehensive income before 1 January 2010.

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 statement of comprehensive income and are not reversed. Where a number of related businesses acquired in the same business combination are allocated to different Group business divisions, the related goodwill is held on a Group level and the businesses are combined for purposes of determining the recoverable amount of the goodwill.

Goodwill in respect of associates and joint ventures is included in the carrying value of investments in associates and joint ventures. For impairment purposes each investment is tested for impairment individually and goodwill is not tested separately from the investment in associates and joint ventures, nor is any impairment allocated to any underlying assets.

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 business acquired, after allowing for the cost of capital supporting the business, as applicable. The valuation is based on the Group's actuarial and valuation principles as well as assumptions in respect of future premium income, fee income, investment return, policy benefits, costs, taxation, mortality, morbidity and surrenders, as appropriate.

VOBA is amortised on a straight-line basis over the expected life of the client relationships underlying the book of business acquired. VOBA is tested for impairment on a bi-annual basis and written down for impairment where this is considered necessary. Where impairment events subsequently reverse, impairments are reversed up to a maximum of what the depreciated cost would have been. 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 terminated, settled or disposed of.

Other intangible assets

Acquired intangible assets are recognised at cost on acquisition date. Subsequent to initial recognition, these assets are reflected at their depreciated cost prices less provisions for impairment in value, where appropriate. 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 statement of financial position date and adjusted, as appropriate. Other intangible assets are tested for impairment on a bi-annual basis and written down for impairment where this is considered necessary.

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.

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

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

Financial instruments

Financial instruments carried on the statement of financial position include investments (excluding investment properties, associates and joint ventures), receivables, cash, deposits and similar securities, investment policy contracts, term finance liabilities, liabilities in respect of external investors in consolidated funds and 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 counter-parties as part of the Group's capital market activities are not derecognised. No transfer of

Basis of presentation and accounting policies continued

ownership takes place in respect of collateral other than cash and any such collateral accepted by counter-parties may not be used for any purpose other than being held as security for the trades to which such security relates. In respect of cash security, ownership transfers in law. However, the counter-party 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 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 statement of comprehensive income 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 statement of comprehensive income 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. Objective evidence of impairment would include when market rates of return have increased during the period to such an extent that the asset's recoverable amount has decreased materially. 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 statement of comprehensive income. 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 statement of comprehensive income, 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. If a financial asset would have been impaired had the terms of the asset not been renegotiated, the asset continues to be accounted for in accordance with its category, and the difference between the carrying amount based on the new terms and the previous carrying amount is recognised in the statement of comprehensive income as investment surpluses.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Investments

Investment properties

Investment properties comprise properties held to earn rental income and/or for capital appreciation. Investment properties are carried at fair value based on valuations by internally employed valuators, 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 values are determined by discounting expected future cash flows at appropriate market interest rates. Valuations are carried out monthly. Changes in the fair value of investment properties are recognised in the statement of comprehensive income as investment surpluses.

When investment properties become owner-occupied, the Sanlam Group reclassifies them 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 jointly control or control those policies by virtue of a majority vote.

Investments in associates are recognised on the date significant influence is obtained and derecognised on the date significant influence is lost. Investments in associates, other than those investments, or portions thereof, held by investment-linked life insurance funds, are initially recognised at cost. The results of these associated companies after initial recognition are accounted for using the equity method of accounting, whereby the Group's share of associates' post-acquisition comprehensive income profit or loss is recognised in the Group statement of comprehensive income as equity-accounted earnings, and the Group's share of associates' other post-acquisition movement in equity reserves (other than those related to dividends) 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 amount is reviewed bi-annually for impairment and written down where this is considered necessary. The carrying value of the investment in an associate includes goodwill.

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

Joint ventures

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

The results of joint ventures, other than those held by investment-linked life insurance funds, are accounted for using the equity method of accounting, whereby the Group's share of the joint ventures' profit or loss is recognised in the Group statement of comprehensive income as equity-accounted earnings, and the Group's share of joint ventures' post-acquisition movement in reserves is recognised in reserves, with a corresponding adjustment to the carrying value of investments in joint ventures. Net losses are only recognised to the extent of the net investment in a joint venture, unless the Group has incurred obligations or made

Basis of presentation and accounting policies continued

payments on behalf of the joint venture. Equity-accounted earnings are based on accounting policies uniform to those of the Group. The carrying value of the investment in a joint venture is reviewed bi-annually for impairment and written down where this is considered necessary. The carrying value of the investment in a joint venture includes goodwill.

Investments in joint ventures 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 collective investment schemes are valued at the stock exchange and net asset value prices respectively;
- The value of unlisted shares is determined by the directors using appropriate valuation bases;
- Listed bonds are valued at the stock exchange prices;
- Unlisted interest-bearing investments are valued by discounting expected future cash flows at appropriate market interest rates; and
- Listed derivative instruments are valued at the South African Futures Exchange prices and the value of unlisted derivatives is determined by the directors using generally accepted valuation models.

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 factors that market participants would consider in setting the price and are consistent with accepted economic methodologies for pricing derivatives such as discounted cash flow models and option pricing models, as appropriate. The Group calibrates its valuation techniques against market transactions or any available observable market data. Day one gains or losses on derivatives measured using these valuation techniques are recognised in the statement of comprehensive income to the extent that they arise from a technique that incorporates only variables based on observable market data and there has been a change in one of these variables (including time). If there has been no change in one of these variables, the gains or losses are deferred, and recognised in the statement of comprehensive income over the life of the instrument.

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

Derivatives are used for trading purposes by Sanlam Capital Markets and for non-trading purposes by other Group businesses. The fair values related to trading derivatives are included in trade and other receivables (refer to policy note below) and the fair values of non-trading derivatives are included in the appropriate investment category. 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.

Non-current assets held for sale

Non-current assets held for sale comprise non-current assets for which the carrying value will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of their carrying value and their fair value less costs to sell, unless they are specifically excluded from the measurement provisions of IFRS 5: *Non-current assets held for sale and discontinued operations*, in which case they are measured in accordance with the applicable IFRSs. Immediately before initial classification as held for sale, the assets to be reclassified are measured in accordance with applicable IFRSs. When the sale of such non-current assets held for sale is expected to occur beyond one year, costs to sell are measured at their present value. Any increase in the present value of the costs to sell arising from the passage of time is presented in profit and loss as a financing cost.

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 statement of financial position 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 statement of comprehensive income over the period in which the related premiums are earned. All other costs are recognised as expenses when incurred.

The Group assesses its 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 statement of comprehensive income.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (salvage). The Group may also have the right to pursue third parties for payment of some or all costs (subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

Trade and other receivables

Trade and other receivables are measured at amortised cost, apart from trading account assets.

Trading account assets include equities and similar securities, interest-bearing instruments and derivative financial instruments relating to the trading transactions undertaken

Basis of presentation and accounting policies continued

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 statement of comprehensive income as financial services income. The fair values related to such contracts and commitments are determined on the same basis as described for non-trading instruments in the policy note for financial instruments and are reported on a gross basis in the statement of financial position as positive and negative replacement values to the extent that set-off is not required by IAS 32 *Financial Instruments: Disclosure and Presentation*.

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 are 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 liabilities that are measured at fair value (refer to the description on the measurement of trading account assets in the accounting policy note for trade and other receivables, which also applies to trading account liabilities).

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 statement of comprehensive income 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 statement of comprehensive income.

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 is 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 owing to the fact that they represent accounting differences and not economic losses for the shareholders' fund. Valuation differences arise from the following investments which are accounted for as noted below for IFRS purposes, while for purposes of valuing the related policy liabilities these same investments are valued at fair value:

- Investments in subsidiaries and consolidated funds, which are valued at net asset value plus goodwill;
- The shareholders' portion of 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 is considered to be revenue for IFRS purposes and 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. 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

Investment income includes interest, rental and dividend income received. Interest income is accounted for on a time proportionate basis that takes into account the effective yield on the asset and includes the net income earned from interest margin business.

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

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

Basis of presentation and accounting policies continued

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 Financial services income policy note for presentation of gains and losses on capital market investments) and dividend and interest income. These surpluses are recognised in the statement of comprehensive income on the date of sale or upon valuation to fair value.

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. Cover only commences when premiums are received.

Group life insurance and investment contract premiums are accounted for when receivable. Where premiums are not determined in advance, they are accounted for upon receipt.

The unearned portion of accrued premiums is included within long-term policy liabilities.

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.

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 is recognised concurrently with the recognition of the related policy benefit.

Other policy benefits

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

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 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 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 statement of comprehensive income includes the amortisation of deferred acquisition costs as well as sales remuneration incurred that is not directly attributable to the acquisition of long-term investment policy contracts or 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 statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

Borrowing costs

Borrowing costs are recognised as an expense in the statement of comprehensive income 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 statement of financial position date. Deferred tax assets relating to unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Deferred tax balances are reflected at current values and have not been discounted.

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 statement of comprehensive income as financial services income. Exchange differences on non-monetary assets and monetary assets classified as investment assets, such as equities and foreign interest-bearing investments, are included in investment surpluses.

Foreign operations

Statement of comprehensive income items of foreign operations (including foreign subsidiaries, associates and joint ventures) with a functional currency different from the presentation currency are converted to South African rand at the weighted average exchange rates for the financial year, except where the average exchange rate is not representative of the timing of specific items, in which instances the exchange rate on transaction date is used. The closing rate is used for the translation of assets and liabilities, including goodwill 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

Basis of presentation and accounting policies continued

is translated at the rates prevailing when the change in equity occurred. Exchange differences arising on the translation of foreign operations are transferred to a foreign currency translation reserve until the disposal of the net investment when it is released to the statement of comprehensive income.

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 statement of comprehensive income in the year in which they are incurred. A valuation in accordance with IAS 19 *Employee Benefits* is performed on the statement of financial position 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 statement of comprehensive income is equal to the amount that the cumulative actuarial gains and losses at the end of the previous reporting period exceeds 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 statement of comprehensive income 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 statement of comprehensive income. 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 statement of financial position but are disclosed in the notes to the financial statements.

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

Staff incentive schemes

The following staff long-term incentive schemes have been implemented in the Group and have unvested conditions at 31 December 2011:

Long-term Incentive Plan

In 2005, the Sanlam share option scheme was replaced with a long-term incentive bonus scheme. In terms of the scheme, employees were 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 advisers employed on a full-time basis, are not entitled to the benefits under the scheme before the pre-determined dates. The cost associated with the bonuses is recognised in the statement of comprehensive income over the vesting period, based on the expected amount to vest at the pre-determined dates.

Deferred Share Plan (DSP)

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

The fair value of equity instruments granted is measured on grant date using an appropriate valuation model, which takes into account the market price on grant date, the fact that employees will not be entitled to dividends until the shares vest, as well as an assumption on the actual percentage of shares that will be delivered. The fair value on grant date is recognised in the statement of comprehensive income 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.

Share Purchase Plan

From 2006, loans are granted to selected key employees for the purpose of acquiring Sanlam shares. The loans are secured, bear interest at market-related rates and are repayable after four years. An annual retention bonus is payable to these employees based on the number of shares held by the employee. The cost in respect of these bonuses is recognised in the statement of comprehensive income over the retention period.

Restricted Share Plan

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

The fair value of the equity instruments granted on the date of grant is recognised in the statement of comprehensive income on a straight-line basis over the vesting period, adjusted to reflect actual levels of vesting.

Dividends

Dividends proposed or declared after the statement of financial position date are not recognised at the statement of financial position 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 in all material respects to value the policy liabilities of Sanlam Developing Markets and the Namibian insurance companies, as well as investment contracts issued by Sanlam Investments and Pensions (formerly Merchant Investors) and the Channel Life group of companies, unless otherwise stated. The valuation methodology in respect of insurance contracts issued by Sanlam Investments and Pensions is not presented in view of their relatively immaterial contribution to earnings and the relative small size of their insurance contract liabilities.

The valuation bases and methodology, which comply with South African actuarial guidelines and requires minimum liabilities to be held based on a prospective calculation of policy liabilities, serves as a liability adequacy test. No adjustment is required to the value of the liabilities at 31 December 2011 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 benefits or bonuses in addition to guaranteed benefits. These additional benefits have the following features:

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

All investment contracts that fall within the scope of 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 (Actuarial Society), 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 2011 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 the Actuarial Society, is described below in the context of the Group's major product classifications.

Best estimate of future experience

The best estimate of future experience is determined as follows:

- Future investment return assumptions are derived from market yields of fixed interest securities on the valuation date, with adjustments for the other asset classes. The appropriate asset composition of the various asset portfolios, investment management expenses, taxation at current tax rates and charges for investment guarantees are taken into account.

  For some of the Group's African operations, where long-term fixed interest markets are underdeveloped, investment return assumptions are based on an assessment of longer-term economic conditions. The future investment returns for Namibian businesses are based on the market yields of South African fixed interest securities on the valuation date.

  Refer to note 9 on page 135 for investment return assumptions per asset class.
- Unit expenses are based on the 2011 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 lapse, surrender and paid-up rates are consistent with Sanlam's recent experience or expected future experience if this would result in a higher liability.

Asset portfolios

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

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 annually assessed for impairment and are derecognised when the related contracts are settled or disposed of.

Bonus stabilisation reserves

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

Policy liabilities and profit entitlement continued

Provision for future bonuses

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

Reversionary bonus business

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

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

Individual stable bonus, linked and market-related business

For investment policies where the bonuses are stabilised or directly related to the return on the underlying investment portfolios, the liabilities are equated to the retrospectively accumulated fair value of the underlying assets 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 fees minus expenses basis consistent with the work done and risks borne over the lifetime of the policies.

An exception to the above relates to policy liabilities in respect of Sanlam Developing Markets' individual Universal Life business (including stable bonus and market-linked business), which are valued prospectively. Negative values are not allowed in respect of any of these policies.

Group stable bonus business

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

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

Participating annuity business

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

Non-participating annuity business

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

Other non-participating business

Other non-participating business forms less than 7% 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 1% 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 Sanlam Developing Markets.

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 (34% 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 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 is made for the fair value of the embedded derivative.

Non-participating annuity business

Term annuity instalments and expected future expenses in respect of these instalments are discounted at 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.

