



# 2006 ANNUAL RESULTS Sanlam Group



Registered name: Sanlam Limited  
(Registration number 1959/001562/06)

JSE share code: SLM  
NSX share code: SLA  
ISIN number: ZAE000070660

## **Audited results for the year ended 31 December 2006**

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# Sanlam Group Results 2006

## *Key features*

### **Earnings**

- Headline earnings per share up 33%
- Core earnings per share up 17%
- Dividend per share of 77 cents, increase of 18%

### **Business volumes**

- Total new business volumes up 30% to R80,6 billion
- Net fund inflows of R14,1 billion (before PIC withdrawal)
- Sanlam Investments assets under management up 24% to R406 billion

### **Embedded Value**

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

### **Capital management**

- 4,3% of issued shares bought back during the year for R1,6 billion
- Subordinated debt issue of R2 billion in August 2006

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

## Notes

- (1) Core earnings = net result from financial services and net investment income (including dividends received from non-operating associates).
- (2) Headline earnings = core earnings, net investment surpluses, secondary tax on companies and equity-accounted headline earnings less dividends received from non-operating associates.
- (3) Administration costs as a percentage of financial services income earned by the shareholders' fund less sales remuneration.
- (4) Result from financial services as a percentage of financial services income earned by the shareholders' fund less sales remuneration.
- (5) PVNBP = present value of new business premiums and is equal to the present value of new recurring premiums plus single premiums.
- (6) Life new business margin = value of new business as a percentage of life insurance PVNBP.
- (7) Growth in embedded value per share (with dividends paid, capital movements and cost of treasury shares acquired reversed) as a percentage of embedded value per share at the beginning of the period.

## EXECUTIVE REVIEW

### Overview

The success of Sanlam's strategy to build a balanced, robust and diversified financial services group is evident from another year of strong financial performance in 2006. The Group's focus on client-centric financial solutions, enhanced distribution and improved capital management has contributed largely to the overall sound results. The overall strong performance of investment markets and the South African economy during 2006 was also conducive to a favourable operating environment. Headline earnings for the year of R6 838 million improved by 18% on 2005. The benefit of Sanlam's recent share buy-back programme is reflected in the increase of 33% in headline earnings per share.

Total new business inflows of R80,6 billion for the year were 30% higher than for the corresponding period in 2005. The improved level of inflows experienced since the second half of 2005 has been maintained but the growth rate has moderated since June 2006, due to the relatively higher comparative base towards the end of 2005. The overall new business performance is impressive in the current competitive environment; a tribute to the Group's strategy to increase its distribution capacity and reach. The R2 billion contribution made by the Developing Markets' life businesses reflects the value added by the acquisitions of African Life and the controlling interest in Channel Life.

The Group's operating performance for the year was satisfactory with the net result from financial services increasing by 14% compared to the same period in 2005. An outstanding performance by the Investment Management businesses was to an extent offset by the anticipated decline in short-term insurance and Group life underwriting margins. The disposal of the Group's interest in Absa during July 2005, combined with the application of excess capital over the past 12 months, complicated a direct comparison of the results for 2005 and 2006. It contributed to a 20% reduction in net investment income on the reduced investment asset base. Core earnings consequently increased by only 4% compared to 2005, but improved by 17% on a per share basis.

The value of new life insurance business of R434 million is 49% up on 2005, a particularly satisfying performance. In addition to this, Sanlam Personal Finance achieved a value of new non-life business of R64 million. Sanlam's embedded value per share at 31 December 2006 amounted to R20,47. The growth in embedded value per share of 31% is more than double the Group's target rate for the year.

### Delivering on strategy

Sanlam's performance for the year to December 2006 reflects the consistent progress made on all the elements of the strategy we began implementing three years ago. The year has seen a widening of our client base into both the affluent and entry-level markets through solution diversification and strengthening of our sales force.

By leveraging the Group's existing and sizeable client base, and by building on our strong relationships with clients, we have continued to drive efficiencies and grow business volumes significantly across all business clusters – off substantially less capital. The acquisition of African Life and Channel Life established Sanlam as an important player in the entry-level market. The joint venture agreement with Shriram Life Insurance in India as well as the acquisition of equity stakes in the UK-based intermediary distribution companies Intrinsic and recently Nucleus, provide further international diversification and growth opportunities.

Shareholders are referred to the joint announcement on 27 February 2007 between Santam and Sanlam in terms of which Santam proposed a limited voluntary buy back of 10% of its issued share capital. Sanlam extended an offer to Santam shareholders to acquire any shares tendered in excess of the Santam 10% limit. We believe that an increase in our Santam shareholding at the indicated offer price will be value accretive to Sanlam shareholders and will further contribute to a closer business relationship between Sanlam and Santam. Santam also announced its intention to

facilitate the introduction of a 10% black empowerment Santam shareholder group. Sanlam fully supports this initiative as a business imperative for Santam.

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

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

Satisfactory progress has been made towards meeting the transformation targets of the Financial Sector Charter. The Sanlam Broad-based Employee Share Plan was launched during 2006 as part of the investment in our human capital. In terms of the Share Plan some 1,7 million Sanlam shares were transferred to more than 5 000 Group employees that do not participate in other Group share schemes, ensuring that all employees share in the future growth of the Group.

We have taken significant strides in transforming Sanlam from a mutual insurer into a world-class financial services Group. While this process will continue to evolve, the benefits of the change so far are already evident in our ability to deliver strong results in a competitive environment.

## Capital efficiency

Effective management of Sanlam's capital base remains key. By making strategic investments, building a balanced portfolio and applying capital in the most efficient manner, we have made significant gains in capital utilisation. In addition, Sanlam Life's debt issue of R2 billion reduced the volatility in Sanlam Life's capital portfolio, as well as the Group's economic capital requirement.

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

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

## Dividend

The strong financial performance during 2006 enabled the Board to increase the total dividend distribution by some 15% and still maintain a 1,2 times cash operating earnings cover. As a result of the reduction in the number of shares in issue following the share buy-backs during the year, the dividend per share will increase by 18% on the 65 cents per share paid in 2005 to 77 cents per share.

To allow for the dividend calculation, Sanlam's share register (including Sanlam's two nominee companies namely Sanlam Share Account (Pty) Ltd and Sanlam Fundshares Nominee (Pty) Ltd) will be closed for all transfers, off market transactions and dematerialisations or rematerialisations from 20 April 2007 to 26 April 2007, both dates included.

The last date of trade to qualify for this dividend will be Thursday, 19 April 2007 and shares will trade ex div from Friday, 20 April 2007.

## Looking ahead

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

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

We support and are working with the regulatory authorities in their efforts to create a transparent and cost efficient savings environment in South Africa. We are confident that we are well positioned to operate effectively within the new and unfolding regulatory regime.

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

## COMMENTS ON THE RESULTS

### Introduction

The audited Sanlam group results for the year ended 31 December 2006 are presented based on and in compliance with International Financial Reporting Standards (IFRS).

The past financial year was characterised by the impact of increased consumerism and competition within the industry, which put pressure on pricing and margins across the board. Despite these challenges the Group continued to deliver strong results. The sale of the shareholders' fund investment in Absa in 2005, and the subsequent application of the proceeds, complicated a direct comparison of the 2006 and 2005 results.

### Earnings

<b>Shareholders' fund summarised income statement for the year ended 31 December</b>			
R million	2006	2005	△
Net result from financial services	2 616	2 300	14%
Net investment income	786	980	-20%
<b>CORE EARNINGS</b>	<b>3 402</b>	<b>3 280</b>	<b>4%</b>
Net broad-based employee share plan	(19)	-	
Net equity-accounted headline earnings	164	478	(66%)
Financial claims	-	(590)	
Investment surpluses (excluding fund transfers)	3 215	2 003	61%
Amortisation of value of business acquired	(45)	-	
Net Secondary Tax on Companies (STC)	(84)	(88)	5%
<b>Earnings before fund transfers</b>	<b>6 633</b>	<b>5 083</b>	<b>31%</b>
Fund transfers	205	730	
<b>HEADLINE EARNINGS</b>	<b>6 838</b>	<b>5 813</b>	<b>18%</b>
Other non-headline earnings	5	(8)	
Profit on disposal of associates and subsidiaries	132	5 125	
Impairment of investments and goodwill	(30)	(3)	
<b>Attributable earnings</b>	<b>6 945</b>	<b>10 927</b>	<b>-36%</b>
Net result from financial services	2 616	2 300	14%
Net investment return	4 329	8 627	
<b>Attributable earnings</b>	<b>6 945</b>	<b>10 927</b>	<b>-36%</b>

### Core earnings

**Core earnings**, a measure of the Group's 'normalised' earnings, of **R3 402 million** for the year are 4% up on 2005. Core earnings comprise the net result from financial services and net investment income earned on the shareholders' fund, but exclude abnormal and non-recurring items as well as investment surpluses. Net investment income consists of dividends, interest and rental income earned on the shareholders' fund discretionary investment portfolio as well as the margin earned on the Group's hybrid debt and preference share portfolios, and also includes dividends received



from non-operating associated companies and joint ventures. It however excludes the equity-accounted retained earnings of these operations. The marginal increase in core earnings is the result of a 14% increase in the net result from financial services for the period being offset by a 20% decline in net investment income over the same period. On a per share basis, core earnings increased by 17%, reflecting the 11% reduction in the weighted average number of issued shares following the share buy-back scheme in 2005 and continued market buy-backs during 2006.