Sanlam Group statement of financial position

at 31 December 2011

R million	Note	2011	2010
Assets			
Property and equipment	1	**514**	470
Owner-occupied properties	2	**586**	653
Goodwill	3	**3 195**	3 197
Other intangible assets		**47**	39
Value of business acquired	4	**1 611**	1 320
Deferred acquisition costs	5	**2 427**	2 270
Long-term reinsurance assets	6	**674**	588
Investments	7	**329 150**	310 091
Properties	7.1	**15 310**	17 362
Investment properties		**14 828**	16 744
Straight-line rental adjustment		**482**	618
Equity-accounted investments	7.2	**2 938**	3 626
Equities and similar securities	7.3	**165 582**	151 190
Public sector stocks and loans	7.4	**58 831**	57 347
Debentures, insurance policies, preference shares and other loans	7.4	**35 002**	31 586
Cash, deposits and similar securities	7.4	**51 487**	48 980
Deferred tax	8	**640**	932
Non-current assets held for sale	38	**1 390**	—
Short-term insurance technical assets	9	**1 831**	1 560
Working capital assets		**40 138**	40 071
Trade and other receivables	10	**25 761**	27 883
Cash, deposits and similar securities		**14 377**	12 188
Total assets		**382 203**	361 191
Equity and liabilities			
Capital and reserves			
Share capital and premium	11	**22**	22
Treasury shares		**(3 780)**	(2 824)
Other reserves	12	**9 228**	8 622
Retained earnings		**28 352**	25 958
Shareholders' fund		**33 822**	31 778
Minority shareholders' interest	14	**3 046**	2 608
Total equity		**36 868**	34 386
Long-term policy liabilities	15	**282 421**	265 695
Insurance contracts		**135 742**	132 985
Investment contracts		**146 679**	132 710
Term finance	16	**6 295**	6 766
Margin business		**2 414**	3 115
Other interest-bearing liabilities		**3 881**	3 651
Derivative liabilities		**212**	—
External investors in consolidated funds		**11 592**	11 655
Cell owners' interest		**603**	577
Deferred tax	8	**902**	1 178
Short-term insurance technical provisions	9	**8 682**	7 945
Working capital liabilities		**34 628**	32 989
Trade and other payables	17	**32 502**	30 422
Provisions	18	**423**	617
Taxation		**1 703**	1 950
Total equity and liabilities		**382 203**	361 191

Sanlam Group statement of comprehensive income

for the year ended 31 December 2011

R million	Note	**2011**	2010
Net income		**54 278**	67 285
Financial services income	19	**36 663**	33 737
Reinsurance premiums paid	20	**(3 661)**	(3 040)
Reinsurance commission received	21	**392**	307
Investment income	22	**14 603**	15 344
Investment surpluses	22	**4 843**	21 831
Finance cost – margin business	26	**(203)**	(216)
Change in fair value of external investors' liability		**1 641**	(678)
Net insurance and investment contract benefits and claims		**(31 437)**	(44 640)
Long-term insurance contract benefits	23	**(15 322)**	(22 928)
Long-term investment contract benefits	23	**(7 199)**	(13 444)
Short-term insurance claims		**(10 766)**	(9 520)
Reinsurance claims received	21	**1 850**	1 252
Expenses		**(14 187)**	(13 290)
Sales remuneration		**(4 959)**	(4 870)
Administration costs	24	**(9 228)**	(8 420)
Impairments	39	**(36)**	—
Amortisation of intangibles		**(128)**	(103)
Net operating result		**8 490**	9 252
Equity-accounted earnings	25	**421**	329
Finance cost – other	26	**(336)**	(309)
Profit before tax		**8 575**	9 272
Taxation	27	**(2 510)**	(2 757)
Shareholders' fund		**(1 903)**	(1 911)
Policyholders' fund		**(607)**	(846)
Profit for the year		**6 065**	6 515
Other comprehensive income			
Movement in foreign currency translation reserve		**541**	(517)
Comprehensive income for the year		**6 606**	5 998
Allocation of comprehensive income:			
Profit for the year		**6 065**	6 515
Shareholders' fund		**5 166**	5 523
Minority shareholders' interest		**899**	992
Comprehensive income for the year		**6 606**	5 998
Shareholders' fund		**5 601**	5 115
Minority shareholders' interest		**1 005**	883
Earnings attributable to shareholders of the company (cents):			
Profit for the year:			
Basic earnings per share	28	**266,9**	280,4
Diluted earnings per share	28	**257,7**	272,2

Sanlam Group statement of changes in equity

for the year ended 31 December 2011

R million	Share capital	Share premium	Treasury shares	Non-distributable reserve	Foreign currency translation reserve
Balance at 1 January 2010	22	1	(3 200)	9 705	(121)
Comprehensive income	—	—	—	—	(408)
Profit for the year	—	—	—	—	—
Other comprehensive income: movement in foreign currency translation reserve	—	—	—	—	(408)
Net (acquisition)/disposal of treasury shares	(1)	—	376	—	—
Share-based payments	—	—	—	—	—
Transfer from non-distributable reserve	—	—	—	(2)	—
Transfer (from)/to consolidation reserve	—	—	—	—	—
Dividends paid[1]	—	—	—	—	—
Change in ownership of subsidiaries	—	—	—	—	—
Balance at 31 December 2010	21	1	(2 824)	9 703	(529)
Comprehensive income	—	—	—	—	435
Profit for the year	—	—	—	—	—
Other comprehensive income: movement in foreign currency translation reserve	—	—	—	—	435
Net (acquisition)/disposal of treasury shares	—	—	(956)	—	—
Share-based payments	—	—	—	—	—
Transfer to non-distributable reserve	—	—	—	89	—
Transfer from consolidation reserve	—	—	—	—	—
Dividends paid[1]	—	—	—	—	—
Change in ownership of subsidiaries	—	—	—	—	—
Balance at 31 December 2011	**21**	**1**	**(3 780)**	**9 792**	**(94)**

[1] *Dividend of 115 cents per share declared during 2011 (2010: 104 cents per share) in respect of the 2010 financial year.*

[2] *Includes movement in cost of shares held by subsidiaries and the share incentive trust.*

	Retained earnings	Subtotal: equity holders	Consolidation reserve	Total: equity holders	Minority shareholders' interest	Total equity
	23 740	30 147	(503)	29 644	2 513	32 157
	5 523	5 115	—	5 115	883	5 998
	5 523	5 523	—	5 523	992	6 515
	—	(408)	—	(408)	(109)	(517)
	(1 404)	(1 029)	(45)	(1 074)	(98)	(1 172)
	191	191	—	191	32	223
	2	—	—	—	—	—
	4	4	(4)	—	—	—
	(2 096)	(2 096)	—	(2 096)	(629)	(2 725)
	(2)	(2)	—	(2)	(93)	(95)
	25 958	32 330	(552)	31 778	2 608	34 386
	5 166	5 601	—	5 601	1 005	6 606
	5 166	5 166	—	5 166	899	6 065
	—	435	—	435	106	541
	(246)	(1 202)	58	(1 144)	(22)	(1 166)
	239	239	—	239	28	267
	(89)	—	—	—	—	—
	(24)	(24)	24	—	—	—
	(2 261)	(2 261)	—	(2 261)	(455)	(2 716)
	(391)	(391)	—	(391)	(118)	(509)
	28 352	**34 292**	**(470)**	**33 822**	**3 046**	**36 868**

Sanlam Group cash flow statement

for the year ended 31 December 2011

R million	Note	2011	2010
Cash flow from operating activities		**18 929**	904
Cash utilised in operations	36.1	**11 489**	(7 158)
Interest and preference share dividends received		**9 135**	9 786
Interest paid		**(539)**	(525)
Dividends received		**4 237**	4 284
Dividends paid		**(2 651)**	(2 612)
Taxation paid		**(2 742)**	(2 871)
Cash flow from investment activities		**(12 562)**	313
Net (acquisition)/disposal of investments		**(13 114)**	586
Acquisition of subsidiaries	36.2	**(208)**	(273)
Disposal of subsidiaries and associates	36.3	**760**	—
Cash flow from financing activities		**(1 674)**	(1 037)
Movement in treasury shares		**(1 166)**	(1 172)
Term finance raised		**571**	1 044
Term finance repaid		**(1 079)**	(909)
Net increase in cash and cash equivalents		**4 693**	180
Cash, deposits and similar securities at beginning of the year		**61 164**	60 984
Cash, deposits and similar securities at end of the year	36.4	**65 857**	61 164

Notes to the Group financial statements

for the year ended 31 December 2011

	R million	2011	2010
1.	**Property and equipment**		
	Computer equipment	**310**	266
	Cost	**960**	794
	Accumulated depreciation and impairment	**(650)**	(528)
	Furniture, equipment, vehicles and other	**204**	204
	Cost	**589**	575
	Accumulated depreciation and impairment	**(385)**	(371)
	Total property and equipment	**514**	470
	Reconciliation of carrying amount		
	Balance at beginning of the year	**470**	375
	Additions and expenditure capitalised	**248**	213
	Disposals	**(26)**	(23)
	Acquired through business combinations	**5**	68
	Disposal of subsidiaries	**(3)**	—
	Depreciation	**(187)**	(157)
	Foreign currency translation differences	**7**	(6)
	Balance at end of the year	**514**	470
2.	**Owner-occupied properties**		
	Balance at beginning of the year	**653**	652
	Additions and expenditure capitalised	**1**	1
	Reclassified as non-current assets held for sale (refer note 38)	**(68)**	—
	Balance at end of the year	**586**	653

Notes to the Group financial statements continued

for the year ended 31 December 2011

R million	2011	2010
3. Goodwill		
Balance at beginning of the year	**3 197**	2 810
Gross carrying amount	**3 284**	2 838
Accumulated impairment	**(87)**	(28)
Additions during the year	**30**	412
Acquired through business combinations	**7**	51
Disposals	**(8)**	(13)
Impairments	**(34)**	(59)
Foreign currency translation differences	**3**	(4)
Balance at end of the year	**3 195**	3 197
Gross carrying amount	**3 316**	3 284
Accumulated impairment	**(121)**	(87)
Allocation of goodwill		
Life insurance	**500**	508
Sanlam Investments and Pensions	**356**	356
Sanlam Developing Markets	**32**	32
Channel Life	**96**	96
Other	**16**	24
Other Sanlam businesses	**2 695**	2 689
Sanlam UK (excluding Sanlam Investments and Pensions)	**37**	30
Sanlam Investment Management	**159**	170
International: Investment Management	**61**	83
Glacier	**98**	91
Sanlam Netherlands Holding	**49**	49
Santam	**990**	962
Other	**103**	106
Goodwill held on Group level	**1 198**	1 198
Balance at end of the year	**3 195**	3 197

The additions to goodwill during 2011 arose primarily from the acquisition of Associated Insurance Brokers by Glacier and Mirabilis Engineering Underwriting Managers by Santam and in 2010 from the acquisition of Eternity by Sanlam Healthcare Management and Indwe Broker Holdings (Pty) Limited by Santam.

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 various businesses' valuations, as included in Group Equity Value, less the consolidated net asset value of the respective businesses. Refer to page 90 for an analysis of Group Equity Value.

R million	2011	2010
4. Value of business acquired		
Balance at beginning of the year	**1 320**	1 210
Additions during the year	**310**	182
Foreign currency translation differences	**88**	(38)
Amortisation	**(107)**	(103)
Impairments	**—**	69
Balance at end of the year	**1 611**	1 320
Gross carrying amount	**2 112**	1 714
Accumulated amortisation and impairment	**(501)**	(394)
Allocation of value of business acquired		
Sanlam UK	**582**	314
Sanlam Developing Markets	**740**	779
Other	**289**	227
Balance at end of the year	**1 611**	1 320

The additions to value of business acquired in 2011 relate primarily to the purchase of Merchant Securities Group and Summit Trust International SA, and in 2010 to the acquisition of Eternity by Sanlam Healthcare Management and an additional interest acquired in Sanlam Private Wealth. Indwe Broker Holdings was acquired through a business combination during 2010.

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 Sanlam Developing Markets and 15 years for Channel Life and Principal, the major businesses to which value of business acquired relates. For impairment testing purposes, the value of business acquired is allocated to cash-generating units at the lowest level of operational activity (business) to which it relates. The recoverable amount has been determined based on the various businesses' contribution to Group Equity Value, less the related net asset value. Refer to page 90 for an analysis of Group Equity Value. Refer to note 39 for impairments of value of business acquired.

R million	2011	2010
5. Deferred acquisition costs		
Balance at beginning of the year	**2 270**	2 140
Credited to statement of comprehensive income	**157**	130
Acquisition costs capitalised	**382**	361
Expensed for the year	**(225)**	(231)
Balance at end of the year	**2 427**	2 270
6. Long-term reinsurance assets		
Balance at beginning of the year	**588**	499
Movement in reinsurers' share of insurance liabilities	**86**	89
Balance at end of the year	**674**	588
Maturity analysis of long-term reinsurance assets		
Due within one year	**23**	19
Due within two to five years	**137**	52
Due after more than five years	**514**	517
Total long-term reinsurance assets	**674**	588

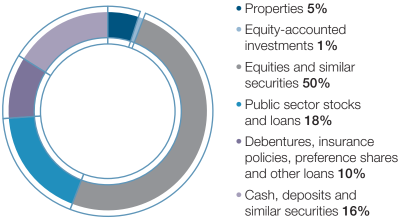
Amounts due from reinsurers in respect of claims incurred by the Group that are reinsured, are included in trade and other receivables (refer to note 10).

Notes to the Group financial statements continued

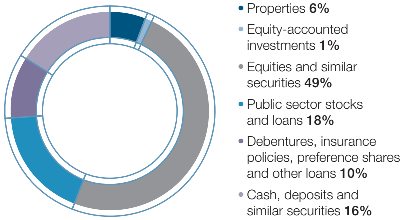
for the year ended 31 December 2011

7. Investments

Total investment mix 2011 (%)



Total investment mix 2010 (%)



	R million	2011	2010
7.1	**Properties**		
	Properties comprise:		
	Office buildings	**2 364**	3 708
	Retail buildings	**4 090**	4 081
	Industrial buildings	**560**	519
	Undeveloped land	**43**	40
	International properties (situated outside South Africa, including listed properties)	**2 459**	2 010
	Listed property companies and property collective investment schemes	**5 603**	6 623
	Other	**191**	381
	Total properties	**15 310**	17 362
	Less: Straight-line rental adjustment	**(482)**	(618)
	Total investment properties	**14 828**	16 744
	Reconciliation of carrying amount of properties		
	Fixed properties – balance at beginning of the year	**10 739**	10 886
	Additions	**142**	220
	Disposals	**(747)**	(905)
	Reclassified as non-current assets held for sale (refer note 38)	**(1 322)**	—
	Foreign currency translation differences	**312**	(238)
	Investment surpluses	**583**	776
	Fixed properties – balance at end of the year	**9 707**	10 739
	Listed property companies and property collective investment schemes	**5 603**	6 623
	Total properties	**15 310**	17 362
	Reconciliation of straight-line rental adjustment		
	Straight-line rental adjustment – balance at beginning of the year	**618**	714
	Disposals	**(32)**	(16)
	Transfer to non-current assets held for sale	**(18)**	—
	Movement for the year included in the statement of comprehensive income	**(86)**	(80)
	Straight-line rental adjustment – balance at end of the year	**482**	618
	Contractual future minimum lease payments receivable under non-cancellable operating leases:		
	Within one year	**850**	1 010
	Within two to five years	**1 911**	2 085
	After more than five years	**1 147**	1 019
	Future minimum lease payments	**3 908**	4 114

R million	Note	2011	2010
7. Investments *(continued)*			
7.2 Equity-accounted investments			
Investments in associated companies	7.2.1	**2 125**	2 915
Punter Southall Group		**289**	270
Letshego		**976**	452
Vukile		**—**	1 489
Other associated companies		**860**	704
Investments in joint ventures	7.2.2	**813**	711
Sanlam Personal Loans		**353**	261
Shriram Life Insurance		**267**	257
Shriram General Insurance		**152**	143
Other joint ventures		**41**	50
Total equity-accounted investments		**2 938**	3 626

Further details are not provided in respect of other associated companies and joint ventures as the totals comprise amounts that are individually immaterial.

Shriram General Insurance conducts the Group's short-term insurance activities in India. Detailed information is not provided as the Group's share of earnings and equity is not material.

7.2.1 Investments in associated companies

Details of material associated companies:

		Punter Southall Group		Letshego	
		2011	2010	**2011**	2010
Fair value of interest – based on internal valuation and quoted prices	R million	**307**	227	**861**	589
Number of shares held	000s	**7 744**	7 744	**506 347**	303 333
Interest in issued share capital	%				
Shareholders' fund		**22**	23	**26**	17
Average interest in issued share capital	%				
Shareholders' fund		**23**	25	**22**	16
Share of earnings after tax	R million				
Shareholders' fund		**16**	14	**132**	67
Aggregate post-acquisition reserves attributable to shareholders' fund	R million	**130**	114	**226**	94
Financial information as at 31 December – total:					
Revenue	R million	**1 032**	958	**848**	724
Earnings attributable to shareholders	R million	**54**	54	**521**	410
Total assets	R million	**632**	558	**3 450**	2 363
Total liabilities	R million	**441**	352	**970**	596

Notes to the Group financial statements continued

for the year ended 31 December 2011

R million		Vukile[1] 2011	2010
7. Investments *(continued)*			
7.2.1 Investments in associated companies *(continued)*			
Fair value of interest – based on quoted prices	R million	–	1 597
Number of units held	000's	–	109 407
Interest in issued share capital	%	–	31,2
Shareholders' fund		–	12,8
Policyholders' fund		–	18,4
Average interest in issued share capital	%	–	31,2
Shareholders' fund		–	12,8
Policyholders' fund		–	18,4
Share of earnings after tax	R million		
Shareholders' fund		**30**	77
Aggregate post-acquisition reserves attributable to shareholders' fund	R million	**107**	77
Financial information as at 30 September 2011 – total:			
Revenue (12 months ended 30 September 2011)	R million	**944**	800
Earnings attributable to shareholders (12 months ended 30 September 2011)	R million	**47**	374
Total assets	R million	**6 545**	6 458
Total liabilities	R million	**4 844**	4 805

[1] *The majority of the investment in Vukile was sold in December 2011.*

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 Rnil million (2010: R7 million).

7. Investments *(continued)*
7.2.2 Investments in joint ventures
Details of material joint ventures

	Sanlam Personal Loans[1]		Shriram Life Insurance[2]	
R million	**2011**	2010	**2011**	2010
Interest in issued share capital (%)	**70**	70	**26**	26
Carrying value of interest	**353**	260	**267**	257
Fair value of interest	**494**	365	**267**	257
Share of revenue	**371**	284	**14**	(11)
Share of earnings after tax	**114**	67	**10**	(11)
Share of expenses	**(118)**	94	**—**	—
Share of assets	**1 597**	1 256	**819**	700
Non-current	**1 174**	916	**771**	670
Current	**423**	340	**48**	30
Share of liabilities	**1 358**	1 125	**730**	651
Non-current	**688**	667	**685**	618
Interest bearing	**573**	525	**685**	618
Non-interest bearing	**115**	142	**—**	—
Current	**670**	458	**45**	33
Interest bearing	**635**	433	**—**	—
Non-interest bearing	**35**	25	**45**	33
Aggregate portion of post-acquisition reserves (attributable to shareholders)	**239**	125	**9**	(1)
Share of cash flows	**3**	(30)	**12**	(6)
Operating activities	**(221)**	(162)	**12**	(6)
Financing activities	**224**	132	**—**	—

[1] *Sanlam Personal Loans conducts personal loan business in South Africa.*

[2] *Shriram Life Insurance conducts the Group's long-term insurance business in India.*

Notes to the Group financial statements continued

for the year ended 31 December 2011

R million	2011	2010
7. Investments *(continued)*		
7.3 Equities		
Equities and similar securities comprise:		
Listed on the JSE – at market value	**54 736**	57 134
Unlisted – at directors' valuation	**7 143**	6 991
Offshore equity investments	**48 334**	41 691
Listed	**47 815**	40 445
Unlisted	**519**	1 246
Equity collective investment schemes	**55 369**	45 374
Units held by the Group as minority unit holder	**41 470**	33 285
Equities held by consolidated schemes	**13 899**	12 089
Total equities and similar securities	**165 582**	151 190
Classification of equities and similar securities		
Designated as at fair value through profit or loss	**165 188**	151 190
Held for trading at fair value	**394**	—
Total equities and similar securities	**165 582**	151 190

Total equity investment mix 2011 (%)

Total equity investment mix 2010 (%)

%	2011	2010
Spread of equities listed on the JSE by sector[1]		
Basic materials	**21,4**	24,4
Consumer goods	**10,1**	9,4
Consumer services	**9,5**	9,2
Financials	**19,3**	18,2
General industrials	**12,4**	12,1
Information technology	**0,1**	0,1
Healthcare	**0,7**	0,9
Telecommunications	**11,0**	10,2
Other	**15,5**	15,5
	100,0	100,0

[1] *Includes the appropriate underlying investments of listed subsidiaries.*

R million	Designated as at fair value through profit or loss	Held for trading at fair value	Loans and receivables at amortised cost[(1)]	Total
7. Investments *(continued)*				
7.4 Total investments other than equities and similar securities, equity-accounted investments and properties				
31 December 2011				
Public sector stocks and loans	**58 587**	**244**	**—**	**58 831**
Debentures, insurance policies, preference shares and other loans	**33 455**	**242**	**1 305**	**35 002**
Cash, deposits and similar securities	**50 283**	**3**	**1 201**	**51 487**
	142 325	**489**	**2 506**	**145 320**
31 December 2010				
Public sector stocks and loans	57 347	—	—	57 347
Debentures, insurance policies, preference shares and other loans	29 309	104	2 173	31 586
Cash, deposits and similar securities	48 890	—	90	48 980
	135 546	104	2 263	137 913

[(1)] *The estimated fair value of investments valued at amortised cost amounts to R2 506 million (2010: R2 263 million).*

Notes to the Group financial statements continued

for the year ended 31 December 2011

	R million	<1 year	1 – 5 years	>5 years	Open ended	Total
7.	**Investments** *(continued)*					
7.4	**Total investments other than equities and similar securities, equity-accounted investments and properties** *(continued)*					
	Maturity analysis					
	31 December 2011					
	Public sector stocks and loans	**5 041**	**9 420**	**40 749**	**3 621**	**58 831**
	Debentures, insurance policies, preference shares and other loans	**10 732**	**14 374**	**6 802**	**3 094**	**35 002**
	Cash, deposits and similar securities	**28 772**	**20 309**	**1 009**	**1 397**	**51 487**
	Total investments other than equities and similar securities, equity-accounted investments and properties	**44 545**	**44 103**	**48 560**	**8 112**	**145 320**
	31 December 2010					
	Public sector stocks and loans	4 165	8 517	40 302	4 363	57 347
	Debentures, insurance policies, preference shares and other loans	10 139	13 799	5 827	1 821	31 586
	Cash, deposits and similar securities	35 760	10 151	1 836	1 233	48 980
	Total investments other than equities and similar securities, equity-accounted investments and properties	50 064	32 467	47 965	7 417	137 913

R million	2011	2010
Listed	**77 761**	76 264
Unlisted	**67 559**	61 649
Designated as at fair value through profit or loss	**65 053**	59 386
Loans and receivables at amortised cost	**2 506**	2 263
Total investments other than equities and similar securities, equity-accounted investments and properties	**145 320**	137 913
Unlisted investments (other than equities and similar securities, equity-accounted investments and properties)		
Maximum exposure to credit risk at the reporting date	**67 559**	61 649

The amount of change, during the period and cumulatively, in the fair value of the loans and receivables that is attributable to changes in the credit risk of the financial asset is determined as the change triggered by factors other than changes in benchmark interest rates. The impact of changes in credit risk for 2011 and 2010 was not material.

7.5 Use of valuation techniques to determine fair value

Refer to note 40 for additional disclosures.

R million	Income tax	Capital gains tax
8. Deferred tax		
Reconciliation of the deferred tax balances		
Balance at 1 January 2010	541	(678)
Temporary differences credited/(charged) to the statement of comprehensive income	140	(249)
Accruals and provisions	214	—
Tax losses and credits	(46)	—
Net unrealised investment surpluses on shareholders' fund	(32)	(129)
Net unrealised investment surpluses on policyholders' fund	—	(134)
Secondary tax on companies	89	—
Other temporary differences	(85)	14
Acquisition of subsidiaries	(7)	—
Foreign currency translation differences	7	—
Balance at 31 December 2010	681	(927)
Temporary differences (charged)/credited to the statement of comprehensive income	(38)	25
Accruals and provisions	(23)	—
Tax losses and credits	(46)	(27)
Net unrealised investment surpluses on shareholders' fund	(5)	(8)
Net unrealised investment surpluses on policyholders' fund	—	16
Secondary tax on companies	(73)	—
Other temporary differences	109	44
Net disposal of subsidiaries	2	—
Foreign currency translation differences	(5)	—
Balance at 31 December 2011	**640**	**(902)**
Analysis of the deferred tax balances at 31 December 2011		
Deferred tax: deductable differences and credits	**754**	**40**
Deferred tax: taxable differences	**(114)**	**(942)**
Net deferred tax	**640**	**(902)**
Accruals and provisions	**310**	**—**
Tax losses and credits	**403**	**—**
Unrealised gain/losses on shareholders' fund	**(53)**	**(408)**
Unrealised gain/losses on policyholders' fund	**—**	**(533)**
Other temporary differences	**(20)**	**39**
	640	**(902)**
Analysis of deferred tax balances at 31 December 2010		
Deferred tax: deductable differences and credits	905	27
Deferred tax: taxable differences	(224)	(954)
Net deferred tax	681	(927)
Accruals and provisions	333	—
Tax losses and credits	522	27
Unrealised gain/losses on shareholders' fund	(48)	(400)
Unrealised gain/losses on policyholders' fund	—	(549)
Other temporary differences	(126)	(5)
	681	(927)

R million	2011	2010
Total deferred tax asset recognised	**640**	932
Total deferred tax liability recognised	**(902)**	(1 178)
Total net deferred tax	**(262)**	(246)

Notes to the Group financial statements continued

for the year ended 31 December 2011

R million	2011	2010
9. Short-term insurance technical provisions		
Short-term insurance technical provisions	**8 682**	7 945
Outstanding claims	**5 550**	5 117
Provision for unearned premiums	**3 030**	2 788
Deferred reinsurance acquisition revenue	**102**	40
Less: Short-term insurance technical assets	**1 831**	1 560
Reinsurers' share of technical provisions		
Outstanding claims	**1 069**	1 069
Unearned premiums	**429**	240
Deferred acquisition cost	**333**	251
Net short-term insurance technical provisions	**6 851**	6 385

Analysis of movement in short-term insurance technical provisions

	2011			2010		
R million	**Gross**	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Outstanding claims						
Balance at beginning of the year	**5 117**	**(1 069)**	**4 048**	5 421	(1 462)	3 959
Cash paid for claims settled in the year	**(10 305)**	**1 317**	**(8 988)**	(9 985)	1 278	(8 707)
Increase in liabilities	**10 738**	**(1 317)**	**9 421**	9 630	(841)	8 789
Additions	**—**	**—**	**—**	51	(44)	7
Balance at end of the year	**5 550**	**(1 069)**	**4 481**	5 117	(1 069)	4 048
Unearned premiums						
Balance at beginning of the year	**2 788**	**(240)**	**2 548**	2 829	(343)	2 486
Net increase/(release) in the period	**242**	**(189)**	**53**	(64)	37	(27)
Additions	**—**	**—**	**—**	23	66	89
Balance at end of the year	**3 030**	**(429)**	**2 601**	2 788	(240)	2 548

	R million		2011	2010
10.	**Trade and other receivables**			
	Premiums receivable		**4 724**	4 503
	Accrued investment income		**1 759**	1 792
	Trading account		**15 240**	16 726
	Amounts due from reinsurers		**397**	440
	Accounts receivable		**3 641**	4 422
	Total trade and other receivables		**25 761**	27 883
	Classification of trade and other receivables:			
	Held for trading at fair value		**15 240**	16 726
	Loans and receivables at amortised cost		**10 521**	11 157
	Total trade and other receivables		**25 761**	27 883
	Trade and other receivables, excluding trading account, are receivable within one year.			
	Maturity analysis of trading account – fair value			
	Due within one year		**4 162**	4 704
	Due within two to five years		**7 150**	8 914
	Due after five years		**3 928**	3 108
	Total trading account		**15 240**	16 726
	Maturity analysis of trading account – undiscounted			
	Due within one year		**8 771**	9 493
	Due within two to five years		**11 878**	7 921
	Due after five years		**5 170**	3 163
	Total trading account		**25 819**	20 577
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
	Balance at end of the year	R million	**41,2**	41,2
	Issued share capital: ordinary shares			
	Total shares in issue at beginning of the year	million	**2 100,0**	2 160,0
	Shares cancelled during the year	million	**–**	(60,0)
	Total shares in issue at end of the year	million	**2 100,0**	2 100,0
	Shares held by subsidiaries	million	**(172,2)**	(144,9)
	Balance at end of the year	million	**1 927,8**	1 955,1
	% of ordinary shares held by subsidiaries		**8,2%**	6,9%
	Issued share capital: ‘A’ deferred shares			
	Total number of ‘A’ deferred shares in issue	million	**56,5**	56,5
	Nominal value and share premium			
	Ordinary shares	R million	**21,7**	21,7
	Nominal value of 1 cent per share	R million	**21,0**	21,0
	Share premium	R million	**0,7**	0,7
	‘A’ deferred shares	R million	**0,6**	0,6
	Total nominal value and share premium	R million	**22,3**	22,3

Notes to the Group financial statements continued

for the year ended 31 December 2011

11. Share capital and premium *(continued)*

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 10-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.

A register containing details of rights attached to the deferred shares, is available for inspection at the registered office of Sanlam Limited.

Sanlam Limited acquired and cancelled 60 million ordinary shares in 2010 as part of the capital management programme. Share capital and reserves were reduced with the consideration paid for the cancelled shares.

	Shares 2011 000s	Options 2011 000s	Average option price 2011 R	Shares 2010 000s	Options 2010 000s	Average option price 2010 R
Executive share incentive scheme						
Total number of shares and share options at beginning of the year	35 558	6 372	7,48	30 833	13 404	7,60
Unrestricted shares and share options at beginning of the year	(1 005)	(6 372)	7,48	(960)	(13 404)	7,60
Restricted shares and share options at beginning of the year	34 553	–	–	29 873	–	–
New restricted shares granted in terms of restricted share and DSP schemes	15 311	–	–	9 387	–	–
Unconditional options and shares released, available for release, or taken up	(6 805)	–	–	(3 961)	–	–
Options and shares forfeited	(1 521)	–	–	(746)	–	–
Restricted shares and share options at end of the year	41 538	–	–	34 553	–	–
Unrestricted shares and share options at end of the year	2 682[4]	3 202	8,22	1 005	6 372	7,48
Total number of shares and share options at end of the year	44 220	3 202[2]	8,22	35 558	6 372	7,48
Shares the subject matter of loans granted[1]	2 158	–	–	5 758	–	–
Total equity participation by employees	46 378	3 202	–	41 316	6 372	–

[1]*Outstanding amount of loans granted in respect of these shares amounts to R38 million (2010: R124 million) for the Group. There were no new loans granted during 2011.*
[2]*Exercisable until June 2012.*
[3]*Refer to the Remuneration Report on page 166 to page 172 for further details of the schemes.*
[4]*1 677 000 shares became unrestricted in the current year.*

	2011	2010
11. Share capital and premium *(continued)*		
Total equity participation by employees as a percentage of total issued ordinary shares (%)	**2,4**	2,3
Approved maximum level of equity participation by employees (number of shares)	**160 000 000**	160 000 000

Details regarding the restricted shares outstanding on 31 December 2011 and the financial years during which they become unconditional, are as follows:

Unrestricted during year ending (subject to performance targets)	Number of shares 000's
31 December 2012	8 970
31 December 2013	9 225
31 December 2014	11 572
31 December 2015	7 245
31 December 2016	4 526

	2011	2010
Weighted average share price of options exercised during the year	**R28,05**	R25,01

A total of 15,3 million (2010: 9,4 million) restricted shares were granted to staff and executive directors during 2011. The fair value of the grants on grant date, calculated in terms of IFRS 2, amounted to R415 million (2010: R194 million) and is expensed in the statement of comprehensive income over the vesting period of five years. The fair value is based on the Sanlam share price on grant date, adjusted for dividends not accruing to participants during the vesting period and the probability that the service and performance conditions will be met in part.

R million	2011	2010
12. Other reserves		
Non-distributable reserves	**9 792**	9 703
Pre-acquisition reserves upon demutualisation of Sanlam Life Insurance Limited	**9 415**	9 415
Regulatory reserves of the Group's Botswana operations	**377**	288
Foreign currency translation reserve	**(94)**	(529)
Consolidation reserve	**(470)**	(552)
Policyholder fund investments in consolidated subsidiaries	**(65)**	(92)
Policyholder fund investment in Sanlam Limited shares	**(405)**	(460)
Total reserves other than retained earnings	**9 228**	8 622

13. Contingency reserves

Contingency reserves in respect of short-term insurance business of R883 million are included in shareholders' reserves (2010: R756 million).