The 14% improvement in **net result from financial services** is substantially due to an excellent performance by Sanlam Investments and a maiden contribution from the new acquisitions in Sanlam Developing Markets, partially offset by a disappointing result by Sanlam Employee Benefits.

<b>Net result from financial services for the year ended 31 December</b>			
R million	2006	2005	△
Sanlam Personal Finance	1 290	1 285	0%
Sanlam Developing Markets	207	(31)	
Sanlam Employee Benefits	50	159	-69%
Sanlam Investments	730	528	38%
Sanlam Capital Markets	141	126	12%
Short-term insurance	342	349	-2%
Independent Financial Services	16	22	-27%
Corporate expenses	(160)	(138)	-16%
<b>Net result from financial services</b>	<b>2 616</b>	<b>2 300</b>	<b>14%</b>

- **Sanlam Personal Finance (SPF)** recorded stable and satisfactory results for the year as the earnings in both its insurance and investment businesses benefited from increased business flows and the positive impact of the strong equity markets on fund values and associated fees earned. SPF achieved a gross result from financial services of R1 697 million, a 10% increase on 2005. Non-life business earnings increased from R109 million in 2005 to R176 million in 2006 and are increasingly making an important contribution to the SPF earnings growth. After tax and minority interest the net result from financial services of R1 290 million is only marginally up on 2005. This can essentially be ascribed to a higher effective tax rate in 2006 as the potential benefit of available tax losses were exhausted during 2005.
- The **Sanlam Developing Markets (SDM)** businesses (African Life and Channel Life) performed in line with expectations despite the unavoidable management attention required during the integration process. Gross operating profit for the year amounted to R421 million. Net of taxation and the minority shareholders' interest in Channel Life and African Life's Africa operations, earnings attributable to Sanlam shareholders amounted to R207 million for the period. The results for the second half was almost double that reported for the first half of 2006. The first half performance was however affected by a degree of prudent reporting due to operational and system problems experienced in African Life SA, with some compensating upside in the second half. Channel Life continued on its strong new business growth while Shriram Life in India reported promising maiden new business results, albeit still on a relatively low level. Overall, the SDM businesses are well established within the Group and geared for future growth.
- The sharp fall in the contribution from **Sanlam Employee Benefits** is disappointing. Both gross earnings of R70 million and earnings net of tax and minorities of R50 million are some 70% lower than the results in 2005. Disappointing new business flows, coupled with a sustained level of outflows, are eroding the SEB fee base. At the same time, competitive pricing and the expected normalisation of claims experience, resulted in reduced margins and a sharp drop in reported risk profits. A further major contributor to the negative performance is an increase in

administration losses. In preparation for the transfer of the retirement fund administration business to Coris, additional costs were incurred and certain provisions created to cover potential claims emanating from administration-related disputes.

- The majority of **Sanlam Investments'** businesses benefited from the strong equity markets, which boosted gross operating results to R1 077 million for the year, a 54% improvement on 2005. After tax, income attributable to Sanlam increased by 38% to R730 million. This exceptional performance is founded on a sustained turnaround in its investment performance and an increase in its business base. This contributed to an increase in funds under management (also assisted by equity market growth) and consequently a higher level of management fees, including a major increase in the level of performance fees earned.
- **Sanlam Capital Markets** reported another good set of results. Net operating profit of R141 million is only 12% up on 2005 but represents a return on equity of 35%, well ahead of its internal target of 25%. All its business units contributed to this strong performance after a relatively slow start to the year.
- **Santam's** gross operating earnings for the year of R906 million are 11% down on the 2005 performance, the result of an anticipated moderation in the underwriting cycle. On a net basis the 2006 performance of R342 million is only 2% lower than in 2005. The smaller reduction in net earnings is in part due to an increase from 50,7% in 2005 to 54,7% in the Sanlam shareholders' fund holding in Santam. An increase in claims experienced resulted in an average underwriting margin for the year of 6,1% compared to an average margin of 8,7% for 2005. The average claims ratio (based on net earned premiums) for the year is 69% against 65,3% for 2005. The lower underwriting results were in part compensated for by an increase in interest earned on working capital balances from a combination of improved working capital management practices and an increase in interest rates during the year.
- The net earnings contribution from **Independent Financial Services** of R16 million is 27% below that of 2005. This is mainly attributable to a reduction in the Group's interest in the Punter Southall Group from 61% at the end of 2005 to 27% at the end of 2006, as well as anticipated losses at the newly established businesses in the UK.
- The 16% increase in net **corporate costs** to R160 million is mainly due to start-up expenditure on the Group's loyalty programme.

### Investment income

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

### Headline earnings

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

Net result from financial services contributed R2 616 million (38%) to headline earnings, up 14% on 2005, with the balance essentially reflecting an increase in the aggregate investment return on the shareholders' discretionary capital. As referred to above, net investment income of R786 million is 20% down on 2005, while net realised and unrealised investment surpluses increased by 60% due to the strong equity markets at year-end. This was partially offset by the net effect of:

- A 66% reduction in **equity-accounted** earnings. The 2005 equity-accounted earnings were boosted by Absa's earnings up to the sale of the shareholders' fund's stake in Absa in July 2005 as well as, following the initial block of shares acquired in African Life, a 20% interest in African Life's earnings from March 2005 to the final implementation of the transaction and the

consolidation of the African Life investment from December 2005. The 2006 equity-accounted earnings of R164 million are limited to the appropriate share of the earnings of the investment in associated companies in Santam, Sanlam Life and Sanlam Properties.

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

### Attributable earnings

Earnings attributable to shareholders decreased by 36% during 2006. This is mainly due to the once-off profit of R5 billion realised on the disposal of the shareholders' fund interest in Absa during 2005. Excluding profit on the disposal of subsidiaries and associates, attributable earnings increased by 17%.

## Business volumes

### New business flows

Total new business inflows for the year are 30% higher than for the corresponding period in 2005. Growth in both life and investment business remained very strong and exceeded the comparative period in 2005 by 24% and 34% respectively. The growth in life business includes the impact of the first time inclusion of African Life, Channel Life and Shriram in the 2006 results; excluding Sanlam Developing Markets, life business increased by 8%.

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

<b>New Business Volumes for the year ended 31 December</b>			
R million	2006	2005	△
Life business	13 933	11 220	24%
Sanlam Personal Finance	9 333	8 248	13%
Sanlam Developing Markets	2 003	152	
Sanlam Employee Benefits	2 180	2 699	(19%)
Sanlam Investments	417	121	245%
Investment business	48 574	36 295	34%
Sanlam Personal Finance	12 493	9 631	30%
Sanlam Investments	36 081	26 664	35%
Short-term insurance	10 203	8 871	15%
<b>New business excluding white label</b>	<b>72 710</b>	<b>56 386</b>	<b>29%</b>
White label	7 938	5 838	36%
Collective Investment Schemes	7 647	5 838	31%
Sanlam Developing Markets	291	-	
<b>Total new business volumes</b>	<b>80 648</b>	<b>62 224</b>	<b>30%</b>

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

- **SPF Individual Life** sales in South Africa are up 14% on 2005.
  - New *recurring premium* sales increased by 12% compared to 2005, driven by an 8% increase in the number of advisers and a 13% increase in their average premium size.
  - Total *single premium* sales up 14% on 2005. SPF's Glacier Life insurance product range recorded excellent growth of 37%.
- **Merchant Investors** in the UK recorded a satisfactory 13% growth in new business volumes.
- The first time inclusion of **Sanlam Developing Markets** inflows of R2 003 million made a material contribution to the strong growth in individual life flows, with both African Life and Channel Life performing to plan.
- **SEB Group Life** inflows are 19% down on the comparable 2005 inflows, a disappointing result following on the 39% growth reported for the six months to June. Although volatility in new business flows is typical to the nature of group life business, the low level of new business volumes in SEB since June 2006 must also be attributed to a difficult and very competitive market.