R million	2011	2010
14. Minority shareholders' interest		
Santam	**1 771**	1 642
Sanlam Developing Markets	**998**	750
Channel Life	**14**	11
Sanlam Namibia Holdings	**180**	181
Other	**83**	24
Total minority shareholders' interest	**3 046**	2 608

Notes to the Group financial statements continued

for the year ended 31 December 2011

R million	2011 Total	2011 Insurance contracts	2011 Investment contracts	2010 Total	2010 Insurance contracts	2010 Investment contracts
15. Long-term policy liabilities						
15.1 Analysis of movement in policy liabilities						
Income	**59 844**	**28 447**	**31 397**	68 732	34 287	34 445
Premium income (note 15.2)	**43 198**	**19 000**	**24 198**	37 891	16 890	21 001
Investment return after tax (note 23)	**16 646**	**9 447**	**7 199**	30 841	17 397	13 444
Outflow	**(47 591)**	**(26 662)**	**(20 929)**	(45 977)	(24 659)	(21 318)
Policy benefits (note 15.3)	**(29 900)**	**(13 885)**	**(16 015)**	(27 441)	(12 825)	(14 616)
Retirement fund terminations	**(2 413)**	**—**	**(2 413)**	(4 111)	(41)	(4 070)
Fees, risk premiums and other payments to shareholders' fund	**(15 278)**	**(12 777)**	**(2 501)**	(14 425)	(11 793)	(2 632)
Movement in policy loans	**26**	**7**	**19**	81	81	—
Net movement for the year	**12 279**	**1 792**	**10 487**	22 836	9 709	13 127
Foreign currency translation differences	**4 447**	**965**	**3 482**	(3 471)	(831)	(2 640)
Balance at beginning of the year	**265 695**	**132 985**	**132 710**	246 330	124 107	122 223
Balance at end of the year	**282 421**	**135 742**	**146 679**	265 695	132 985	132 710

R million	2011	2010
15.2 Analysis of premium income		
Individual business	**32 216**	27 951
Recurring	**16 139**	15 274
Single	**13 987**	10 931
Continuations	**2 090**	1 746
Employee benefits business	**10 982**	9 940
Recurring	**6 180**	7 291
Single	**4 802**	2 649
Total premium income	**43 198**	37 891
15.3 Analysis of long-term policy benefits		
Individual business	**24 317**	22 055
Maturity benefits	**12 629**	11 272
Surrenders	**5 714**	5 119
Life and term annuities	**5 050**	4 739
Death and disability benefits[1]	**832**	815
Cash bonuses[1]	**92**	110
Employee benefits business	**5 583**	5 386
Withdrawal benefits	**2 429**	2 547
Pensions	**2 004**	1 270
Lump-sum retirement benefits	**794**	961
Death and disability benefits[1]	**288**	258
Cash bonuses[1]	**68**	350
Total long-term policy benefits	**29 900**	27 441

[1] *Excludes death and disability benefits and cash bonuses underwritten by the shareholders (refer to note 23).*

R million	2011	2010
15. Long-term policy liabilities *(continued)*		
15.4 Composition of policy liabilities		
Individual business	**234 812**	220 493
Linked and market-related liabilities	**136 051**	122 803
Stable bonus fund	**37 636**	38 481
Reversionary bonus policies	**9 912**	10 509
Non-participating annuities	**24 528**	23 484
Participating annuities	**54**	50
Other non-participating liabilities	**26 631**	25 166
Employee benefits business	**47 609**	45 202
Linked and market-related liabilities	**19 017**	18 508
Stable bonus portfolios	**11 317**	10 777
Participating annuities	**6 440**	6 839
Non-participating annuities	**6 068**	4 663
Other non-participating liabilities	**4 767**	4 415
Total policy liabilities	**282 421**	265 695

R million	< 1 year	1 – 5 years	> 5 years	Open ended	Total
15.5 Maturity analysis of investment policy contracts					
2011					
Linked and market-related	**2 591**	**10 724**	**43 105**	**62 932**	**119 352**
Stable bonus	**3**	**—**	**28**	**11 321**	**11 352**
Non-participating annuities	**341**	**556**	**24**	**—**	**921**
Other non-participating liabilities	**980**	**6 928**	**6 299**	**847**	**15 054**
Total investment policies	**3 915**	**18 208**	**49 456**	**75 100**	**146 679**
2010					
Linked and market-related	1 999	9 120	39 268	56 347	106 734
Stable bonus	1	1	33	10 781	10 816
Non-participating annuities	71	911	167	—	1 149
Other non-participating liabilities	1 820	5 721	6 001	469	14 011
Total investment policies	3 891	15 753	45 469	67 597	132 710

Investment policy contracts are classified as at fair value through profit or loss. Refer to note 40 for additional fair value disclosures.

R million	< 1 year	1 – 5 years	> 5 years	Open ended	Total
15.6 Maturity analysis of insurance policy contracts					
2011					
Linked and market-related	**1 598**	**7 902**	**22 800**	**3 416**	**35 716**
Stable bonus	**1 800**	**8 484**	**24 415**	**2 902**	**37 601**
Reversionary bonus policies	**514**	**2 344**	**5 477**	**1 577**	**9 912**
Non-participating annuities	**3**	**32**	**54**	**29 586**	**29 675**
Participating annuities	**—**	**—**	**—**	**6 494**	**6 494**
Other non-participating liabilities	**447**	**917**	**2 452**	**12 528**	**16 344**
Total insurance policies	**4 362**	**19 679**	**55 198**	**56 503**	**135 742**

Notes to the Group financial statements continued

for the year ended 31 December 2011

	R million	< 1 year	1 – 5 years	> 5 years	Open ended	Total
15.	**Long-term policy liabilities** *(continued)*					
15.6	**Maturity analysis of insurance policy contracts** *(continued)*					
	2010					
	Linked and market-related	1 598	7 222	22 569	3 188	34 577
	Stable bonus	1 717	8 234	25 530	2 961	38 442
	Reversionary bonus policies	521	2 369	5 633	1 986	10 509
	Non-participating annuities	2	37	89	26 870	26 998
	Participating annuities	—	1	2	6 886	6 889
	Other non-participating liabilities	827	494	2 470	11 779	15 570
	Total insurance policies	4 665	18 357	56 293	53 670	132 985

	R million	Note	2011	2010
15.7	**Policy liabilities include the following:**			
	Provision for HIV/Aids and other pandemics		**4 435**	4 045
	Asset mismatch reserve		**2 830**	2 472
16.	**Term finance**			
	Term finance comprises:			
	Interest-bearing liabilities held in respect of margin business	16.1	**2 414**	3 115
	Other interest-bearing liabilities	16.2	**3 881**	3 651
			6 295	6 766
16.1	**Interest-bearing liabilities held in respect of margin business**			
	Redeemable cumulative non-voting preference shares issued by subsidiary companies, with dividend terms that range between 5,5% and 8,3% (2010: 6,9% and 8,3%) or linked to prime interest rates. The preference shares have different redemption dates up to 2015.		**2 414**	3 115
16.2	**Other interest-bearing liabilities**			
	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 at its nominal value of R1 160 million, which the Group can exercise on 15 August 2013.		**1 207**	1 179
	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 at its nominal value of R828 million, which the Group can exercise on 15 August 2016.		**872**	852
	Unsecured subordinated notes, with interest payable at between 8,6% and 9,6% with a final maturity date of 15 September 2022. The notes have a redemption call option at their nominal value of R1 047 million, which the Group can exercise on 15 September 2017.		**939**	925
	Mortgage bonds over properties held in unit-linked policyholder funds. The mortgage over each property is negotiated separately, varies in term from five to 20 years, with interest rates linked at a premium between 2,5% and 4,5% to the Bank of England base rate.		**586**	508
	Obligations towards beneficiaries of companies limited by guarantee – matched by assets held in this regard.		**104**	109
	Finance lease on owner-occupied property, with interest payable at 10,44% and terminating in 2012.		**6**	16
	Finance lease, with interest payable at various rates and terminating in 2012.		**96**	42
	Other		**71**	20
			3 881	3 651

	R million		**2011**	2010
16.	**Term finance** *(continued)*			
16.3	**Maturity analysis of term finance – fair value**			
	Due within one year		**782**	1 670
	Due within two to five years		**1 738**	1 460
	Due after more than five years		**3 775**	3 636
	Total term finance liabilities		**6 295**	6 766
	Maturity analysis of term finance – undiscounted			
	Due within one year		**782**	1 670
	Due within two to five years		**1 738**	1 460
	Due after more than five years		**3 792**	3 715
	Total term finance liabilities		**6 312**	6 845
16.4	**Classification of term finance**			
	At fair value through profit or loss	16.4.1	**3 280**	3 065
	Valued at stock exchange prices		**3 018**	2 956
	Based on internal valuation		**262**	109
	Other financial liabilities	16.4.2	**3 015**	3 701
	Total term finance liabilities		**6 295**	6 766
16.4.1	**Term finance classified as at fair value through profit or loss**			
	Total designated as at fair value through profit or loss		**3 280**	3 065
	Amount contractually payable at maturity		**3 210**	3 164
16.4.2	**Term finance classified as other financial liabilities**			
	Estimated fair value of term finance liabilities measured at amortised cost		**3 015**	3 701

Refer to note 40 for additional fair value disclosures.

		2011	2010
17.	**Trade and other payables**		
	Trading account	**17 997**	16 705
	Accounts payable	**9 512**	9 180
	Policy benefits payable	**2 936**	2 859
	Amounts due to reinsurers	**674**	470
	Bank overdrafts	**7**	4
	Operating lease creditor	**31**	24
	Claims incurred but not reported	**1 345**	1 180
	Total trade and other payables	**32 502**	30 422
	Classification of trade and other payables:		
	Held for trading at fair value	**17 997**	16 705
	Other financial liabilities at amortised cost	**14 505**	13 717
	Total trade and other payables	**32 502**	30 422
	Trade and other payables, excluding trading account, are payable within one year.		
	Maturity analysis of trading account – fair value		
	Due within one year	**15 018**	13 676
	Due within two to five years	**1 318**	1 512
	Due after five years	**1 661**	1 517
	Total trading account	**17 997**	16 705
	Maturity analysis of trading account – undiscounted		
	Due within one year	**15 897**	14 978
	Due within two to five years	**1 809**	2 111
	Due after five years	**963**	1 292
	Total trading account	**18 669**	18 381

Notes to the Group financial statements continued

for the year ended 31 December 2011

R million	Possible claims	Post-retirement medical aid	Onerous contracts	Other	Total
18. Provisions					
Details of the different classes of provisions are as follows:					
Balance at 1 January 2010	953	26	16	401	1 396
Charged to the statement of comprehensive income	81	—	1	(35)	47
Additional provisions	81	—	1	68	150
Unused amounts reversed	—	—	—	(103)	(103)
Utilised during the year	(784)	(3)	(2)	(37)	(826)
Balance at 31 December 2010	250	23	15	329	617
Charged to the statement of comprehensive income	3	25	2	(156)	(126)
Additional provisions	5	25	2	59	91
Unused amounts reversed	(2)	—	—	(215)	(217)
Utilised during the year	(1)	(2)	(2)	(63)	(68)
Balance at 31 December 2011	252	46	15	110	423
Analysis of provisions					
Current	9	2	—	50	61
Non-current	243	44	15	60	362
Total provisions at 31 December 2011	252	46	15	110	423

Possible claims

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

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

Additional information in respect of 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.

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. The timing of settlement cannot reasonably be determined.

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

	R million	2011	2010
19.	**Financial services income**		
	Analysis per revenue source		
	Long-term insurance	**15 776**	14 895
	Short-term insurance	**17 449**	15 965
	Other financial services	**3 438**	2 877
	Total financial services income	**36 663**	33 737
	Analysis per revenue category		
	Long-term insurance fee income	**15 776**	14 895
	Administration services	**2 428**	2 524
	Investment management fees	**489**	616
	Risk benefit charges and other fee income	**12 859**	11 755
	Short-term insurance premiums	**17 449**	15 965
	Premiums receivable	**17 708**	15 916
	Change in unearned premium provision	**(259)**	49
	Other financial services fees and income	**3 380**	2 897
	Trading profit	**57**	(17)
	Foreign exchange gains/(losses)	**1**	(3)
	Total financial services income	**36 663**	33 737
20.	**Reinsurance premiums paid**		
	Long-term insurance	**865**	646
	Short-term insurance	**2 796**	2 394
	Premiums payable	**3 033**	2 360
	Change in unearned premium provision	**(237)**	34
	Total reinsurance premiums paid	**3 661**	3 040
21.	**Reinsurance income**		
	Reinsurance commission received		
	Long-term insurance	**71**	55
	Short-term insurance	**321**	252
	Total reinsurance commission received	**392**	307
	Reinsurance claims received		
	Long-term insurance	**467**	415
	Short-term insurance	**1 383**	837
	Total reinsurance claims received	**1 850**	1 252

Notes to the Group financial statements continued

for the year ended 31 December 2011

	R million	2011	2010
22.	**Investment return**		
	Investment income		
	Equities and similar securities	**4 237**	4 088
	Interest-bearing, preference shares and similar securities	**8 830**	9 626
	Properties	**1 264**	1 263
	Rental income – excluding contingent rental	**1 362**	1 317
	Contingent rental income	**115**	144
	Rental related expenses	**(213)**	(198)
	Income from margin business[1]	**272**	367
	Total investment income	**14 603**	15 344
	Interest income on financial assets not classified as at fair value through profit or loss	**95**	123
	Investment surpluses		
	Financial assets designated as at fair value through profit or loss	**4 348**	20 651
	Financial assets classified as held-for-trading	**(241)**	(10)
	Investment properties	**497**	696
	Profit on disposal of associated companies, subsidiaries and operations	**239**	494
	Total investment surpluses	**4 843**	21 831
	Investment return includes:		
	Foreign exchange gains/(losses)	**5 370**	(2 136)

[1]*Refer to note 26 for finance cost incurred in respect of margin business.*

	R million	2011	2010
23.	**Long-term insurance and investment contract benefits**		
	Insurance contracts		
	Underwriting policy benefits	**5 875**	5 531
	After tax investment return attributable to insurance contract liabilities (note 15)	**9 447**	17 397
	Total long-term insurance contract benefits	**15 322**	22 928
	Investment contracts		
	After tax investment return attributable to investment contract liabilities (note 15)	**7 199**	13 444
	Total long-term investment contract benefits	**7 199**	13 444
	Analysis of underwriting policy benefits		
	Individual insurance	**2 791**	2 760
	Employee benefits	**3 084**	2 771
	Total underwriting policy benefits	**5 875**	5 531

R million	2011	2010
24. Administration costs include:		
Directors' remuneration		
Refer to Corporate Governance Report on pages 155 to 176 for additional information on directors' remuneration.		
Auditors' remuneration		
Audit fees: statutory audit	**81**	74
Other services provided by:	**4**	6
Subsidiaries' own auditors	**3**	6
Due diligence services	**–**	2
Other services	**3**	4
Other Group auditors	**1**	–
Total auditors' remuneration	**85**	80
Depreciation	**187**	157
Operating leases	**443**	418
Properties	**272**	235
Equipment	**156**	169
Other	**15**	14
Consultancy fees	**370**	366
Technical, administrative and secretarial fees	**544**	543
Employee benefits	**5 395**	4 814
Salaries and other short-term benefits	**4 668**	4 096
Pension costs – defined contribution plans	**256**	232
Pension costs – defined benefit plans	**11**	9
Share-based payments	**267**	223
Other long-term incentive schemes	**193**	254

Notes to the Group financial statements continued

for the year ended 31 December 2011

	R million	2011	2010
25.	**Equity-accounted earnings**		
	Punter Southall Group	**16**	14
	Sanlam Home Loans	**—**	3
	Sanlam Personal Loans	**114**	67
	Vukile	**30**	77
	Shriram Life Insurance	**10**	(11)
	Letshego	**132**	67
	Other associated companies	**119**	112
	Equity-accounted earnings	**421**	329
26.	**Finance cost**		
	Interest paid and term finance cost in respect of interest margin business	**203**	216
	Finance cost – margin business	**203**	216
	Interest-bearing liabilities designated as at fair value through profit or loss	**285**	286
	Interest-bearing liabilities held at amortised cost	**51**	23
	Finance cost – other	**336**	309
27.	**Taxation**		
	Analysis of income tax per category		
	Normal income tax	**2 497**	2 648
	RSA – current year	**1 813**	1 878
	RSA – prior year	**(12)**	(16)
	Foreign	**295**	285
	Capital gains tax	**307**	224
	Secondary tax on companies	**94**	277
	Deferred tax	**13**	109
	Normal tax – current year	**(11)**	(115)
	Normal tax – prior year	**(10)**	2
	Foreign	**(14)**	62
	Capital gains tax	**(25)**	249
	Secondary tax on companies	**73**	(89)
	Tax expense	**2 510**	2 757
	Shareholders' fund	**1 903**	1 911
	Policyholders' fund	**607**	846
	Tax expense	**2 510**	2 757
	In addition to income tax the following indirect taxes and levies were paid, which are included in the appropriate items:		
	Included in administration costs	**232**	236
	Included elsewhere in the statement of comprehensive income	**65**	90
	Total indirect taxes and levies	**297**	326

Indirect taxes and levies include value-added tax and statutory levies payable to the Financial Services Board.

%	2011	2010
27. Taxation *(continued)*		
Standard rate of taxation	**28,0**	28,0
Adjusted for:		
Non-taxable income	**(2,6)**	(2,7)
Disallowable expenses	**1,0**	0,6
Share-based payments	**0,2**	0,1
Investment surpluses	**(2,2)**	(3,4)
Prior year adjustments	**(0,4)**	(0,2)
Foreign tax rate differential	**(0,8)**	(0,8)
STC	**2,0**	2,1
Policyholders	**5,1**	6,6
Other	**(1,0)**	(0,6)
Effective tax rate	**29,3**	29,7

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 and policyholders. Basic earnings per share is calculated by dividing earnings by the adjusted weighted average number of shares in issue.

For diluted earnings per share the weighted average number of ordinary shares is adjusted for the shares not yet issued under the Sanlam Share Incentive Scheme and 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.

Refer to page 122 for normalised earnings per share, which is based on the economic earnings attributable to the shareholders' fund, and should be used when evaluating the Group's economic performance.