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

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

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

## Net business flows

Net fund outflows of R7,5 billion was recorded for 2006 compared to net inflows of R6,3 billion in 2005. Total fund inflows increased by 28% on 2005 while outflows in respect of fund withdrawals and policy benefits were up by 50%. Outflows in 2006 include a R21,6 billion withdrawal by the Public Investment Corporation (PIC) (2005: R6 billion) as part of an overall adjustment of its investment strategy that resulted in a pro rata reduction in their mandate allocation to all the major asset managers. Sanlam Investments' profitability is not expected to be materially affected by the withdrawal as the funds withdrawn were managed at marginal fees. At the same time a new performance based fee structure has been agreed on the remaining PIC funds. Excluding the PIC withdrawals, an overall positive net inflow of R14,1 billion was achieved compared to an inflow of R12,3 billion in 2005.

Sanlam Investments' net flows amounted to R6,7 billion compared to R6,6 billion in 2005 (excluding the PIC withdrawals). Sanlam Investments' international businesses performed extremely well with R3,3 billion in net inflows compared to R1,5 billion in 2005.

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

## Value of new business

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

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

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

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

## Embedded value

The Group's embedded value of **R46,8 billion** as at 31 December 2006 is 23% up on the R38,2 billion reported at 31 December 2005, after allowing for the R1,5 billion dividend paid in respect of the 2005 financial year as well as R1,6 billion spent on the buy-back of shares during the year. Embedded value per share increased by 27% to R20,47, reflecting the accretion resulting from the share buy-back programme. The discount of Sanlam's share price to embedded value increased from 5,9% at 31 December 2005 to 10,6% at 31 December 2006.

<b>Embedded value</b>			
R million	2006	2005	△
<b>Net asset value (at fair value)</b>	<b>37 491</b>	30 592	23%
Goodwill on life company acquisitions	1 425	1 328	
Non-life Group operations	13 210	9 702	36%
Portfolio investments	22 856	19 562	17%
<b>Adjustments</b>	<b>(2 943)</b>	(2 962)	-1%
<b>Adjusted net asset value</b>	<b>34 548</b>	27 630	25%
<b>Net value of life in-force business</b>	<b>12 263</b>	10 574	16%
<b>Embedded value</b>	<b>46 811</b>	38 204	23%
<b>Embedded value per share (cents)</b>	<b>2 047</b>	1 615	27%
<b>Share price (cents)</b>	<b>1 830</b>	1 519	20%
<b>Discount to embedded value</b>	<b>10,6%</b>	5,9%	

In line with our diversification drive, non-life operations are making an increasing contribution to the Group Embedded Value. As at the end of December 2006 these operations were valued at R13,2 billion and accounted for 28% of Group Embedded Value.

Taking into account the share buy-backs during the year as well as the dividend paid, the return on embedded value for 2006 amounted to 30,7%. On a per share basis the growth amounted to 31%, compared with growth of 24,4% in 2005.

Growth from non-life operations amounted to R4,4 billion (45% growth), whereas the growth from life insurance business amounted to R3,3 billion (31% growth).



## Solvency

All *life insurance* companies in the Group were adequately capitalised at the end of December 2006. The capital of Sanlam Life Insurance Limited amounted to R34,2 billion, compared to R27,8 billion as at 31 December 2005. The Capital Adequacy Requirements (CAR) were covered 4,4 times by regulatory capital at the end of December 2006, compared to 4,0 times as at 31 December 2005. There were no policyholder portfolios at 31 December 2006 with negative stabilisation reserves.

*Short-term insurer*, Santam, maintained its healthy solvency position and its shareholder funds constituted 62% of net earned premiums at the end of December 2006, the same level as at 31 December 2005.

Although the Group's capital base was reduced by R1,6 billion as a result of the buy-back of shares during the year ended 31 December 2006, the Group remained in a strong solvency position at 31 December 2006. The Sanlam Limited Board, as required by the JSE Listing Requirements, is of opinion that after the share buy-back, Sanlam Limited and the Group has sufficient share capital, reserves and working capital for ordinary business purposes and to service its debt during the following 12 months and that the Group's assets will exceed its liabilities during this period.

Roy Andersen  
Chairman

Johan van Zyl  
Group Chief Executive

Sanlam Limited  
Cape Town  
7 March 2007

# Financial Statements for the year ended 31 December 2006

## ACCOUNTING POLICIES AND ACTUARIAL BASIS

### Basis of presentation

The accounting policies adopted for the purposes of the financial statements comply with International Financial Reporting Standards, and are consistent with those applied in the 2005 financial statements. The policy liabilities and profit entitlement rules are determined in accordance with prevailing legislation, generally accepted actuarial practice and the stipulations contained in the demutualisation proposal. There have been no material changes in the financial soundness valuation basis since 31 December 2005, apart from changes in the economic assumptions (refer to page 42 for the major assumptions applied).

### Application of new and revised standards

The following new or revised IFRSs and interpretation have effective dates applicable to the Group's 2006 financial year:

- *Amendment to IAS 19 Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*
- *Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation*
- *Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Cash Flow Hedge Accounting of Forecast Intragroup Transactions*
- *Amendments to IAS 39 Financial Instruments: Recognition and Measurement - The Fair Value Option*
- *Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantee Contracts*
- *IFRIC 4 Determining whether an arrangement contains a lease*

The application of these standards and interpretation did not have a significant impact on the Group's reported results and cash flows for the year ended 31 December 2006 and the financial position at 31 December 2006. Disclosure in the notes to the financial statements has been amended in accordance with the requirements of the revised IAS 19 and IAS 39.

The following new or revised IFRSs and interpretations have effective dates applicable to the Group's 2007 financial year (unless otherwise indicated):

- *IFRS 7 Financial Instruments: Disclosures*
- *Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures*
- *IFRS 8 Operating Segments* (effective 2009 financial year)
- *IFRIC 8 Scope of IFRS 2*
- *IFRIC 9 Reassessment of Embedded Derivatives*
- *IFRIC 10 Interim Financial Reporting and Impairment*
- *IFRIC 11 IFRS 2: Group and Treasury Share Transactions* (effective 2008 financial year)
- *IFRIC 12 Service Concession Arrangements* (effective 2008 financial year)
- *AC 503 Accounting for Black Economic Empowerment (BEE) Transactions*

The Group has not early adopted any of these standards or interpretations. The application of these standards and interpretations in the 2007 financial reporting period is not expected to have a significant impact on the Group's reported results, financial position and cash flows.



## GROUP BALANCE SHEET at 31 December 2006

	2006 R million	2005 R million
<b>ASSETS</b>		
Property and equipment	259	249
Owner-occupied properties	530	492
Goodwill	2 163	2 174
Value of business acquired	977	982
Deferred acquisition costs	1 397	1 155
Long-term reinsurance assets	427	389
Investments	280 627	232 851
Properties	14 602	12 748
Equity-accounted investments	3 417	1 037
Equities and similar securities	141 456	120 763
Public sector stocks and loans	53 921	47 998
Debentures, insurance policies, preference shares and other loans	31 743	21 173
Cash, deposits and similar securities	35 488	29 132
Deferred tax	549	372
Short-term insurance technical assets	2 288	2 372
Working capital assets	46 265	35 716
Trade and other receivables	37 103	27 427
Cash, deposits and similar securities	9 162	8 289
<b>Total assets</b>	<b>335 482</b>	<b>276 752</b>
<b>EQUITY AND LIABILITIES</b>		
Shareholders' fund	29 121	25 020
Minority shareholders' interest	3 934	3 443
<b>Total equity</b>	<b>33 055</b>	<b>28 463</b>
Long-term policy liabilities	237 864	198 234
Insurance contracts	125 517	109 591
Investment contracts	112 347	88 643
Term finance	5 760	2 879
Interest-bearing liabilities matched by assets	3 689	2 835
Other interest-bearing liabilities	2 071	44
External investors in consolidated funds	8 010	6 030
Cell owners' interest	329	268
Deferred tax	1 929	1 623
Short-term insurance technical provisions	7 752	6 702
Working capital liabilities	40 783	32 553
Trade and other payables	37 801	30 071
Provisions	996	886
Taxation	1 986	1 596
<b>Total equity and liabilities</b>	<b>335 482</b>	<b>276 752</b>

# GROUP INCOME STATEMENT for the year ended 31 December 2006

	Notes	2006 R million	2005 R million
<b>Net income</b>		<b>69 960</b>	63 307
Financial services income		24 221	20 393
Reinsurance premiums paid		(2 432)	(2 339)
Reinsurance commission received		383	445
Investment income		12 022	10 722
Investment surpluses		37 903	35 282
Finance cost – margin business		(223)	(293)
Change in fair value of external investors liability		(1 914)	(903)
<b>Net insurance and investment contract benefits and claims</b>		<b>(50 072)</b>	(41 440)
Long-term insurance and investment contract benefits		(43 272)	(35 164)
Enhanced early termination benefits		-	(620)
Short-term insurance claims		(8 086)	(6 904)
Reinsurance claims received		1 286	1 248
<b>Expenses</b>		<b>(8 956)</b>	(7 769)
Sales remuneration		(3 300)	(2 632)
Administration costs		(5 656)	(5 137)
<b>Impairment of investments and goodwill</b>		<b>(30)</b>	(12)
<b>Amortisation of value of business acquired</b>		<b>(45)</b>	-
<b>Net operating result</b>		<b>10 857</b>	14 086
Equity-accounted earnings		423	944
Finance cost - other		(114)	(136)
<b>Profit before tax</b>		<b>11 166</b>	14 894
Taxation	1	(3 070)	(2 803)
Shareholders' fund		(1 894)	(1 684)
Policyholders' fund		(1 176)	(1 119)
<b>Profit for the year</b>		<b>8 096</b>	12 091
<b>Attributable to:</b>			
Shareholders' fund		6 945	10 927
Minority shareholders' interest		1 151	1 164
		<b>8 096</b>	12 091
<b>Earnings attributable to shareholders of the company (cents):</b>			
Basic earnings per share	2	315,2	439,2
Diluted earnings per share	2	309,6	432,0

# GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2006

	2006 R million	2005 R million
<b>Shareholders' fund:</b>		
Balance at beginning of year	25 020	19 685
Total recognised income	7 263	11 008
Profit for the year	6 945	10 927
Equity-accounted movement in associated companies' reserves	-	15
Movement in foreign currency translation reserve	318	66
Net realised investment surpluses on treasury shares	(188)	25
Share-based payments	74	64
Dividends paid <sup>(1)</sup>	(1 467)	(1 295)
Acquired through business combinations	-	(31)
Shares cancelled	(1 644)	(4 446)
Cost of net treasury shares sold <sup>(2)</sup>	63	10
<b>Balance at end of year</b>	<b>29 121</b>	<b>25 020</b>
<b>Minority shareholders' interest:</b>		
Balance at beginning of year	3 443	3 515
Total recognised income	1 257	1 163
Profit for the year	1 151	1 164
Movement in foreign currency translation reserve	106	(1)
Share-based payments	9	5
Dividends paid	(668)	(788)
Acquisitions, disposals and other movements in minority interests	(107)	(452)
<b>Balance at end of year</b>	<b>3 934</b>	<b>3 443</b>
 Shareholders' fund	 25 020	 19 685
Minority shareholders' interest	3 443	3 515
<b>Total equity at beginning of year</b>	<b>28 463</b>	<b>23 200</b>
 Shareholders' fund	 29 121	 25 020
Minority shareholders' interest	3 934	3 443
<b>Total equity at end of year</b>	<b>33 055</b>	<b>28 463</b>

(1) Dividend of 65 cents per share paid during 2006 (2005: 50 cents per share) in respect of the 2005 financial year.

(2) Comprises movement in cost of shares held by subsidiaries and the share incentive trust.

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## GROUP CASH FLOW STATEMENT

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for the year ended 31 December 2006

	2006 R million	2005 R million
Net cash (outflow)/inflow from operating activities	(5 436)	1 938
Net cash inflow from investment activities	11 704	13 069
Net cash inflow/(outflow) from financing activities	971	(6 919)
<b>Net increase in cash and cash equivalents</b>	<b>7 239</b>	<b>8 088</b>
Cash, deposits and similar securities at beginning of year	37 408	29 320
<b>Cash, deposits and similar securities at end of year</b>	<b>44 647</b>	<b>37 408</b>

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## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

	2006 R million	2005 R million
<b>1. TAXATION</b>		
Result from financial services	850	747
Investment income	184	150
Investment surpluses	714	330
Profit on disposal of subsidiaries	3	-
Profit on disposal of associated companies	4	534
Enhanced early termination benefits	-	(180)
Secondary Tax on Companies	139	103
<b>Tax expense – shareholders’ fund</b>	<b>1 894</b>	<b>1 684</b>
<b>Tax expense – policyholders’ fund</b>	<b>1 176</b>	<b>1 119</b>
<b>Total income tax charged to income statement</b>	<b>3 070</b>	<b>2 803</b>

	Cents	Cents
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## 2. EARNINGS PER SHARE

### Basic earnings per share:

Net result from financial services	118,7	92,5
Core earnings	154,4	131,8
Headline earnings	310,4	233,7
Profit attributable to shareholders’ fund	315,2	439,2

### Diluted earnings per share:

Net result from financial services	116,6	90,9
Core earnings	151,7	129,7
Headline earnings	304,9	229,8
Profit attributable to shareholders’ fund	309,6	432,0
	R million	R million

### Analysis of earnings (refer shareholders’ fund income statement on page 28):

Net result from financial services	2 616	2 300
Core earnings	3 402	3 280
Headline earnings	6 838	5 813
Profit attributable to shareholders’ fund	6 945	10 927

## NOTES TO THE FINANCIAL STATEMENTS (continued)

	2006 million	2005 million
<b>2. EARNINGS PER SHARE (continued)</b>		
<b>Number of shares:</b>		
Number of ordinary shares in issue at beginning of year	2 408,6	2 767,6
Less: Weighted average number of shares cancelled	(43,8)	(76,4)
Less: Weighted average Sanlam shares held by subsidiaries (including policyholders)	(161,7)	(203,5)
<b>Adjusted weighted average number of shares for basic earnings per share</b>	<b>2 203,1</b>	<b>2 487,7</b>
Add: Weighted conversion of deferred shares	6,8	6,2
Add: Total number of shares under option	63,1	89,6
Less: Number of shares (under option) that would have been issued at fair value	(29,9)	(54,1)
<b>Adjusted weighted average number of shares for diluted earnings per share</b>	<b>2 243,1</b>	<b>2 529,4</b>
Number of ordinary shares in issue – beginning of year	2 408,6	2 767,6
Shares cancelled	(105,0)	(359,0)
Number of ordinary shares in issue	2 303,6	2 408,6
Shares held by subsidiaries in shareholders' fund	(24,1)	(48,6)
Convertible deferred shares held by Ubuntu-Botho	7,2	6,5
<b>Adjusted number of shares for value per share</b>	<b>2 286,7</b>	<b>2 366,5</b>

## 3. SHARE REPURCHASES

The Sanlam shareholders granted general authorities to the Group at the 2005 and 2006 annual general meetings to repurchase Sanlam shares in the market. The Group acquired 103,6 million shares from 9 March 2006 to 31 December 2006 in terms of the general authorities. The lowest and highest prices paid were R14,07 and R18,06 per share respectively. The total consideration paid of R1,6 billion was funded from existing cash resources. All repurchases were effected through the JSE trading system without any prior understanding or arrangement between the Group and the counter parties. Authority to repurchase 227 million shares, or 8,6% of Sanlam's issued share capital at the time, remain outstanding in terms of the general authority granted at the annual general meeting held on 7 June 2006.

The financial effects of the share repurchases during 2006 are illustrated in the table below:

		Before repurchases	After repurchases
Basic earnings per share:			
Profit attributable to shareholders' fund	Cents	308,8	315,2
Headline earnings	Cents	304,1	310,4
Diluted earnings per share:			
Profit attributable to shareholders' fund	Cents	303,5	309,6
Headline earnings per share	Cents	298,8	304,9
Value per share:			
Embedded value	Cents	2 030	2 047
Net asset value	Cents	1 290	1 274
Tangible net asset value	Cents	1 100	1 075

#### 4. BUSINESS COMBINATIONS

##### Channel Life Limited (Channel Life)

The Group acquired a controlling interest in Channel Life, a South African based long-term insurance company, during February 2006. As part of the transaction, the Group's 55% interest in Safrican Insurance Company Limited (Sfrican) was transferred to Channel Life. The Channel Life group contributed R762 million and R27 million to Group revenue and net profit respectively for the twelve months ended 31 December 2006.