Cents	2011	2010
Basic earnings per share:		
Headline earnings	**259,1**	260,0
Profit attributable to shareholders' fund	**266,9**	280,4
Diluted earnings per share:		
Headline earnings	**250,1**	252,4
Profit attributable to shareholders' fund	**257,7**	272,2

Notes to the Group financial statements continued

for the year ended 31 December 2011

R million	2011	2010
28. Earnings per share *(continued)*		
Analysis of earnings:		
Profit attributable to shareholders' fund	**5 166**	5 523
Less: Net profit on disposal of subsidiaries	**(14)**	(327)
Profit on disposal of subsidiaries	**(30)**	(364)
Tax on profit on disposal of subsidiaries and businesses	**1**	37
Minority shareholders' interest	**15**	—
Less: Net profit on disposal of associated companies	**(172)**	(77)
Profit on disposal of associated companies	**(209)**	(130)
Tax on profit on disposal of associated companies	**37**	—
Minority shareholders' interest	**—**	53
Plus: Impairments	**35**	3
Impairments	**36**	—
Minority shareholders' interest	**(1)**	3
Headline earnings	**5 015**	5 122

million	2011	2010
Number of shares:		
Number of ordinary shares in issue at beginning of the year	**2 100,0**	2 160,0
Less: Weighted number of shares cancelled	**—**	(50,0)
Less: Weighted Sanlam shares held by subsidiaries (including policyholders)	**(164,8)**	(140,0)
Adjusted weighted average number of shares for basic earnings per share	**1 935,2**	1 970,0
Add: Weighted conversion of deferred shares	**34,2**	26,0
Add: Total number of shares and options	**36,5**	34,9
Less: Number of shares (under option) that would have been issued at fair value	**(1,0)**	(1,9)
Adjusted weighted average number of shares for diluted earnings per share	**2 004,9**	2 029,0

29. Dividends

A dividend of 130 cents per share (2010: 115 cents per share) was declared in 2012 in respect of the 2011 earnings. Based on the number of shares in issue on declaration date, the total dividend is expected to amount to R2,7 billion, but may vary depending on the number of shares in issue on the last day to trade.

	Cents	2011	2010
30.	**Collateral**		
30.1	**Collateral provided**		
	The following assets have been pledged as collateral for the Group's derivatives, liabilities or contingent liabilities:		
	Investments		
	Investment property	**1 189**	1 038
	Public sector stocks and loans	**284**	587
	Working capital assets		
	Trading account	**2 502**	3 641
	Cash, deposits and similar securities	**3 441**	355
	The transferee does not have the right to sell or repledge the assets		
30.2	**Collateral received**		
	The following collateral has been received in respect of securities lending activities conducted by the Group:		
	Fair value of collateral accepted as security for these activities	**16 318**	16 054
	Collateral of between 100% and 120% of the value of the loaned securities is held at 31 December 2011.		
	Fair value of the collateral held that the Group is permitted to sell or repledge the collateral in the absence of default	**1 048**	160

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 actual outcomes in future financial years may differ to the current assumptions and judgements, possibly significantly, which could require a material adjustment to the carrying amounts of the affected assets and liabilities.

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

An important indicator of the accuracy of assumptions used by a life insurance company is the experience variances reflected in the embedded value earnings during a period. The experience variances reported by the Group to date have been reasonable compared to the embedded value of covered business, confirming the accuracy of assumptions used by the Group. Refer to the embedded value of covered business on page 129 for additional information.

31.1 Impairment of goodwill and value of business acquired

The recoverable amount of goodwill and value of business acquired and other intangible assets for impairment testing purposes has been determined based on the embedded value of covered 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 135 and 136 respectively for the main assumptions applied in determining the embedded value of covered business and the fair value of other Group businesses. Embedded value of covered business and fair value sensitivity analyses are provided on pages 133 and 121 respectively.

Notes to the Group financial statements continued

for the year ended 31 December 2011

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 statement of financial position. The majority of the Group's properties are held by Sanlam Life Insurance Limited group for which the main valuation assumptions used as at 31 December 2011 and the sensitivity of the valuations to changes in the assumptions are summarised below:

			Change in fair value of properties	
	Base assumption	Change in assumption	Decrease in assumption R million	Increase in assumption R million
2011				
Base discount rate	8,0% – 9,3%	1%	354	(334)
Capitalisation rate	9,5% – 12%	1%	625	(514)
2010				
Base discount rate	8,4% – 9,7%	1%	368	(346)
Capitalisation rate	9,5% – 12,0%	1%	612	(500)

31.3 Deferred tax on investment 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 R214 million on 31 December 2011 (2010: R248 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 250 to 253.

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.
- Discretionary margins may be applied as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

The best estimate of future experience is determined as follows:

Investment return

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

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)*

	Sanlam Life		Sanlam Developing Markets		Sanlam Life Namibia		Sanlam Investments and Pensions	
%	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Reversionary bonus business								
Retirement annuity business	**9,9**	10,0	**n/a**	n/a	**9,9**	10,1	**n/a**	n/a
Individual policyholder business	**8,6**	8,7	**6,2**	7,3	**9,2**	9,7	**n/a**	n/a
Individual stable bonus business								
Retirement annuity business	**9,6**	9,8	**8,1**	8,9	**9,6**	9,8	**n/a**	n/a
Individual policyholder business	**8,3**	8,3	**6,2**	7,3	**8,9**	9,3	**n/a**	n/a
Non-taxable business	**9,6**	9,8	**n/a**	n/a	**9,6**	9,8	**n/a**	n/a
Corporate policyholder business	**8,0**	8,3	**n/a**	n/a	**8,9**	9,3	**n/a**	n/a
Individual market-related business								
Retirement annuity business	**9,9**	10,1	**8,1**	8,9	**9,9**	10,1	**2,5**	3,7
Individual policyholder business	**8,6**	8,7	**6,2**	7,3	**9,2**	9,7	**2,0**	2,9
Non-taxable business	**9,9**	10,1	**n/a**	n/a	**9,9**	10,1	**n/a**	n/a
Corporate policyholder business	**8,4**	8,4	**n/a**	n/a	**9,2**	9,7	**n/a**	n/a
Participating annuity business	**7,9**	8,1	**n/a**	n/a	**7,9**	8,2	**n/a**	n/a
Non-participating annuity business*	**8,5**	8,2	**9,3**	8,9	**8,8**	8,3	**3,5**	4,3
Guarantee plans*	**6,5**	6,4	**4,6**	7,5	**n/a**	n/a	**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 policy liabilities as calculated using the yield curve applied in the valuation.*

Future bonus rates for participating business

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

Decrements

Assumptions with regard to future mortality, disability and disability payment termination rates and lapse, surrender and paid-up rates are consistent with the experience for the five years up to 30 June 2011. 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 2011 actual figures and escalated at estimated expense inflation rates per annum.

Refer to note 1 on page 133 for a sensitivity analysis of the value of in-force covered business to the main valuation assumptions.

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% (2010: 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 the Capital and Risk Management Report on page 226 for further information on the estimation of the claims liability.

Notes to the Group financial statements continued

for the year ended 31 December 2011

31. Critical accounting estimates and judgements *(continued)*

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 recommended for approval by the Audit, Actuarial and Finance Committee and Board by the Sanlam Non-listed Asset Controlling Body at each reporting period.

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 2011, 98% of employees were covered by defined contribution funds and 2% by defined benefit funds (2010: 97% and 3% 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 R256 million to these funds during 2011 (2010: R232 million).

32.2 Defined-benefit funds

The Sanlam group has three defined benefit-funds. These funds relate to:

- Sanlam office personnel (that did not elect to transfer to the defined contribution fund);
- Sanlam Investments and Pensions office personnel; and
- Sanlam Developing Markets defined benefit fund SA.

All funds are closed for new entrants. The Sanlam office personnel fund and Sanlam Developing Markets defined benefit fund SA are governed by the Pensions 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	Sanlam Investments and Pensions	Sanlam Developing Markets SA
Principal actuarial assumptions:				
Latest valuation date		31 Dec 2011	31 Dec 2011	31 Dec 2011
Pre-retirement discount rate	% pa	9,0	4,9	8,9
Post-retirement discount rate	% pa	2,3	4,9	3,7
Future salary increases	% pa	7,1	3,2	6,4
Expected return on assets	% pa	9,0	4,9	8,5
Actual experience:				
Actual return on assets	% pa	9,7	7,7	8,3

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.

32. Retirement benefits for employees *(continued)*

32.2 Defined-benefit funds *(continued)*

R million	2011	2010	2009	2008	2007
Net liability recognised in statement of financial position					
Present value of fund obligations	**1 760**	1 508	1 436	1 216	1 261
Actuarial value of fund assets	**(1 771)**	(1 678)	(1 599)	(1 380)	(1 511)
Net present value of funded obligations	**(11)**	(170)	(163)	(164)	(250)
Unrecognised actuarial gains	**11**	170	163	164	250
Net liability recognised in statement of financial position	**—**	—	—	—	—
Experience adjustments on:					
Fund obligations	**0,3%**	(0,8%)	0,4%	(1,3%)	0,8%
Fund assets	**0,6%**	1,8%	4,5%	(8,8%)	1,6%

R million	2011	2010
Fund obligations		
Balance at beginning of the year	**1 508**	1 436
Movement for the year:	**252**	72
Current service cost	**21**	19
Past service cost	**165**	—
Interest	**135**	126
Actuarial gains and losses	**25**	52
Foreign exchange gains/(losses)	**56**	(38)
Release of obligation	**(148)**	(85)
Other	**(2)**	(2)
Balance at end of the year	**1 760**	1 508
Fund assets		
Balance at beginning of the year	**1 678**	1 599
Movement for the year:	**93**	79
Expected return on fund assets	**139**	136
Actuarial gains and losses	**18**	49
Foreign exchange gains/(losses)	**58**	(36)
Contributions by employer	**17**	15
Contributions by fund participant	**3**	3
Benefits paid	**(140)**	(86)
Other	**(2)**	(2)
Balance at end of the year	**1 771**	1 678

Notes to the Group financial statements continued

for the year ended 31 December 2011

	%	2011	2010
32.	**Retirement benefits for employees** *(continued)*		
32.2	**Defined-benefit funds** *(continued)*		
	Fund assets comprise:		
	Properties	**1**	4
	Equities and similar securities	**29**	37
	Public sector stocks and loans	**1**	1
	Debentures, insurance policies, preference shares and other loans	**58**	42
	Cash, deposits and similar securities	**11**	16
		100	100

The above value of fund assets includes an investment of R3,4 million (2010: R3,5 million) in Sanlam shares.

R million	2011	2010
Net expense recognised in the statement of comprehensive income (included in administration costs):		
Current service cost	**21**	19
Past service cost	**165**	—
Interest cost	**135**	126
Expected return on fund assets	**(139)**	(136)
Net actuarial (gains)/losses recognised during the year	**(152)**	10
Other	**(19)**	(10)
Total included in staff costs	**11**	9

The best estimate of the expected contributions payable to the fund in 2012 is R20 million.

	R million	2011	2010
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.		
	Principle actuarial assumptions at 31 December were as follows:		
	Pre-retirement discount rate	**9,0%**	8,8%
	Returns for All bond index (ALBI)	**8,8%**	8,2%
	Expected increase in medical aid contributions	**9,0%**	8,8%
	Net liability recognised in statement of financial position		
	Balance at beginning of the year	**23**	26
	Movement for the year:	**23**	(3)
	Interest	**4**	4
	Actuarial gains and losses	**2**	2
	Additional provisions	**25**	—
	Benefits paid	**(8)**	(9)
	Balance at end of the year	**46**	23

32. Retirement benefits for employees *(continued)*

32.3 Medical aid funds *(continued)*

R million	2011	2010	2009	2008	2007
Net liability recognised in the statement of financial position:					
Present value of unfunded obligation	**46**	23	26	30	33
Experience adjustments on:					
Fund obligation	**0,5%**	3,3%	(10,5%)	(4,1%)	(8,1%)

	% 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	4	4
Total defined benefit obligation for post-employment medical benefits	50	42

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.

R million	2011	2010
34. Commitments and contingencies		
34.1 Operating leases		
Future operating lease commitments:		
Lease rentals due within one year	**385**	329
Lease rentals due within two to five years	**436**	513
Lease rentals due within more than five years	**58**	97
Total operating lease commitments	**879**	939

Notes to the Group financial statements continued

for the year ended 31 December 2011

34. Commitments and contingencies *(continued)*

34.2 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 ten years. The fees payable under the agreement are based on the market value of the investments under administration.

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

Sanlam has also guaranteed obligations that may arise from Sanlam Capital Markets Limited's (SCM) operations. Sanlam guarantees the unlisted Commercial Paper Programme in the Sanlam Group Treasury division, a division within SCM which caters for particular funding requirements of the Sanlam Group and SCM divisions. The limit for this programme is R15 billion. Sanlam further guarantees the SCM division's BESA listed structured note programme as well as certain of SCM's activities with approved, specified counterparties through Direct Guarantees. The Direct Guarantees and the structured note programme are subject to an overall guarantee limit of R8,5 billion. The Sanlam Guarantee limit for the BESA listed structured note programme is R5 billion. At 31 December 2011 the value of commercial paper issued by SCM amounted to R7,2 billion (2010: R7,2 billion) and the value of BESA listed structured notes amounted to approximately R180 million (2010: R50 million).

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 R8,5 billion at any one time.

34.4 Other

Financial claims are lodged against the Group from time to time. Provisions are recognised for claims based on best estimates of the expected outcome of the claims (refer to note 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 material commitments or contingencies that have not been provided for or fully disclosed, unless additional disclosures may potentially prejudice the legal position of the Group.

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 as the Group's broad-based black economic empowerment partner and 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.

The analysis of shareholders is presented on page 7.

35.2 Transactions with post-employment benefit plans

Contributions to the post-employment benefit plans were R267 million in 2011 (2010: R241 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 and their shareholdings and share options granted in the company are disclosed as part of the Corporate Governance Report elsewhere in the integrated 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.

The Group provides financing for the loans granted by Sanlam Personal Loans. Most of these loans earn interest of the asset swap rate plus a premium of between 1,70% and 2,36%, and will mature in tranches up to 31 December 2014 (refer Capital and Risk Management Report). Apart from these financing loans, an interest-free shareholders' loan of R115 million was granted to Sanlam Personal Loans.

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.

Notes to the Group financial statements continued

for the year ended 31 December 2011

	R million	2011	2010
35.	**Related parties** *(continued)*		
35.6	**Key management personnel compensation**		
	Compensation paid to the Group's key management personnel is as follows:		
	Short-term employee benefits	**422**	403
	Share-based payments	**48**	49
	Termination benefits	**7**	1
	Other long-term benefits and incentive schemes	**51**	47
	Total key management personnel compensation	**528**	500

	R million	2011	2010
36.	**Notes to the cash flow statement**		
36.1	**Cash utilised in operations**		
	Profit before tax per income statement	**8 575**	9 272
	Net movement in policy liabilities (note 15.1)	**16 726**	19 365
	Non-cash flow items	**(4 467)**	(21 496)
	Depreciation	**187**	157
	Bad debts written off	**179**	180
	Share-based payments	**267**	223
	Profit on disposal of subsidiaries and associates	**(239)**	(494)
	Fair value adjustments	**(4 604)**	(21 337)
	Impairment of investments and goodwill	**36**	1
	Amortisation of intangibles	**128**	103
	Equity-accounted earnings	**(421)**	(329)
	Items excluded from cash utilised in operations	**(12 800)**	(13 556)
	Interest and preference share dividends received	**(9 102)**	(9 993)
	Interest paid	**539**	525
	Dividends received	**(4 237)**	(4 088)
	Net purchase of fixed assets	**(217)**	(190)
	Net purchase of owner-occupied properties	**(1)**	(1)
	Decrease/(increase) in net working capital assets and liabilities	**3 673**	(552)
	Cash utilised in operations	**11 489**	(7 158)
36.2	**Acquisition of subsidiaries**		
	During the year, various interests in subsidiaries were acquired within the Group. The fair value of assets acquired is as follows:		
	Net assets acquired	**252**	103
	Goodwill	**30**	412
	Total purchase consideration	**282**	515
	Less: Net asset value contributed	**(33)**	(6)
	Cash, deposits and similar securities acquired	**(41)**	(236)
	Cash component of acquisition of subsidiaries	**208**	273

R million	2011	2010
36. Notes to the cash flow statement *(continued)*		
36.3 Disposal of subsidiaries and associates		
Disposal of subsidiaries and associates relates mainly to the disposal of African Life Financial Services Zambia and Vukile in 2011. The fair value of assets disposed of was as follows:		
Property, plant and equipment	**3**	—
Investments	**62**	—
Trade and other receivables	**16**	—
Cash, deposits and similar securities	**18**	—
Deferred tax liabilities	**(2)**	—
Working capital liabilities	**(20)**	—
Minority shareholders' interest	**(20)**	—
Goodwill	**8**	—
Investment in associated company	**474**	—
Profit on disposal of subsidiaries and associates	**239**	—
Total disposal price	**778**	—
Less: Cash, deposits and similar securities disposed of	**(18)**	—
Cash component of disposal of subsidiaries and associates	**760**	—
36.4 Cash, deposits and similar securities		
Working capital: Cash, deposits and similar securities	**14 377**	12 188
Investment cash	**51 487**	48 980
Bank overdrafts	**(7)**	(4)
Total cash, deposits and similar securities	**65 857**	61 164

37. Business combinations

37.1 Material acquisitions of the Group consolidated in the 2011 financial year

There were no material business combinations during the 2011 financial year.
Other acquisitions relate to the following:

- The acquisition of Mirabilis Engineering Underwriting Managers by Santam;
- Other smaller acquisitions.