##### Other

Other business combinations relate to the following:

- The acquisition of Coris multi-manager business;
- The first time consolidation of African Life's 50% interest in Pan African Insurance Holdings (PAIH) after the group gained management control at the end of the 2006 financial year; and
- Increase in the shareholding of other subsidiaries, predominantly Santam.

Coris and PAIH's contribution to profit for 2006 is not material.

	Channel Life R million	Other R million
Details of the purchase consideration and goodwill acquired are as follows:		
Purchase consideration	133	569
Cash consideration	123	501
Net asset value contributed	10	68
Fair value of net assets acquired	76	352
Goodwill	57	217

The goodwill acquired relates to the future new business potential of the Channel Life group and synergies between the other interests acquired and existing Sanlam group businesses.

	Channel Life		Other	
	Fair value R million	Carrying value <sup>(1)</sup> R million	Fair value R million	Carrying value <sup>(1)</sup> R million
Details of the assets and liabilities acquired are as follows:				
Property and equipment	5	5	6	6
Owner-occupied properties	-	-	2	2
Intangible assets	42	15	-	-
Investments	12 327	12 327	429	429
Deferred tax	55	55	(1)	(1)
Trade and other receivables	115	115	35	35
Cash, deposits and similar securities	134	134	12	12
Term finance	(12)	(12)	-	-
Long-term liabilities	(12 362)	(12 362)	(268)	(268)
Net working capital liabilities	(170)	(170)	(78)	(78)
Net assets	134	107	137	137
Minority shareholders' interest	(58)		215	
Net assets acquired	76		352	

<sup>(1)</sup> Carrying value of assets and liabilities in acquiree's own financial statements on acquisition date.

## **5. CONTINGENT LIABILITIES**

Shareholders are referred to the contingent liabilities disclosed in the 2005 annual report. The circumstances surrounding these contingent liabilities remained unchanged, apart from the discussions with the South African Revenue Service (SARS) regarding revised tax assessments issued to a subsidiary of Genbel Securities Limited (Gensec), which has been resolved since the issuance of the 2005 annual report. A final settlement has been reached between Gensec and SARS. The amount paid in terms of the agreement has been funded from an existing provision held for this purpose.

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## **Financial Information for the Shareholders' Fund for the year ended 31 December 2006**

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## SHAREHOLDERS' FUND BALANCE SHEET AT NET ASSET VALUE

at 31 December 2006

	2006 R million	2005 R million
<b>Assets</b>		
Goodwill	2 163	2 174
Value of business acquired	977	982
Investments	36 423	32 547
Working capital and other assets	44 123	32 976
<b>Total assets</b>	<b>83 686</b>	<b>68 679</b>
<b>Equity and liabilities</b>		
Shareholders' fund	29 121	25 020
Minority shareholders' interest	4 050	3 557
Term finance, working capital and other liabilities	50 515	40 102
<b>Total equity and liabilities</b>	<b>83 686</b>	<b>68 679</b>
Net asset value per share (cents)	1 274	1 057

# SHAREHOLDERS' FUND BALANCE SHEET AT FAIR VALUE

at 31 December 2006

	2006 R million	2005 R million
<b>Assets</b>		
Property and equipment	195	177
Owner-occupied properties	514	480
Goodwill <sup>(2)</sup>	477	419
Value of business acquired <sup>(2)</sup>	977	982
Deferred acquisition costs	917	582
Investments	41 308	35 307
Sanlam businesses	13 210	9 702
Investment Management	5 358	3 228
SIM Wholesale <sup>(3)</sup>	3 729	2 481
International (SMMI and Octane)	1 336	522
Sanlam Collective Investments	293	225
Sanlam Personal Finance	1 058	668
Glacier	527	341
Sanlam Personal Loans <sup>(4)</sup>	94	71
Multi-Data	110	82
Sanlam Trust	95	84
Sanlam Home Loans	168	60
Other <sup>(5)</sup>	64	30
Independent Financial Services	625	505
Punter Southall Group	209	382
Gensec Properties	36	13
Other <sup>(6)</sup>	380	110
Sanlam Capital Markets	541	552
Santam	5 628	4 749
Associated companies	2 806	871
Peermont	1 062	779
Other	1 744	92
Joint ventures	387	395
Safair Lease Finance	271	271
Shriram	116	124
Other investments	24 905	24 339
Other equities and similar securities	10 906	12 267
Public sector stocks and loans	2 419	2 019
Investment properties	800	671
Other interest-bearing and preference share investments	10 780	9 382
Deferred tax	287	216
Working capital assets	6 273	4 486
<b>Total assets</b>	<b>50 948</b>	<b>42 649</b>

<b>Equity and liabilities</b>		
Shareholders' fund	<b>37 491</b>	30 592
Minority shareholders' interest	<b>818</b>	439
Term finance	<b>4 721</b>	2 834
External investors in consolidated funds	<b>68</b>	49
Deferred tax	<b>502</b>	1 031
Working capital liabilities	<b>7 348</b>	7 704
<b>Total equity and liabilities</b>	<b>50 948</b>	42 649
<b>Net asset value per share (cents)</b>	<b>1 640</b>	1 293

(1) Group businesses listed above not consolidated, but reflected as investments at fair value.

(2) The value of business acquired and goodwill relate mainly to the consolidation of African Life, Channel Life and Merchant Investors and are excluded in the build-up of the Group embedded value, as the current value of in-force business for these life insurance companies are included in the embedded value.

(3) Excludes the investment management operations of Botswana Insurance Fund Management (BIFM), as it is included in the current value of BIFM in-force life insurance business.

(4) The life insurance component of Sanlam Personal Loans' operations is included in the value of in-force business and therefore excluded from the Sanlam Personal Loans fair value.

(5) Other Sanlam Personal Finance businesses comprise the non-life businesses in Namibia.

(6) Other Independent Financial Services investments include Intrinsic, Nucleus, Thebe Community Financial Services, SA Quantum, Coris, Simeka Employee Benefits and Bull and Bear Financial Services.

## SHAREHOLDERS' FUND INCOME STATEMENT

for the year ended 31 December 2006

	2006 R million	2005 R million
Result from financial services before tax	4 126	3 455
Life insurance	2 188	1 729
Short-term Insurance	906	1 016
Investment Management	1 077	699
Sanlam Capital Markets	151	151
Independent Financial Services	20	32
Corporate and other	(216)	(172)
Tax on financial services income	(996)	(752)
Minority shareholders' interest	(514)	(403)
<b>Net result from financial services</b>	<b>2 616</b>	<b>2 300</b>
Net investment income	786	980
<b>Core earnings</b>	<b>3 402</b>	<b>3 280</b>
Net enhanced early termination benefits	-	(440)
Provision for financial claims	-	(150)
Net broad-based employee share plan	(19)	-
Net equity-accounted headline earnings	164	478
Net investment surpluses and fund transfers	3 420	2 733
Amortisation of value of business acquired	(45)	-
Net Secondary tax on Companies	(84)	(88)
<b>Headline earnings</b>	<b>6 838</b>	<b>5 813</b>
Other equity-accounted earnings	5	(8)
Profit on disposal of subsidiaries and associates	132	5 125
Impairment of investments and goodwill	(30)	(3)
<b>Attributable earnings</b>	<b>6 945</b>	<b>10 927</b>

# NOTES TO THE SHAREHOLDERS' FUND INFORMATION

for the year ended 31 December 2006

## 1. NEW BUSINESS AND TOTAL FUNDS RECEIVED FROM CLIENTS

	2006 R million	2005 R million
<b>Analysed per market:</b>		
<b>Retail</b>		
Life business	9 597	7 382
Sanlam Personal Finance	8 231	7 230
Sanlam Developing Markets	1 366	152
Non-life business	29 091	16 036
Sanlam Personal Finance	7 414	6 236
Sanlam Private Investments	10 257	3 154
Sanlam Collective Investments cash and equity	11 420	6 646
<b>South African</b>	38 688	23 418
<b>Non-South African</b>	6 818	4 413
Sanlam Developing Markets	637	-
Sanlam Personal Finance - Namibia	5 424	3 742
Sanlam Personal Finance – Merchant Investors	757	671
<b>Total retail</b>	45 506	27 831
<b>Institutional</b>		
Group Life business	2 392	2 820
Sanlam Employee Benefits	2 180	2 699
Sanlam Investment Management	212	121
Non-life business	10 187	15 052
Segregated	5 402	9 448
Sanlam Multi-Manager	2 131	3 094
Sanlam Collective Investments wholesale	2 654	2 510
<b>South African</b>	12 579	17 872
Sanlam Investment Management non-SA	4 422	1 812
<b>Total institutional</b>	17 001	19 684
<b>White label</b>	7 938	5 838
Sanlam Collective Investments	7 647	5 838
Sanlam Developing Markets	291	-
<b>Santam</b>	10 203	8 871
<b>Total new business</b>	80 648	62 224