The contribution of these acquisitions to profit for 2011 is not material.

37.2 Material acquisitions of the Group consolidated in the 2010 financial year

There were no material business combinations during the 2010 financial year.
Other acquisitions relate to the following:

- The acquisition of the Indwe Broker Holdings (Pty) Limited and Emerald Risk Transfer (Pty) Limited by Santam;
- Other smaller acquisitions.

The contribution of these acquisitions to profit for 2010 is not material.

Notes to the Group financial statements continued

for the year ended 31 December 2011

	R million	2011	2010
38.	**Non-current assets held for sale**		
	During 2011 Sanlam Life Insurance Limited concluded a formal agreement of sale with Vukile Property Fund Limited (“Vukile”) in terms of which a portfolio of properties will be sold to Vukile. The transaction is expected to be concluded by 1 June 2012, provided that all suspensive conditions are met. These conditions include approval by the applicable regulatory authorities and other administrative matters.		
38.1	**Non-current assets classified as held for sale**		
	Owner occupied properties (refer note 2)	**68**	–
	Investment properties (refer note 7.1)	**1 322**	–
		1 390	–
39.	**Impairments**		
	Impairment of goodwill	**34**	59
	Investment management: International	**33**	49
	Other	**1**	10
	Impairment/(reversal of impairment) of value of business acquired	**–**	(69)
	Principal	**–**	(64)
	Other	**–**	(5)
	Impairment/(reversal of impairment) of investments	**–**	24
	Sanlam Personal Loans	**–**	(51)
	SMC India	**–**	75
	Other	**2**	(14)
	Total impairment of investments, goodwill and value of business acquired for the year	**36**	–

40. Fair value disclosures

Determination of fair value and fair value hierachy

Below follows required disclosure of fair value measurements, using a three-level fair value hierarchy that reflects the significance of the inputs used in determining the measurements. It should be noted that these disclosure only cover instruments measured at fair value.

Included in level 1 category are financial assets and liabilities that are measured in whole or in part by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in level 2 category are financial assets and liabilities measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are categorised as level 2.

Financial assets and liabilities measured using inputs that are not based on observable market data are categorised as level 3.

R million	Level 1	Level 2	Level 3	Total
31 December 2011				
Equities and similar securities	151 839	10 394	3 349	165 582
Public sector stocks and loans	52 353	6 477	1	58 831
Listed property companies and property collective investments	4 595	1 265	—	5 860
Debentures, insurance policies, preference shares and other loans	17 699	15 373	625	33 697
Trading account assets	348	14 892	—	15 240
Cash deposits and similar securities	15 057	35 229	—	50 286
Total financial assets	241 891	83 630	3 975	329 496
Investment contract liabilities	2 774	143 153	752	146 679
Term finance	3 134	87	59	3 280
Margin business	3 018	—	50	3 068
Other interest bearing liabilities	116	87	9	212
Derivative liabilities	—	212	—	212
Trading account liabilities	4 437	13 560	—	17 997
Total financial liabilities	10 345	157 012	811	168 168
31 December 2010				
Equities and similar securities	136 773	11 262	3 155	151 190
Public sector stocks and loans	53 330	4 017	—	57 347
Listed property companies and property collective investments	6 475	695	—	7 170
Debentures, insurance policies, preference shares and other loans	14 167	15 103	143	29 413
Trading account assets	(386)	17 112	—	16 726
Cash deposits and similar securities	14 608	34 282	—	48 890
Total financial assets	224 967	82 471	3 298	310 736
Investment contract liabilities	2 255	130 396	59	132 710
Term finance	3 065	—	—	3 065
Margin business	1 648	—	—	1 648
Other interest bearing liabilities	1 417	—	—	1 417
Trading account liabilities	436	16 269	—	16 705
Total financial liabilities	5 756	146 665	59	152 480

Notes to the Group financial statements continued

for the year ended 31 December 2011

40. Fair value disclosures *(continued)*

Reconciliation of movements in level 3 financial instruments measured at fair value.

31 December 2011

R million	Equities and similar securities	Public sector stocks and loans	Debentures, insurance policies, preference shares and other loans	Total financial assets
Financial assets				
Balance at 1 January 2011	**3 155**	**—**	**143**	**3 298**
Total gains/(loss) in statement of comprehensive income	**324**	**—**	**324**	**648**
Acquisitions	**245**	**1**	**88**	**334**
Issues	**—**	**—**	**—**	**—**
Disposals	**(454)**	**—**	**(93)**	**(547)**
Foreign exchange movements	**4**	**—**	**—**	**4**
Transfers from level 1 and level 2	**75**	**—**	**163**	**238**
Not significant (net in/out)	**1**	**—**	**—**	**1**
Significant – transfer in	**74**	**—**	**163**	**237**
Significant – transfer out	**—**	**—**	**—**	**—**
Balance at 31 December 2011	**3 349**	**1**	**625**	**3 975**
31 December 2010				
Financial assets				
Balance at 1 January 2010	2 910	—	314	3 224
Total gains/(loss) in statement of comprehensive income	44	—	(171)	(127)
Acquisitions	41	—	—	41
Issues	631	—	—	631
Disposals	(427)	—	—	(427)
Foreign exchange movements	(70)	—	—	(70)
Transfers from level 1 and level 2	26	—	—	26
Not significant (net in/out)	26	—	—	26
Significant – transfer in	—	—	—	—
Significant – transfer out	—	—	—	—
Balance at 31 December 2010	3 155	—	143	3 298

R million	Investment contract liabilities	Term finance	Total financial liabilities
31 December 2011			
Financial liabilities			
Balance at 1 January 2011	**59**	**—**	**59**
Total (gain)/loss in statement of comprehensive income	**830**	**—**	**830**
Acquisitions	**18**	**59**	**77**
Issues	**—**	**—**	**—**
Disposals	**(159)**	**—**	**(159)**
Foreign exchange movements	**4**	**—**	**4**
Balance at 31 December 2011	**752**	**59**	**811**
31 December 2010			
Financial liabilities			
Balance at 1 January 2010	229	—	229
Total (gain)/loss in statement of comprehensive income	—	—	—
Acquisitions	—	—	—
Issues	—	—	—
Disposals	(154)	—	(154)
Foreign exchange movements	(16)	—	(16)
Balance at 31 December 2010	59	—	59

40. Fair value disclosures *(continued)*

R million	2011	2010
Gains and losses (realised and unrealised) included in profit and loss		
Total gains or losses included in profit or loss for the period	**(182)**	(127)
Total gains or losses included in profit or loss for the period for assets held at the end of the reporting period	**453**	50

Transfers between categories

R million	Equities and similar securities	Public sector stocks and loans	Listed property companies	Debentures, insurance policies, preference shares and other loans	Cash, deposits and similar securities	Total financial assets
2011						
Financial assets						
Transfer from level 1 to level 2	**—**	**905**	**20**	**—**	**—**	**925**
Transfer from level 2 to level 1	**—**	**—**	**—**	**—**	**—**	**—**
2010						
Financial assets						
Transfer from level 1 to level 2	—	—	—	—	—	—
Transfer from level 2 to level 1	2	—	—	—	399	401

Sensitivity of level 3 financial instruments measured at fair value to changes in key assumptions

R million	Carrying amount[(1)]	Effect of a 10% increase in earnings	Effect of a 10% decrease in earnings	Carrying amount[(2)]	Effect of a 1% increase in discount rate	Effect of a 1% decrease in discount rate
2011						
Equities and similar securities	**3 235**	**324**	**(324)**	**114**	**(1)**	**1**
Public sector stocks and loans	**—**	**—**	**—**	**1**	**—**	**—**
Debentures, insurance policies, preference shares and other loans	**—**	**—**	**—**	**625**	**(6)**	**6**
Financial assets	**3 235**	**324**	**(324)**	**740**	**(7)**	**7**
Investment contract liabilities	**752**	**75**	**(75)**	**—**	**—**	**—**
Term finance	**59**	**6**	**(6)**			
Financial liabilities	**811**	**81**	**(81)**	**—**	**—**	**—**
2010						
Equities and similar securities	3 046	305	(305)	109	(9)	9
Debentures, insurance policies, preference shares and other loans	—	—	—	143	(14)	14
Financial assets	3 046	305	(305)	252	(23)	23
Investment contract liabilities	59	6	(6)	—	—	—
Financial liabilities	59	6	(6)	—	—	—

[(1)]*Represents mainly private equity investments valued on earnings multiple, with sensitivities based on changes in earnings.*

[(2)]*Represents mainly private equity investments valued on a discounted cashflow basis, with sensitivities based on changes in the discount rate.*

Sanlam Limited statement of financial position

at 31 December 2011

R million	Note	2011	2010
Assets			
Investments in Group companies	2	**14 937**	14 308
Deferred tax		**4**	5
Working capital assets		**2 028**	1 567
Cash and bank		**39**	37
Trade and other receivables		**23**	—
Loans to Group companies	2	**1 966**	1 530
Total assets		**16 969**	15 880
Equity and liabilities			
Capital and reserves			
Share capital and premium	3	**22**	22
Non-distributable reserve		**9 342**	9 342
Retained earnings		**7 155**	6 136
Total equity		**16 519**	15 500
Working capital liabilities		**450**	380
Accounts payable		**414**	357
Taxation payable		**2**	12
Other payables		**11**	11
Provisions		**23**	—
Total equity and liabilities		**16 969**	15 880

Sanlam Limited statement of comprehensive income

for the year ended 31 December 2011

R million	Note	2011	2010
Net income		**2 765**	3 888
Dividend income		**2 617**	3 843
Investment surpluses	4	**129**	24
Other income		**19**	21
Expenses			
Administration costs	5	**(7)**	(7)
Net reversal/(impairment) of loans	2	**163**	(69)
Net reversal of impairment of investments	2	**629**	198
Profit before tax		**3 550**	4 010
Taxation		**(84)**	(138)
Normal tax		**(16)**	(1)
STC		**(68)**	(137)
Profit for the year		**3 466**	3 872
Other comprehensive income		**—**	—
Comprehensive income for the year		**3 466**	3 872

Sanlam Limited statement of changes in equity

for the year ended 31 December 2011

R million	Share capital	Share premium	Non-distri-butable reserve[1]	Retained earnings	Total equity
Balance at 1 January 2010	22	1	9 342	5 941	15 306
Profit for the year	—	—	—	3 872	3 872
Other comprehensive income	—	—	—	—	—
Dividends paid	—	—	—	(2 208)	(2 208)
Shares cancelled	(1)	—	—	(1 469)	(1 470)
Balance at 31 December 2010	21	1	9 342	6 136	15 500
Profit for the year	**—**	—	—	**3 466**	**3 466**
Other comprehensive income	**—**	—	—	**—**	**—**
Dividends paid	**—**	—	—	**(2 447)**	**(2 447)**
Balance at 31 December 2011	**21**	**1**	**9 342**	**7 155**	**16 519**

[1] *Pre-acquisition reserve arising from the demutualisation of Sanlam Life Insurance Limited in 1998.*

Sanlam Limited cash flow statement

for the year ended 31 December 2011

R million	Note	2011	2010
Cash flow from operating activities		**146**	1 556
Cash utilised in operations	10	**70**	59
Dividends received		**2 617**	3 843
Dividends paid		**(2 447)**	(2 208)
Taxation paid		**(94)**	(138)
Cash flow from investment activities			
Proceeds from Sale less cost of acquisition of Associate		**113**	27
Recovery of investments		**16**	—
Cash flow from financing activities			
Shares cancelled		**—**	(1 470)
Net increase in cash and cash equivalents		**275**	113
Cash and cash equivalents at beginning of the year		**1 567**	1 523
Net reversal of impairment/(impairment) of loans included in cash and cash equivalents during the year		**163**	(69)
Cash and cash equivalents at end of the year		**2 005**	1 567

Sanlam Limited – Notes to the financial statements

for the year ended 31 December 2011

1. Accounting policies

The accounting policies of the Sanlam Group as set out on pages 235 to 253 of the Sanlam 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*.

Dividends

Dividends are shown as income. We consider impairment when the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared and the carrying amount of the investment exceeds the carrying amount of the investee's net assets, including associated goodwill.

	R million	2011	2010
2.	**Group companies**		
	Investments in Group companies – shares at lower of cost or market value	**14 937**	14 308
	Current loans with Group companies	**1 966**	1 530
	Loans to Group companies	**1 966**	1 530
	Book value of interest in Group companies	**16 903**	15 838
	Net (impairment)/reversal of impairment of investments in Group companies		
	Genbel Securities Limited	**(40)**	78
	Sanlam Netherlands Holding BV	**669**	120
	Total net reversal of impairment of investments in Group companies	**629**	198
	Fair value of net investment in Group companies		
	Investments in subsidiaries	**54 046**	47 266
	Total fair value of net investment in Group companies	**54 046**	47 266
	Loans: Group companies		
	The loans to Group companies are unsecured and payable on demand. No interest is charged but these arrangements are subject to revision from time to time. Details regarding the principal subsidiaries of Sanlam Limited are set out on page 304.		
	Loans to Group companies		
	Sanlam Spec (Pty) Limited	**748**	509
	Genbel Securities Limited	**110**	110
	Sanlam Life Insurance Limited	**1 108**	911
	Reversal of impairment/(impairment) of loans		
	Sanlam Spec (Pty) Limited	**163**	(88)
	Real Futures (Pty) Limited	**—**	19
	Total	**163**	(69)

3. Share capital and premium

Details of the share capital and premium are reflected in note 11 on page 271 of the Sanlam Group financial statements.

4. Investment surpluses

Investment surpluses relate to the profit on the sale of investment in associate during the financial year, as well as funds received on previously written off loan assets.

5. Administration costs include:

Directors' remuneration

Details of the directors' remuneration is reflected in note 24 on page 281 of the Sanlam Group financial statements.

6. Dividends

Details of the dividends declared are disclosed in note 29 on page 284 of the Sanlam 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.

8. Commitments and contingencies

Details of commitments and contingencies are reflected in note 34 on page 291 and 292 of the Sanlam Group financial statements. The maximum utilisation under all of the guarantees granted in favour of Sanlam Capital Markets is R8,5 billion (2010: R8,5 billion).

9. Related parties

Details of related parties are reflected in note 35 on page 293 of the Sanlam Group financial statements.

R million	2011	2010
10. Notes to the cash flow statement		
Cash utilised in operations		
Profit before tax	**3 550**	4 010
Non-cash flow items		
Net impairment of investments in Group companies	**(629)**	(198)
Net (reversal)/impairment of impairment of loans	**(163)**	69
Other income	**(19)**	—
Investment surpluses	**(129)**	(24)
Items disclosed separately		
Dividends received	**(2 617)**	(3 843)
Increase in net working capital liabilities	**77**	45
Cash utilised in operations	**70**	59

11. Capital and risk management

The main financial instrument risk that Sanlam Limited is exposed to, is credit risk in respect of its loans to Group companies. These loans are tested for impairment, by establishing whether the net asset value of the underlying Group company is sufficient to cover the outstanding loan amount. Where the net asset value (including any impairments recognised in that company), is less than the carrying value of the loan, an impairment loss is recognised, as disclosed in note 2 on page 302. The credit quality of each loan has been assessed as acceptable within the parameters used to measure and monitor credit risk.

Sanlam Limited's maximum exposure to credit risk is calculated as follows:

	2011	2010
Carrying value of loans granted	**1 966**	1 530

Further details of risk management are disclosed in the Capital and Risk Management Report on page 179.

12. Tax rate reconciliation

The effective tax rate of Sanlam Limited of 2,4% (2010: 3,4%) differs from the standard rate of taxation of 28% (2010: 28%) due to the effects of non-taxable income: –27,2% (2010: –28,5%), STC: 1,9% (2010: 3,4%) and other differences: –0,3% (2010: 0,1%).

Principal subsidiaries

at 31 December 2011

		Issued ordinary capital	Fair value of interest in subsidiaries			
			Shares		Loans	
	% Interest	**2011 R million**	**2011 R million**	2010 R million	**2011 R million**	2010 R million
Long-term insurance						
Sanlam Life Insurance Limited	100	**5 000**	**45 172**	40 521	**1108**	911
Investment and capital markets						
Genbel Securities Limited	100	**253**	**1 638**	1 678	**110**	110
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)**	**1 405**	1 087	**—**	—
Sanlam Netherlands Holding BV[3]	100	**2 309**	**3 865**	2 450	**—**	—
Investment companies						
Sanlam Spec (Pty) Limited[4]	100	**(2)**	**—**	—	**748**	509
Sanlam Investments (Pty) Limited	100	**(2)**	**—**	—	**—**	—
Sanlam Share Incentive Trust	100	**(2)**	**—**	(2)	**—**	—
Other	100	**(2)**	**—**	(2)	**—**	—
Total			**52 080**	45 736	**1 966**	1 530

(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 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:

%	**2011**	2010
Shareholders' fund		
▪ Sanlam Life Insurance Limited	**59,87**	56,86
Policyholders' fund		
▪ Sanlam Life Insurance Limited	**0,00**	0,19
Total	**59,87**	57,05

Glossary of terms, definitions and major businesses

Technical terms and definitions

"adjusted return on Group Equity Value" or "adjusted RoGEV"	▪ the return on Group Equity Value, excluding the impact of investment market volatility. Adjusted RoGEV is based on the actuarial investment return assumptions at the beginning of the reporting period;
"capital adequacy"	▪ capital adequacy implies the existence of a buffer against experience worse than that assumed under the FSB's Statutory Valuation Method. The sufficiency of the buffer is measured by comparing excess of assets over liabilities for statutory reporting purposes with the statutory capital adequacy requirement. The main element in the calculation of the capital adequacy requirement is the determination of the effect of an assumed fall in asset values on the excess of assets over liabilities;
"capital portfolio" or "balanced portfolio"	▪ the consolidated capital of the Group, excluding working capital held by Group businesses. The capital portfolio includes the required capital of covered business as well as discretionary and other capital;
"cost of capital"	▪ cost of capital is calculated as the required capital at the valuation date less the discounted value, using a risk-adjusted discount rate, of the expected annual release of the capital over the life of the in-force business, allowing for the after-tax investment return on the expected level of capital held in each year;
"covered business"	▪ long-term insurance business written by Sanlam Personal Finance, Sanlam Emerging Markets, Sanlam UK and Sanlam Employee Benefits;
"embedded value of covered business " or "EV"	▪ embedded value of covered business is an actuarially determined estimate of the value of covered business, excluding any value attributable to future new business. Embedded value of covered business consists of the required capital supporting the covered business, or adjusted net worth, plus the value of the in-force covered business less the cost of capital;
"FSB"	▪ the Financial Services Board, the regulator of insurance companies in South Africa;
"life business"	▪ the aggregate of life insurance business and life licence business;
"life insurance business"	▪ products provided by the Group's long-term insurance businesses 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 Personal Finance, Sanlam Investments, Sanlam Employee Benefits, Sanlam Emerging Markets and Glacier by means of a life insurance policy where there is very little or no insurance risk;
"linked policy"	▪ a non-participating policy which is allotted units in an investment portfolio. The value of the policy at any stage is equal to the number of units multiplied by the unit price at that stage less the value of unrecouped expenses;

Glossary of terms, definitions and major businesses continued

"market-related policy" or "contract with discretionary participating feature"	▪ a participating policy which participates in non-vesting investment growth. This growth reflects the volatility of the market value of the underlying assets of the policy;
"new business margin"	▪ VNB as a percentage of PVNBP;
"non-life business"	▪ financial services and products provided by the Group, excluding life insurance business;
"non-life linked business"	▪ non-life linked business comprises investment products provided by Sanlam Personal Finance's Glacier business, which is not written under a life licence;
"non-participating annuity"	▪ a non-participating annuity is a policy which provides, in consideration for a single premium, a series of guaranteed regular benefit payments for a defined period;
"non-participating policy"	▪ a policy which provides benefits that are fixed contractually, either in monetary terms or by linking them to the return of a particular investment portfolio, e.g. a linked or fixed-benefit policy;
"normalised headline earnings"	▪ normalised headline earnings measure the Group's earnings, exclusive of earnings of a capital nature and fund transfers relating to the policyholders' fund's investment in Sanlam shares and Group subsidiaries. For the Sanlam Group, the only differences between normalised attributable earnings and normalised headline earnings are: ▪ Profits and losses on the disposal of subsidiaries, associated companies and joint ventures; ▪ Impairment of investments, value of business acquired and goodwill; and ▪ The Group's share of associates' and joint ventures' non-headline earnings. Normalised headline earnings exclude the above items that are of a capital nature. Given that the Group's operations are of a financial nature, normalised headline earnings include investment surpluses earned on the investments held by the shareholders' fund, resulting in volatility in normalised headline earnings;
"participating annuity"	▪ a participating annuity is a policy which provides, in consideration for a single premium, a series of regular benefit payments for a defined period, the benefits of which are increased annually with bonuses declared;
"participating policy"	▪ a policy which provides guaranteed benefits as well as discretionary bonuses. The declaration of such bonuses will take into account the return of a particular investment portfolio. Reversionary bonus, stable bonus, market-related and participating annuity policies are participating policies;
"policy"	▪ unless the context indicates otherwise, a reference to a policy in this report means a long-term insurance or investment contract issued by the Group's life insurance subsidiaries in accordance with the applicable legislation;
"PVNBP"	▪ present value of new business premiums from covered business;
"required capital"	▪ the required level of capital supporting the covered business, based on the minimum regulatory capital requirements, plus an internal assessment of adjustments required for market, operational and insurance risk, as well as economic and growth considerations;

"result from financial services"	▪ profit earned by the Group from operating activities and excludes investment return earned on the capital portfolio;
"return on Group Equity Value" or "RoGEV"	▪ change in Group Equity Value, excluding dividends and changes in issued share capital, as a percentage of Group Equity Value at the beginning of the period;
"reversionary bonus policy"	▪ a conventional participating policy which participates in reversionary bonuses, i.e. bonuses of which the face amounts are only payable at maturity or on earlier death or disability. The present value of such bonuses is less than their face amounts;
"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 Sanlam Investments and Pensions;
"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 covered business" or "VIF"	▪ the value of in-force covered business is calculated as the discounted value, using a risk-adjusted discount rate, of the projected stream of future after-tax profits expected to be earned over the life of the in-force book;
"value of new business" or "VNB"	▪ the value of new business is calculated as the discounted value, at point of sale, using a risk-adjusted discount rate, of the projected stream of after-tax profits for new covered business issued, net of the cost of capital over the life of this business;
"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

"Channel Life"	▪ Channel Life Limited, a subsidiary of Sanlam Life conducting mainly life insurance business in South Africa;
"Sanlam Investments and Pensions"	▪ Sanlam Life and Pensions Limited (formerly Merchant Investors Assurance Company Limited), a wholly owned subsidiary of Sanlam UK Limited conducting mainly life insurance business in the United Kingdom;
"Sanlam Life"	▪ Sanlam Life Insurance Limited, a wholly owned subsidiary of Sanlam Limited conducting mainly life insurance business;
"Sanlam Limited"	▪ the holding company listed on the JSE Limited and the Namibian Stock Exchange;
"Sanlam", "Sanlam Group" or "the Group"	▪ Sanlam Limited and its subsidiaries, associates and joint ventures;
"Sanlam Namibia"	▪ Sanlam Life Namibia, a wholly owned subsidiary of Sanlam Life conducting mainly life insurance business in Namibia.
"SDM Limited"	▪ Sanlam Developing Markets Limited, a wholly owned subsidiary of Sanlam Life conducting mainly life insurance business in South Africa and through its subsidiaries in Africa;

Notice of annual general meeting

Sanlam Limited

(Incorporated in the Republic of South Africa)
(Registration No 1959/001562/06)
JSE share code: SLM/ NSX share code: SLA
ISIN: ZAE000070660
("the Company" or "Sanlam")

Notice is hereby given to shareholders recorded in the Company's securities register on 16 March 2012, that the fourteenth annual general meeting ("AGM") of the shareholders of Sanlam, which will be held on Wednesday, 6 June 2012 at 14:00* in the CR Louw Auditorium, Sanlam Head Office, 2 Strand Road, Bellville, Cape Town ("the Meeting") to (i) deal with such business as may lawfully be dealt with at the meeting and (ii) consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act, No 71 of 2008, as amended ("the Companies Act"), as read with the Listings Requirements of the JSE Limited ("JSE Listings Requirements") and other stock exchanges on which the Company's ordinary shares are listed, which meeting is to be participated in and voted at by shareholders recorded in the Company's securities register as at the record date of 25 May 2012.

Kindly note that meeting participants (including proxies) will be required to provide reasonably satisfactory identification before being entitled to attend or participate in the meeting. Forms of identification, include valid identity documents, drivers' licences and passports.

Ordinary resolutions

To consider and, if approved, to pass, with or without modification, the following seven Ordinary Resolutions:

Percentage support required for Ordinary Resolution Numbers 1 to 7

In order for these Ordinary Resolutions to be adopted, the support of more than 50% (fifty percent) of the total number of votes per Ordinary Resolution, which the shareholders present or represented by proxy at this Meeting are entitled to cast, is required.

1. Ordinary Resolution No 1 – *Accepting the Sanlam Integrated Annual Report*

   To consider and accept the Sanlam Integrated Annual Report for the year ended 31 December 2011, that has been distributed to shareholders as required, including the consolidated audited financial statements for the Company and its subsidiaries, set out on page 234 to 304 of the Sanlam Integrated Annual Report, as well as the auditors', Audit Committee and directors' reports.

   Reason and effect

   The reason for and effect of Ordinary Resolution No 1 is to give Sanlam shareholders the opportunity to formally consider and accept the Sanlam Integrated Annual Report including the consolidated audited financial statements of the Company as required by section 30(3)(d) of the Companies Act.

2. Ordinary Resolution No 2 – *Re-appointment of auditors*

   To re-appoint Ernst & Young Inc, as nominated by the Company's Audit Committee, as independent auditors of the Company to hold office until the conclusion of the next AGM of the Company. It is to be noted that Malcolm Rapson is the individual and designated auditor who will undertake the Company's audit for the financial year ending 31 December 2012.

   Reason and effect

   The reason for Ordinary Resolution No 2 is that the Companies Act requires the appointment or re-appointment of the Company's auditors each year at the AGM of the Company.

3. Ordinary Resolution No 3 – *Re-election of directors*

   To individually re-elect the following non-executive directors (Ordinary Resolutions 3.1 to 3.6). The Board recommends the election of these directors.

   Reason and effect

   The reason for and effect of Ordinary Resolutions numbers 3.1 to 3.6 are to re-elect the directors that retires by rotation in terms of the Articles of Association ("existing MOI") of the Company.

   3.1 Ordinary Resolution No 3.1 – *Re-election of Manana Bakane-Tuoane as director*

   To re-elect MMM Bakane-Tuoane who retires by rotation in terms of the existing MOI, being eligible and offering herself for re-election.

Manana Bakane-Tuoane (63)
Director since 2004
Qualifications: PhD Economics (University of Saskatchewan, Canada)
Sanlam and Sanlam Life committee membership: Nominations, Human Resources, Policyholders' Interest, Non-executive Directors
Major external positions, directorships or associations: African Rainbow Minerals

3.2 Ordinary Resolution No 3.2 – *Re-election of Anton Dirk Botha as director*

To re-elect AD Botha who retires by rotation in terms of the existing MOI being eligible and offering himself for re-election.

Anton Dirk Botha (58)
Director since 2006
Qualifications: BProc, BCom (Hons) Investment Management, EDP (Stanford)
Sanlam and Sanlam Life committee membership: Human Resources (Chairman), Non-executive Directors
Sanlam Group directorships: Sanlam Capital Markets, Sanlam Investment Holdings, Genbel Securities
Major external positions, directorships or associations: JSE, University of Pretoria, Vukile Property Fund, Imalivest, African Rainbow Minerals.

3.3 Ordinary Resolution No 3.3 – *Re-election of Patrice Tlhopane Motsepe as director*

To re-elect PT Motsepe who retires by rotation in terms of the existing MOI, being eligible and offering himself for re-election.

Patrice Tlhopane Motsepe (50) (Deputy Chairman)
Director since 2004
Qualifications: BA Legal, LLB
Sanlam and Sanlam Life committee membership: Nominations, Human Resources, Non-executive Directors
Major external positions, directorships or associations: African Rainbow Minerals, Harmony, Ubuntu-Botho Investments, Mamelodi Sundowns Football Club, African Fashion International

3.4 Ordinary Resolution No 3.4 – *Re-election of Sipho Abednego Nkosi as director*

To re-elect SA Nkosi who retires by rotation in terms of the existing MOI, being eligible and offering himself for re-election.

Sipho Abednego Nkosi (57)
Director since 2006
Qualifications: BCom (Hons) Economics, MBA, Diploma in Marketing, AMP (Oxford)
Sanlam and Sanlam Life committee membership: Non-executive Directors
Major external positions, directorships or associations: Exxaro Resources, Anooraq Resources, Eyesizwe Holdings

3.5 Ordinary Resolution No 3.5 – *Re-election of Zacharias Bernardus Swanepoel as director*

To re-elect ZB Swanepoel who retires by rotation in terms of the existing MOI, being eligible and offering himself for re-election.

Zacharias Bernardus Swanepoel (50)
Director since 2004
Qualifications: BCom (Hons), BSc Mining Engineering
Sanlam and Sanlam Life committee membership: Social, Ethics and Sustainability, Non-executive Directors
Major external positions, directorships or associations: African Rainbow Minerals, To-the-Point Growth Specialists, Advisory Board Alexander Proudfoot, Village Main Reef, Savannah Mining.

3.6 Ordinary Resolution No 3.6 - *Re-election of Polelo Lazarus Zim as director*

To re-elect PL Zim who retires by rotation in terms of the existing MOI, being eligible and offering himself for re-election.

Lazarus Zim (51)
Director since 2006
Qualifications: BCom (Hons), MCom
Sanlam and Sanlam Life committee membership: Social, Ethics and Sustainability, Non-executive Directors
Major external positions, directorships or associations: Telkom, Zim Capital, Afripalm Resources and Northam Platinum

Notice of annual general meeting continued

4. Ordinary Resolution No 4 – *Election of the members of the Sanlam Audit, Actuarial and Finance ("Audit") Committee*

To individually elect the following independent directors (Ordinary Resolutions 4.1 to 4.5) of the Company as the members of the Sanlam Audit Committee until the conclusion of the next AGM of the Company. The Board of directors ("the Board") recommends the election of these members.

Reason and effect

The reason for and effect of Ordinary Resolutions number 4.1 to 4.5 are to appoint the members of the Audit Committee of the Company as required in terms of section 94(2) of the Companies Act.

4.1 Ordinary Resolution No 4.1 – *Appointment of MP Buthelezi as a member of the Audit Committee*

Mildred Philisiwe Buthelezi (47)

Director since 2011 (Member since 08 June 2011)

Qualifications: MBA (Corp Finance), MSc (Economics)

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

Major external positions, directorships or associations: Group Five, The National Empowerment Fund, Industrial Development Corporation (IDC)

4.2 Ordinary Resolution No 4.2 – *Appointment of FA du Plessis as a member of the Audit Committee*

Francine-Ann du Plessis (57)

Director since 2004 (Member since 3 June 2004)

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

Sanlam and Sanlam Life committee membership: Audit, Actuarial and Finance, Risk and Compliance, Policyholders' Interest (Chairperson), Non-executive Directors

Major external positions, directorships or associations: Naspers, LDP Incorporated, Life Healthcare, ArcelorMittal

4.3 Ordinary Resolution No 4.3 – Appointment of I Plenderleith as a member of the Audit Committee.

Ian Plenderleith (68)

Director since 2006 (Member since 4 September 2006)

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

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

Sanlam Group directorships: Sanlam UK

Major external positions, directorships or associations: Past Deputy Governor of the SA Reserve Bank, Past Executive Director of the Bank of England, BH Macro, BMCE Bank International, Europe Arab Bank, Invoice Clearing Bureau South Africa, Wits Business School Advisory Board, British Museum Friends, Morgan Stanley International, Morgan Stanley & Co International

4.4 Ordinary Resolution No 4.4 – *Appointment of P deV Rademeyer as a member of the Audit Committee*

Philip de Villiers Rademeyer (64)

Director since 2011 (Member since 08 June 2011)

Qualifications: CA(SA)

Sanlam and Sanlam Life committee membership: Audit, Actuarial and Finance (Chairman), Risk and Compliance, Social, Ethics and Sustainability, Non-executive Directors

Sanlam Group directorships: Sanlam Emerging Markets, Sanlam Customised Insurance, Sanlam Collective Investments, Sanlam Coris Capital Collective Investment Managers, Glacier Management Company

Major external positions, directorships or associations: Ubuntu-Botho Investments Holdings

4.5 Ordinary Resolution No 4.5 – Appointment of CG Swanepoel as a member of the Audit Committee

Christiaan Gerhardus Swanepoel (61)

Director since 2011 (Member since 08 June 2011)

Qualifications: BSc (Hons); Fellow of the Institute of Actuaries, Fellow of the Actuarial Society of South Africa

Sanlam and Sanlam Life committee membership: Risk and Compliance (Chairman); Audit, Actuarial and Finance; Policyholders Interest; Non-executive Directors

Sanlam Group directorships: Sanlam Investment Holdings, Sanlam Capital Markets; Sanlam Credit Conduit; Genbel Securities

5. Ordinary Resolution No 5 – *Advisory vote on the Company's Remuneration Policy*

Shareholders are requested to cast a non-binding advisory vote on the Company's Remuneration Policy and implementation thereof, set out on page 155 to 158 of the Sanlam Integrated Annual Report.