## 2. NET FLOW OF FUNDS

	2006 R million	2005 R million
<b>Analysed per market:</b>		
<b>Retail</b>		
Life business	1 114	(974)
Sanlam Personal Finance	103	(1 184)
Sanlam Developing Markets	1 011	210
Non-life business	7 982	3 281
Sanlam Personal Finance	2 314	2 713
Sanlam Private Investments	4 920	142
Sanlam Collective Investments cash and equity	748	426
<b>South African</b>	9 096	2 307
<b>Non-South African</b>	1 919	1 151
Sanlam Developing Markets	658	-
Sanlam Personal Finance - Namibia	1 651	1 095
Sanlam Personal Finance – Merchant Investors	(390)	56
<b>Total retail</b>	11 015	3 458
<b>Institutional</b>		
Group Life business	(3 384)	(3 550)
Sanlam Employee Benefits	(2 835)	(2 882)
Sanlam Investment Management	(549)	(668)
Non-life business	(22 732)	(752)
Segregated	(23 105)	(3 069)
Sanlam Multi-Manager	200	1 743
Sanlam Collective Investments wholesale	173	574
<b>South African</b>	(26 116)	(4 302)
Sanlam Investment Management non-SA	2 784	1 493
<b>Total institutional</b>	(23 332)	(2 809)
<b>White label</b>	1 700	2 572
Sanlam Collective Investments	3 675	2 572
Sanlam Developing Markets	(1 975)	-
<b>Santam</b>	3 166	3 079
<b>Total net (outflow)/inflow</b>	(7 451)	6 300

## NOTES TO THE SHAREHOLDERS' FUND INFORMATION *(continued)*

	2006 R million	2005 R million
<b>3. EXCESS OF FAIR VALUE OVER NET ASSET VALUE OF SANLAM BUSINESSES AND INVESTMENTS</b>		
The shareholders' fund balance sheet at fair value includes the value of the companies below based on directors' valuation, apart from Santam and Peermont, which are valued according to ruling share prices. No deferred capital gains tax is provided in respect of Santam from 2006.		
Net fair value of businesses and investments	<b>16 403</b>	10 422
Fair value of businesses and investments	<b>16 403</b>	10 968
Deferred capital gains tax on businesses and investments at fair value	-	(546)
Less: Net asset value of businesses and investments	<b>8 643</b>	5 538
Investment Management	<b>938</b>	752
SIM Wholesale	<b>622</b>	437
International (SMMI and Octane)	<b>283</b>	231
Sanlam Collective Investments	<b>33</b>	84
Sanlam Personal Finance	<b>510</b>	305
Glacier	<b>217</b>	177
Sanlam Personal Loans	<b>47</b>	32
Multi-Data	<b>40</b>	18
Sanlam Trust	<b>13</b>	4
Sanlam Home Loans	<b>168</b>	55
Other	<b>25</b>	19
Independent Financial Services	<b>536</b>	405
Punter Southall Group	<b>189</b>	295
Gensec Properties	<b>25</b>	11
Other	<b>322</b>	99
Sanlam Capital Markets	<b>541</b>	552
Santam	<b>3 798</b>	2 903
Associated companies	<b>2 079</b>	403
Peermont	<b>335</b>	310
Other	<b>1 744</b>	93
Joint ventures	<b>241</b>	218
Safair Lease Finance	<b>125</b>	94
Shriram	<b>116</b>	124
Less: Goodwill in respect of above businesses	<b>1 247</b>	1 247
<b>Revaluation adjustment of interest in businesses and investments to fair value</b>	<b>6 513</b>	3 637
<b>Analysis of fair value</b>		
Sanlam businesses	<b>13 210</b>	9 702
Associated companies	<b>2 806</b>	871
Joint ventures	<b>387</b>	395
<b>Fair value of businesses and investments</b>	<b>16 403</b>	10 968



## NOTES TO THE SHAREHOLDERS' FUND INFORMATION *(continued)*

### 3. EXCESS OF FAIR VALUE OVER NET ASSET VALUE OF SANLAM BUSINESSES AND INVESTMENTS *(continued)*

The fair value of the Sanlam businesses has been determined by the application of stock exchange prices for listed companies and the following valuation methodologies for unlisted businesses:

<b>Valuation method</b>	<b>Fair value 2006 R million</b>	<b>2005 R million</b>
Ratio of price to assets under management	5 358	3 228
SIM Wholesale	3 729	2 481
International (SMMI and Octane)	1 336	522
Sanlam Collective Investments	293	225
Discounted cash flows	1 451	1 083
Glacier	527	341
Sanlam Personal Loans	94	71
Multi-Data	110	82
Sanlam Trust	95	84
Gensec Properties	36	13
Punter Southall Group	209	382
Other	380	110
Earnings multiple - Other	64	30
Net asset value	709	612
Sanlam Home Loans	168	60
Sanlam Capital Markets	541	552
<b>Fair value of unlisted businesses</b>	<b>7 582</b>	<b>4 953</b>

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

<b>Assumption</b>	<b>Change in assumption</b>
Ratio of price to assets under management (P/AuM)	0,1%
Risk discount rate (RDR)	1,0%
Perpetuity growth rate (PGR)	1,0%
Earnings multiple (PE)	1,0

  

<b>Valuation method</b>	<b>Weighted average assumption</b>	<b>Fair value of businesses</b>		
		<b>Base value</b>	<b>Decrease in assumption</b>	<b>Increase in assumption</b>
Ratio of price to assets under management (P/AuM)	P/AuM = 1,24% (2005: 0,99%)	5 358	4 875	5 849
Discounted cash flows	RDR = 17,2% (2005: 17,3%)	1 451	1 554	1 363
	PGR = 2,5% – 5% (2005: 2,5% – 5%)	1 451	1 413	1 497
Earnings multiple	PE = 7,5 times (2005: 7,5 times)	64	57	72

## NOTES TO THE SHAREHOLDERS' FUND INFORMATION *(continued)*

	2006 R million	2005 R million
<b>4. INVESTMENT INCOME – SHAREHOLDERS' FUND</b>		
Equities and similar securities	581	756
Interest-bearing, preference shares and similar securities	459	460
Properties	54	53
Rental income	67	83
Rental related expenses	(13)	(30)
<b>Total investment income</b>	<b>1 094</b>	<b>1 269</b>
<b>5. ASSETS UNDER MANAGEMENT AND ADMINISTRATION</b>		
Total assets per Group balance sheet	335 482	276 752
Segregated funds not included in Group balance sheet	188 257	148 839
<b>Total assets under management and administration</b>	<b>523 739</b>	<b>425 591</b>

# GROUP EMBEDDED VALUE RESULTS

for the year ended 31 December 2006

## 1. EMBEDDED VALUE

	Note	2006 R million	2005 R million
<b>Sanlam group shareholders' fund at fair value</b>		<b>37 491</b>	<b>30 592</b>
Reverse goodwill and value of life business acquired		(1 425)	(1 328)
Merchant Investors		( 356)	( 356)
African Life		( 955)	( 955)
Channel Life		( 91)	-
Other		( 23)	( 17)
Shareholders' fund adjustments		(1 518)	(1 634)
Present value of strategic corporate expenses	1	( 667)	( 947)
Fair value of share incentive scheme		( 772)	( 793)
Adjustment for discounting capital gains tax		64	245
Adjustment for delayed tax relief on enhanced early termination benefits	2	( 60)	( 60)
STC deferred tax asset written down		( 83)	( 79)
<b>Sanlam group shareholders' adjusted net assets</b>		<b>34 548</b>	<b>27 630</b>
<b>Net value of life insurance business in-force</b>	3	<b>12 263</b>	<b>10 574</b>
Value of life insurance business in-force		14 746	12 542
Sanlam Personal Finance		12 010	10 049
Sanlam Developing Markets		1 762	1 436
Sanlam Employee Benefits		974	1 057
Cost of capital at risk		(2 115)	(1 707)
Sanlam Personal Finance		(1 582)	(1 290)
Sanlam Developing Markets		( 142)	( 103)
Sanlam Employee Benefits		( 391)	( 314)
Minority shareholders' interest in value of in-force		( 368)	( 261)
Sanlam Personal Finance		( 51)	( 54)
Sanlam Developing Markets		( 317)	( 207)
Sanlam Employee Benefits		-	-
<b>Sanlam group embedded value</b>		<b>46 811</b>	<b>38 204</b>
Embedded value per share (cents)		2 047	1 615
Number of shares (million)		2 287	2 366

## 2. EMBEDDED VALUE EARNINGS

for the year ended 31 December 2006

R million	Note	2006			2005		
		Total	Value of in-force	Adjusted net assets	Total	Value of in-force	Adjusted net assets
Embedded value from new life business		434	1 106	(672)	291	709	(418)
Earnings from existing life business		1 717	(507)	2 224	1 351	(450)	1 801
Expected return on value of in-force business		1 256	1 256	-	1 193	1 193	-
Expected transfer of profit to adjusted net assets		-	(1 783)	1 783	-	(1 348)	1 348
Operating experience variations	4	277	(113)	390	138	(314)	452
Operating assumption changes		184	133	51	20	19	1
<b>Embedded value earnings from life operations</b>		<b>2 151</b>	<b>599</b>	<b>1 552</b>	<b>1 642</b>	<b>259</b>	<b>1 383</b>
Economic assumption changes	5	(5)	(8)	3	(316)	(287)	(29)
Tax changes	6	47	47	-	(179)	(144)	(35)
Investment variances		1 015	972	43	845	785	60
Exchange rate movements		119	119	-	4	4	-
Change in minority shareholders' interest in value of in-force		(76)	(76)	-	(20)	(20)	-
<b>Growth from life business</b>		<b>3 251</b>	<b>1 653</b>	<b>1 598</b>	<b>1 976</b>	<b>597</b>	<b>1 379</b>
Investment return on shareholders' adjusted net assets		8 461	-	8 461	5 557	-	5 557
Non-life operations		4 359	-	4 359	2 610	-	2 610
Balanced portfolio		3 986	-	3 986	2 937	-	2 937
Change in shareholders' fund adjustments		116	-	116	10	-	10
<b>Total embedded value earnings before dividends paid, capital movements and cost of treasury shares acquired</b>	7	<b>11 712</b>	<b>1 653</b>	<b>10 059</b>	<b>7 533</b>	<b>597</b>	<b>6 936</b>
Acquired value of in force		-	38	(38)	-	1 126	(1 126)
Dividends paid		(1 535)	-	(1 535)	(1 363)	-	(1 363)
Shares cancelled		(1 644)	-	(1 644)	(4 446)	-	(4 446)
Cost of treasury shares acquired		74	-	74	(153)	-	(153)
<b>Change in Sanlam group embedded value</b>		<b>8 607</b>	<b>1 691</b>	<b>6 916</b>	<b>1 571</b>	<b>1 723</b>	<b>( 152)</b>
Growth from life insurance business as a % of beginning value of in-force		30,7%			22,3%		
Return on embedded value		30,7%			20,6%		
Return on embedded value per share		31,0%			24,4%		

### 3. ANALYSIS OF RETURN ON EMBEDDED VALUE (ROEV)

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

### 4. VALUE OF NEW LIFE INSURANCE BUSINESS

	2006	2005
	R million	R million

## Value of new life business (at point of sale)

<b>Gross value of new life business</b>	<b>472</b>	<b>318</b>
Sanlam Personal Finance	276	279
Sanlam Developing Markets	149	(17)
Sanlam Employee Benefits	47	56
<b>Cost of capital at risk</b>	<b>(38)</b>	<b>(27)</b>
Sanlam Personal Finance	(15)	(17)
Sanlam Developing Markets	(15)	-
Sanlam Employee Benefits	(8)	(10)
<b>Net value of new life business</b>	<b>434</b>	<b>291</b>
Sanlam Personal Finance	261	262
Sanlam Developing Markets	134	(17)
Sanlam Employee Benefits	39	46
<b>Net value of new life business attributable to:</b>		
Shareholders' fund	379	291
Sanlam Personal Finance	259	262
Sanlam Developing Markets	81	(17)
Sanlam Employee Benefits	39	46
Minority shareholders' interest	55	-
Sanlam Personal Finance	2	-
Sanlam Developing Markets	53	-
Sanlam Employee Benefits	-	-
<b>Net value of new life business</b>	<b>434</b>	<b>291</b>
<b>Geographical analysis:</b>		
South Africa	346	287
Africa	84	3
Other international	4	1
<b>Net value of new life business</b>	<b>434</b>	<b>291</b>

## 4. VALUE OF NEW LIFE INSURANCE BUSINESS (continued)

2006  
R million

2005  
R million

## New business profitability

### *Before minorities*

#### Present value of new business premiums

	<b>20 308</b>	16 533
Sanlam Personal Finance	<b>13 735</b>	12 297
Sanlam Developing Markets	<b>3 107</b>	125
Sanlam Employee Benefits	<b>3 466</b>	4 111

#### Life new business margin

	<b>2,1%</b>	1,8%
Sanlam Personal Finance	<b>1,9%</b>	2,1%
Sanlam Developing Markets	<b>4,3%</b>	-13,6%
Sanlam Employee Benefits	<b>1,1%</b>	1,1%

### *After minorities*

#### Present value of new business premiums

	<b>19 426</b>	16 402
Sanlam Personal Finance	<b>13 663</b>	12 166
Sanlam Developing Markets	<b>2 297</b>	125
Sanlam Employee Benefits	<b>3 466</b>	4 111

#### Life new business margin

	<b>2,0%</b>	1,8%
Sanlam Personal Finance	<b>1,9%</b>	2,2%
Sanlam Developing Markets	<b>3,5%</b>	-13,6%
Sanlam Employee Benefits	<b>1,1%</b>	1,1%

## NOTES TO THE GROUP EMBEDDED VALUE RESULTS

### 1. STRATEGIC CORPORATE EXPENSES

The present value of strategic corporate expenses has been calculated by applying a multiple of 7,2 (2005: 8,2) to the after tax corporate expenses. From 2006, corporate expenses includes allowance for interest earned on cash held in respect of the annual dividend between year-end and actual payment date.

### 2. TAX RELIEF ON ENHANCED EARLY TERMINATION BENEFITS

The 2005 financial statements allowed for the full tax relief of R180 million on the enhanced early termination benefit cost of R620 million. This adjustment allows for the time value effect of not realising the tax relief immediately.

### 3. SENSITIVITY ANALYSIS AT 31 DECEMBER 2006

	Gross value of in-force business R million	Cost of capital at risk R million	Net value of in-force business R million	Change from base value %
<b>Value of in-force business</b>				
<b>Base value</b>	<b>14 338</b>	<b>(2 075)</b>	<b>12 263</b>	
• Increase risk discount rate by 1,0%	13 479	(2 352)	11 127	-9
• Decrease risk discount rate by 1,0%	15 309	(1 762)	13 547	10
• Investment return (and inflation) decrease by 1,0%, coupled with a 1,0% decrease in risk discount rate, and with bonus rates changing commensurately	14 546	(2 006)	12 540	2
• Investment return (and inflation) decrease by 1,0% and with bonus rates changing commensurately	13 646	(2 292)	11 354	-7
• Non-commission maintenance expenses (excluding investment expenses) increase by 10%	13 901	(2 069)	11 832	-4
• Discontinuance rates increase by 10%	14 051	(2 006)	12 045	-2
• Mortality and morbidity increase by 10% for assurances, coupled with a 10% decrease in mortality for annuities	13 512	(2 054)	11 458	-7
• Assets fall by 10%	13 744	(2 042)	11 702	-5



## NOTES TO THE GROUP EMBEDDED VALUE RESULTS *(continued)*

	Gross value of new business R million	Cost of capital at risk R million	Net value of new business R million	Change from base value %
<b>Value of new life business</b>				
<b>Base value</b>	<b>409</b>	<b>( 30)</b>	<b>379</b>	
• Increase risk discount rate by 1,0%	347	( 35)	312	-18
• Decrease risk discount rate by 1,0%	483	( 27)	456	20
• Investment return (and inflation) decrease by 1,0%, coupled with a 1,0% decrease in risk discount rate, and with bonus rates changing commensurately	435	( 30)	405	7
• Investment return (and inflation) decrease by 1,0% and with bonus rates changing commensurately	369	( 35)	334	-12
• Non-commission maintenance expenses (excluding investment expenses) increase by 10%	371	( 31)	340	-10
• Discontinuance rates increase by 10%	356	( 31)	325	-14
• Mortality and morbidity increase by 10% for assurances, coupled with a 10% decrease in mortality for annuities	365	( 29)	336	-11