6. Ordinary Resolution No 6 – *To note the total amount of directors, non-executive directors and executive directors' remuneration*

   To note the total amount of directors' remuneration set out in the Sanlam Integrated Annual Report on pages 173 to 176, non-executive directors 173 and executive directors 176 for the financial year ended 31 December 2011.

   Reason and effect

   The reason for and effect of Ordinary Resolution No 6 are to note the remuneration of non-executive directors and executive directors for the year ended 31 December 2011.

Special resolutions

To consider and, if approved, to pass, with or without modification, the following four Special Resolutions:

Percentage support required for Special Resolution Numbers 1 to 4

In order for these Special Resolutions to be adopted, the support per Special Resolution of at least 75% (seventy-five percent) of the total number of votes, which the shareholders present or represented by proxy at this AGM are entitled to cast, is required.

A. Special Resolution No 1 – *Approval of non-executive directors' remuneration for their services as directors*

Resolved that:

"In terms of section 66(9) of the Companies Act, payment of the remuneration for the services as non-executive directors of Sanlam is approved for the period 1 July 2012 to 30 June 2013 as set out in the following table. These increases represent an average increase of 8,8% on the fees applicable in respect of the 12 months to 30 June 2012."

Directors/Committees	Annual fee 2010/11	Attendance fee per meeting 2010/11	Annual fee 2012/13	Attendance fee per meeting 2012/13
Chairman	R1 885 228	None	R2 017 194	None
Deputy Chairman	R359 098	R20 952	R359 098	R20 952
Non-Executive directors	R239 399	R20 952	R239 399	R20 952
Audit Actuarial and Finance Committee Chairman	R154 305	None	R231 456	None
Audit Actuarial and Finance Committee Member	R77 152	None	R115 728	None
Risk and Compliance Committee Chairman	R108 624	None	R162 936	None
Risk and Compliance Committee Member	R54 312	None	R81 468	None
Human Resources Committee Chairman	R108 624	None	R162 936	None
Human Resources Committee Member	R54 312	None	R81 468	None
Policyholders' Interest Committee Chairman	R108 624	None	R162 936	None
Policyholders' Interest Committee Member	R54 312	None	R81 468	None
Social Ethics and Sustainability Committee Chairman	R108 624	None	R162 936	None
Social Ethics and Sustainability Member	R54 312	None	R81 468	None
Nominations Committee Chairman	R72 415	None	R108 622	None
Nominations Committee Member	R36 207	None	R54 311	None
Committee of Non-Executive Directors Chairman	None	None	None	None
Committee of Non-Executive Directors Members	None	None	None	None
Special *ad hoc* committees	None	R9 886	None	R14 829

The above table illustrates that the Board fees are to be increased by 0% and committee fees are to be increased by 50% (which will result in an 8,8% increase in total Board remuneration). This is to align the remuneration with the fees generally paid to the Boards of financial services institutions in South Africa.

Notice of annual general meeting continued

Reason and effect

The reason for and effect of Special Resolution No 1 are to approve the basis for calculating the remuneration payable by the Company to its non-executive directors for their services as directors of the Company for the period 1 July 2012 to 30 June 2013. Executive directors of the Company do not receive any fees for their services as directors of the Company.

B. Special Resolution No 2 – *Adoption of new Memorandum of Incorporation*

Resolved that:

"The Memorandum of Incorporation ("new MOI") of the Company, which will be posted on the Company's website from 30 March 2012 and copies of which MOI will be available for inspection at the registered office of the Company, is adopted in substitution of the Company's existing MOI, in terms of section 16(1)(c)(ii) of the Companies Act."

Reason and effect

The reason and effect of Special Resolution No 2 are to enable the Company to comply with the provisions of the Companies Act in order to adopt the new MOI in substitution of the existing MOI. The MOI regulates the relationship between the Company and its shareholders and between shareholders of the Company inter se.

C. Special Resolution No 3 – *General authority to provide financial assistance to related or inter-related entities*

Resolve that:

"As a general approval the Board of the Company may at any time and from time to time during the 2 (two) years from the passing hereof authorise the Company in terms of and subject to the provisions of section 45 of the Companies Act, to provide any type of direct or indirect financial assistance as defined in section 45 of the Companies Act, to any company or corporation that is related or inter-related to the Company, on such terms and conditions and for such amounts as the board of directors may determine."

Reason for and effect

The reason for and effect of Special Resolution No 3 are as follows:

The Company is from time to time, as an essential part of conducting its business, required to provide financial assistance to related or inter-related companies as part of its day-to-day operations in the form of loan funding, guarantees or general financial assistance as contemplated in section 45 of the Companies Act.

In terms of the Companies Act, which became effective on 1 May 2011, companies are required to obtain the approval of their shareholders by way of special resolution in order to provide financial assistance to any related or inter-related companies and the Company seeks general approval for the board of the Company to authorise the provision by the Company of all types of financial assistance to any such related or inter-related company as contemplated in section 45(2) of the Companies Act at any time and from time to time during the period of 2 (two) years commencing on the date of the Special Resolution.

Special Resolution No 3 will grant the Board of the Company the authority for the period of 2 (two) years commencing on the date of this Special Resolution to authorise the provision by the Company of financial assistance to any related or inter-related company as contemplated in section 45 of the Companies Act.

D. Special Resolution No 4 – *Authority to the Company or a subsidiary of the Company acquiring the Company's shares*

Resolve that:

"Pursuant to the Memorandum of Incorporation of the Company, the shareholders of the Company hereby approve by way of a general approval, whether by way of a single transaction or a series of transactions:

(a) the purchase of any of its securities by the Company or any subsidiary of the Company; and

(b) the purchase by and/or transfer to the Company of any of its securities purchased by any of its subsidiaries pursuant to (a) above,

upon such terms and conditions and in such amounts as the directors of the Company or its subsidiaries may from time to time decide, but subject to the provisions of the Companies Act, the JSE Listings Requirements 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:

- authority shall only be valid up to and including the date of the Company's next AGM, on condition that it does not extend beyond 15 (fifteen) months from the date of this Special Resolution;
- ordinary shares to be purchased pursuant to (a) above may only be purchased through the order book of the JSE trading system and done without any prior understanding or arrangement between the Company and/or the relevant subsidiary and the counterparty;
- the general authority to purchase securities in the Company pursuant to (a) above be limited in any 1 (one) financial year to a maximum of 20% (twenty percent) of the Company's issued share capital of that class at the time the authority is granted;
- purchases pursuant to (a) above must not be made at a price more than 10% (ten percent) above the weighted average of the market value of the securities for the 5 (five) business days immediately preceding the date of the repurchases;
- at any point in time, the Company may only appoint one agent to effect any repurchase on the Company's behalf or on behalf of any of its subsidiaries;
- the Board of the Company has resolved (i) to authorise a purchase of securities in the Company, (ii) that the Company has passed the solvency and liquidity test as contemplated in the Companies Act, and (iii) that, since the solvency and liquidity test was applied, no material change has occurred in the financial position of the Company and its subsidiaries ("the Group");
- the Company or its subsidiaries may not repurchase securities during a prohibited period unless a repurchase programme is in place where the dates and quantities of securities to be traded during the relevant period are fixed and where full details of the programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period;
- an announcement complying with paragraph 11.27 of the JSE Listings Requirements be published by the Company (i) when the Company and/or its subsidiaries have cumulatively repurchased 3% (three percent) of the number of ordinary shares in issue as at the time the general authority was given and (ii) thereafter, for each 3% (three percent) in aggregate of the initial number of ordinary shares in issue as at the time the general authority was given, acquired by the Company and/or its subsidiaries.

Reason and effect

The reason and effect of Special Resolution No 4 are to grant a general authority to enable the Company, or any subsidiary of the Company, to acquire securities which have been issued by the Company including the subsequent purchase or transfer to the Company of any subsidiary of such securities held by any subsidiary.

Statement of intent

The Board of Directors shall authorise and implement a purchase of the Company's securities only if prevailing circumstances warrant same, and should the Board, having considered all reasonably foreseeable financial circumstances of the Company at that time, reasonably conclude that the following requirements have been and will be met:

- the Company will ensure that its sponsor will provide the necessary letter on the adequacy of the working capital in terms of the JSE Listings Requirements, prior to the commencement of any acquisition of the Company's shares on the open market;
- after an acquisition, the Company will continue to comply with the JSE Listings Requirements concerning shareholder spread requirements;
- comply with the Solvency and Liquidity tests as required in terms of the Companies Act for the designated period.
- the Company and the Group will be able to pay their debts as they become due in the ordinary course of business for a period of 12 (twelve) months after the date on which the Board considers that the purchase will satisfy the immediately preceding requirement and this requirement;
- the issued share capital and reserves of the Company and the Group will be adequate for the purposes of the business of the Company and the Group for a period of 12 (twelve) months after the date of the notice of the AGM of the Company; and
- the Company and the Group will have adequate working capital for ordinary business purposes for a period of 12 (twelve) months after the date of this notice.

Notice of annual general meeting continued

Disclosures in the Integrated Annual Report in terms of paragraph 11.26(b) of the JSE Listings Requirements

The following disclosures are required in terms of paragraph 11.26 (b) of the JSE Listings Requirements, which appear in the Integrated Annual Report and are provided for purposes of this Special Resolution:

- the Company's directors and management (pages 32 and 33);
- major shareholders (page 7);
- directors' interests in securities (page 177);
- share capital of the Company (page 271);
- material litigation (page 292); and
- material changes (page 292).

Directors' responsibility statement

The Board, whose names appear on pages 32 to 33 of the Integrated Annual Report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this Special Resolution No 4, and certify that:

- to the best of their knowledge and belief there are no other facts, the omission of which would make any statement false or misleading;
- they have made all reasonable enquiries in this regard; and
- the above Special Resolution contains all information required.

7. Ordinary Resolution No 7 – To authorise any director of the Company, and where applicable the secretary of the Company ("Company Secretary"), to implement the aforesaid ordinary and special resolutions

Resolved that:

"Any director of the Company and, where applicable, the Company Secretary, be and is hereby authorised to do all such things, sign all such documentation and take all such actions as may be necessary to implement the aforesaid Ordinary and Special Resolutions."

Reason and effect

The reason for and effect of Ordinary Resolution No 7 are to grant the authorisation to a director or the Company Secretary to implement the ordinary and special resolutions.

General notes

1. The record date for the distribution of the notice of the AGM was set as the close of business on Friday, 16 March 2012.
2. The record date to participate in, attend and vote at the AGM was set as the close of business on Friday, 25 May 2012. Therefore the last day to trade in the Company's shares on the JSE in order to be recorded in the share register on the record date is Friday, 18 May 2012.
3. A shareholder entitled to participate in, attend, speak and vote at the AGM may appoint a proxy to participate in, attend, speak and vote in his or her stead.
4. The votes of shares held by the Sanlam Share Incentive Trust will not be taken into account at the AGM for approval of any resolution proposed in terms of the JSE Listings Requirements.
5. 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 (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (Private Bag X105, Marshalltown, 2107). The form of proxy is requested to be received by no later than 14:00 on Monday, 4 June 2012.
6. Sanlam ordinary shareholders who hold their dematerialised Sanlam ordinary shares through a CSDP, bank or broker nominee ("Sanlam dematerialised shareholders") must provide their CSDP, bank or broker nominee with their voting instructions, in accordance with the agreement between them and their CSDP, bank or broker nominee. Should Sanlam dematerialised shareholders wish to cast their votes at the AGM in person, they must contact their CSDP, bank or broker nominee to issue them with the appropriate letter of authority. Sanlam does not accept the responsibility for any failure on the part of the CSDP, bank or broker nominee with regard hereto.

7. 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 form of proxy. Such person enjoys the same rights at the AGM as the shareholding corporation/company.
8. A shareholder 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 AGM.
9. 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.
10. 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.
11. 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 AGM. If a poll is so demanded, the resolution put to the vote shall be decided on a poll.
12. Sanlam's existing MOI provides for an electronic voting process, for which purposes electronic handset devices will be used.
13. Electronic participation – Shareholders are advised that they, or their proxies, will be able to participate in the meeting by way of electronic communication but will not be able to vote during the meeting. Such shareholders, should they wish to have their votes counted at the meeting, must act in accordance with the general instructions contained within this notice. Telephone lines will be made available for this purpose. Shareholders who wish to participate by way of electronic communication must register such request in writing with the Company Secretary by no later than 12:00 on Friday, 25 May 2012, and provide their email and mobile/cell/ telephone contact details. Each participant will be contacted via email and/or SMS and will be provided with a code and the relevant telephone number to allow them to dial in. The cost of the shareholder's phone call will be for his/her own expense. The shareholder acknowledges that the telecommunication lines are provided by a third party and indemnifies the Company against any claim arising in any way from the use or possession of the telecommunication lines. We kindly request callers to dial in from 13:50 on the day of the AGM. All shareholders who would like to call into the AGM should dial +27 21 916 3323.

By order of the Board
Sana-Ullah Bray
Company Secretary

Bellville
7 March 2012

**The meeting will start promptly at 14:00. Due to the electronic voting system, no late registrations will be allowed.*

Shareholders' diary and administration

Shareholders' diary

Financial year-end	31 December
Annual general meeting	6 June 2012

Reports

▪ Interim report for 30 June 2012	September 2012
▪ Announcement of the results for the year ended 31 December 2012	March 2013
▪ Integrated annual report for the year ended 31 December 2012	April 2013

Dividends

▪ Dividend for 2011 declared	7 March 2012
▪ Last date to trade for 2011 dividend	19 April 2012
▪ Shares will trade ex-dividend from	20 April 2012
▪ Record date for 2011 dividend	26 April 2012
▪ Payment of dividend for 2011	9 May 2012
▪ Declaration of dividend for 2012	March 2013
▪ Payment of dividend for 2012	May 2013

To allow for the dividend calculation, Sanlam's share register (including Sanlam's two nominee companies, namely Sanlam Share Account (Pty) Limited and Sanlam Fundshares Nominee (Pty) Limited), will be closed for all transfers, off-market transactions and dematerialisations or rematerialisations between 20 April 2012 and 26 April 2012, both dates included.

Transactions on the JSE via STRATE are not affected by this arrangement.

Administration

Registered name

Sanlam Limited
(Registration number 1959/001562/06)
JSE share code (primary listing): SLM
NSX share code: SLA
ISIN: ZAE000070660
Incorporated in South Africa

Group secretary

Sana-Ullah Bray

Registered office

2 Strand Road, Bellville 7530,
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Telephone +27 (0)21 947 9111
Fax +27 (0)21 947 3670

Postal address

PO Box 1, Sanlamhof 7532,
South Africa

Sponsor

Deutsche Securities (SA) (Pty) Limited

Internet address

http://www.sanlam.co.za

Investor relations

Wikus Olivier
wikus.olivier@sanlam.co.za

Transfer secretaries

Computershare Investor Services (Pty) Limited
(Registration number 2004/003647/07)
70 Marshall Street, Johannesburg 2001, South Africa
PO Box 61051, Marshalltown 2107, South Africa
Telephone +27 (0)11 373 0000
Fax +27 (0)11 688 5200

BASTION GRAPHICS

Sanlam

www.sanlam.co.za