	2006 R million	2005 R million
<b>4. OPERATING EXPERIENCE VARIATIONS</b>		
Risk experience	280	221
Group stabilised business outflows	(108)	(96)
Working capital and other	105	13
<b>Total operating experience variations</b>	<b>277</b>	<b>138</b>
<b>5. ECONOMIC ASSUMPTION CHANGES</b>		
Investment yields and inflation gap	(51)	15
Long-term asset mix assumptions	46	(331)
<b>Total economic assumption changes</b>	<b>(5)</b>	<b>(316)</b>
<b>6. TAX CHANGES</b>		
Change in corporate tax rate	-	167
Change in policyholders' fund tax rate	117	-
STC modeling changes	(70)	(273)
Strengthening of tax provisions	-	(73)
<b>Total tax changes</b>	<b>47</b>	<b>(179)</b>

## NOTES TO THE GROUP EMBEDDED VALUE RESULTS *(continued)*

**2006**      **2005**  
**R million**   **R million**

### 7. RECONCILIATION OF EMBEDDED VALUE EARNINGS

The embedded value earnings reconcile as follows to attributable earnings for the year:

Attributable earnings per income statement (refer page 17)	<b>6 945</b>	10 927
Earnings recognised directly in equity (refer page 18)	<b>392</b>	145
Equity-accounted movement in associated companies' reserves	<b>-</b>	15
Net foreign currency translation gains	<b>318</b>	66
Share-based payments	<b>74</b>	64
Reverse fund transfers recognised in income statement	<b>(205)</b>	(730)
Movement in fair value adjustment - non-life operations	<b>2 876</b>	(3 631)
Other	<b>32</b>	61
Earnings: shareholders' fund at fair value	<b>10 040</b>	6 772
Movement in adjustments to shareholders' fund	<b>19</b>	164
Present value of strategic corporate expenses	<b>280</b>	(64)
Fair value of share incentive scheme	<b>21</b>	6
Adjustment for discounting capital gains tax	<b>(181)</b>	107
Adjustment for delayed tax relief on enhanced early termination benefits	<b>-</b>	(60)
STC deferred tax asset written down	<b>(4)</b>	21
Change in goodwill and VOBA adjustments less VIF acquired	<b>(97)</b>	154
Earnings: shareholders' adjusted net assets	<b>10 059</b>	6 936
Growth from life business	<b>1 653</b>	597
<b>Total embedded value earnings</b>	<b>11 712</b>	7 533

## NOTES TO THE GROUP EMBEDDED VALUE RESULTS *(continued)*

### 8. ASSUMPTIONS

%	Sanlam Life & Sanlam Namibia		Merchant Investors		African Life		Botswana Life Insurance	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Gross investment return, risk discount rate and inflation</b>								
Fixed-interest securities	7,9	7,5	4,6	4,1	8,0	7,4	11,0	10,0
Equities and offshore investments	9,9	9,5	7,1	6,6	10,0	9,4	13,0	12,0
Hedged equities	7,9	7,5	7,1	6,6	n/a	n/a	13,0	n/a
Property	8,9	8,5	7,1	6,6	9,0	8,4	12,0	11,0
Cash	5,9	5,5	4,6	4,1	6,0	5,4	9,0	8,0
Risk discount rate	10,4	10,0	8,3	7,8	10,5	10,9	14,5	13,5
Return on capital at risk	5,3	7,8	4,6	4,1	6,6	6,5	8,9	11,0
Unit cost and salary inflation	4,4	4,0	3,5	3,0	5,0	4,4	8,0	7,0
Consumer price index inflation	4,4	3,0	3,5	3,0	n/a	n/a	n/a	n/a
%	Sanlam Life & Sanlam Namibia		Merchant Investors		African Life		Botswana Life Insurance	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Long-term asset mix for assets supporting the capital at risk</b>								
Equities	-	25	-	-	50	50	75	65
Hedged equities	20	35	-	-	-	-	-	-
Property	-	5	-	-	-	-	1	4
Fixed-interest securities	50	20	-	-	-	25	24	31
Cash	30	15	100	100	50	25	-	-
	100	100	100	100	100	100	100	100

## NOTES TO THE GROUP EMBEDDED VALUE RESULTS *(continued)*

### 9. ASSUMPTIONS

The embedded value calculation is based on best estimate assumptions (refer note 8 on page 42). These assumptions are used as basis for the statutory valuation method, to which compulsory and discretionary margins are added for the determination of policy liabilities in the financial statements.

#### Investment return and inflation

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

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

#### Assets backing capital at risk

The assumed composition of the assets backing the capital at risk is consistent with Sanlam's practice and with the long-term asset distribution used to calculate the statutory capital requirements of the Group's life businesses.

#### Decrements, expenses and bonuses

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

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

The surrender and paid-up bases of the South African life companies in the Group have been adjusted, where applicable, to reflect the minimum standards for early termination values agreed between the Life Offices Association and National Treasury. In all other respects, future benefits have been determined on current surrender and paid-up bases.

#### HIV/Aids

Allowance is made, where appropriate, for the impact of expected HIV/Aids-related claims, using models developed by the Actuarial Society of South Africa, adjusted for Sanlam's practice and product design.

Premiums on individual business are assumed to be rerated, where applicable, in line with deterioration in mortality, with a three-year delay from the point where mortality losses would be experienced.

#### Investment management fees

Future investment expenses are based on the current scale of fees payable by the Group's life insurance businesses to the relevant asset managers. To the extent that this scale of fees includes profit margins for Sanlam Investment Management, these margins are not included in the value of in-force and new business.

#### Project costs

In determining the value of in-force business, the value of expenses for certain planned projects focusing on both administration and distribution aspects of the life insurance business is deducted. These projects are of a short-term nature, although similar projects may be undertaken from time-to-time. No allowance is made for the expected positive impact these projects may have on the future operating experience of the Group.

## NOTES TO THE GROUP EMBEDDED VALUE RESULTS *(continued)*

### Taxation

Projected tax is allowed for at rates and on bases in accordance with the tax regimes applicable for each of the life businesses.

Allowance has been made for the impact of capital gains tax on investments in South Africa, excluding investments in Group subsidiaries. The assumed rollover period for realisation of these investments is five years.

Allowance is made for STC by placing a present value on the tax liability generated by the net cash dividends paid that are attributable to life insurance business. It is assumed that all future dividends will be paid in cash.

### 10. EMBEDDED VALUE METHODOLOGY

The methodology applied in preparing the embedded value report is consistent with the methodology used in the 2005 annual report, apart from the following:

- Improved modeling of Sanlam Life's future paid-up policies;
- Allowance for the impact of the joint venture agreement with Coris in the modeling of Sanlam Employee Benefits administration business;
- An increased allowance for planned project costs;
- Explicit allowance for the expected increase in maintenance unit cost associated with the decline in the Sanlam Life in force book; and
- Other model changes.

The net impact of the above changes is as follows:

- The embedded value increased by R184 million at 31 December 2006; and
- Operating assumption changes (included in embedded value earnings) for the 2006 financial year increased by R184 million.

In addition to the above, the shareholders' adjusted net assets and the investment return thereon were increased with R576 million by the following:

- No deferred capital gains tax is provided in respect of the shareholders' fund investment in Santam from 2006, with a consequential reduction in the discounting adjustment for capital gains tax; and
- Allowance has been made in the calculation of the adjustment for corporate expenses for interest earned on cash held in respect of the annual dividend, between year-end and actual payment date.

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Johan Bester

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(Registration number 1959/001562/06)  
JSE share code: SLM  
NSX share code: SLA  
ISIN number: ZAE000070660  
Incorporated in South Africa

Transfer secretaries:  
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The Annual General Meeting of the Members of Sanlam Limited will be held on Wednesday, 6 June 2007 at 14:00 in the CR Louw Auditorium, Sanlam Head Office, 2 Strand Road, Bellville.

[www.sanlam.co.za](http://www.sanlam.co.za)

Directors: R.C. Andersen (Chairman), P.T. Motsepe (Deputy Chairman), J. van Zyl (Group Chief Executive), M.M.M. Bakane-Tuoane, A.D. Botha, A.S. du Plessis, F.A. du Plessis, W.G. James, M.V. Moosa, JP Möller, R.K. Morathi, S.A. Nkosi, I. Plenderleith, M. Ramos, G.E. Rudman, R.V. Simelane, Z.B. Swanepoel, E. van As, J.J.M. van Zyl, P.L. Zim.