ANNUAL FINANCIAL STATEMENTS

SANLAM GROUP ANNUAL FINANCIAL STATEMENTS

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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 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 202 to 333, the Corporate Governance report on pages 50 to 65, the Remuneration report on page 66 to 93 and the Shareholders' information on pages 139 to 193 were approved by the Board and signed on its behalf by:

Desmond Smith
Chairman

Johan van Zyl
Group Chief Executive

Cape Town
5 March 2014

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 2013, 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

5 March 2014

for the year ended 31 December 2013

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 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 increased from R5 655 million in 2012 to R8 131 million in 2013, largely due to the strong operational and market performance in 2013, which resulted in an increase 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 Corporate Governance and Remuneration reports, requiring disclosure in the Directors' report in terms of the Companies Act and JSE Listings 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 156.

SHARE CAPITAL

The issued ordinary share capital of the Company is 2 100 million shares. Refer to page 284 for further information.

DIVIDEND

The Board has declared a normal cash dividend of 200 cents per share (2012: normal dividend of 165 cents and special dividend of 50 cents), payable on Monday, 14 April 2014, to shareholders registered on 11 April 2014. All payments through electronic bank transfer will take place on this date.

SUBSIDIARIES

Details of the Company's principal subsidiaries are set out on page 330.

DIRECTORS' INTERESTS 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 remuneration report on pages 92 and 93.

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 on pages 40 to 50 and page 55.

SUBSEQUENT EVENTS

No material facts or circumstances have arisen between the date of the statement of financial position and this report which materially affects the financial position of the Sanlam Limited Group at 31 December 2013 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 199, including the certificate by the Company Secretary on page 199, the Audit committee report for the 2013 financial year on page 58 and the analysis of shareholders on page 333.

NOTICE IN TERMS OF SECTION 45(5) OF THE COMPANIES ACT, 2008 (THE ACT)

The Company is from time to time, as an essential part of conducting the business of the Sanlam Group, required to provide financial assistance to Group 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 Act.

In accordance with section 45(5) of the Act this serves to give notice that the Sanlam Board, in line with existing practice, approved that the Company may, in accordance with and subject to the provisions of section 45 of the Act and in terms of the special resolution passed at the Company's annual general meeting in 2013, provide such direct or indirect financial assistance to related and inter-related companies and corporations as described in section 45 of the Act.

The amount and format of financial assistance which may be granted pursuant to the resolution is subject to ongoing review by the Sanlam Board and may in total exceed the reporting threshold of 0,1% of the Sanlam Group's net asset value provided for in the Act.

TO THE SHAREHOLDERS OF SANLAM LIMITED

We have audited the consolidated and separate financial statements of Sanlam Limited set out on pages 202 to 333, which comprise the statements of financial position as at 31 December 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Company's directors are responsible for the preparation and fair presentation of these consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 auditor's 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 consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Sanlam Limited as at 31 December 2013, and its consolidated and separate financial performance and 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.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 December 2013, we have read the Directors' report, the Audit Committee's report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Ernst & Young Inc.

Ernst & Young Inc.

Director: Johanna Cornelia de Villiers
Registered Auditor
Chartered Accountant (SA)

Ernst & Young House
35 Lower Long Street
Cape Town

5 March 2014

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 148. 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:

- 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
- 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.

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 Prudential Regulation 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 practice notes issued by the Actuarial Society in South Africa and the Board of Actuarial Standards in 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 practice 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 2013, 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, Sanlam Developing Markets 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.

R million	SANLAM LIFE INSURANCE LIMITED 2013	2012	SANLAM INVESTMENTS AND PENSIONS UK LIMITED 2013	2012
Assets				
Fair value of assets	**379 983**	333 557	**37 189**	25 643
Less: Liabilities	**319 441**	278 091	**36 603**	25 173
Actuarial value of policy liabilities	**301 696**	263 458	**35 550**	24 385
Investment contracts	**166 363**	133 857	**30 970**	20 742
Insurance contracts	**135 333**	129 601	**4 580**	3 643
Long-term and current liabilities	**17 745**	14 633	**1 053**	788
Excess of assets over liabilities for financial reporting	**60 542**	55 466	**586**	470
Adjustment for prudential regulatory purposes	**(29 000)**	(26 655)	**(275)**	(228)
Adjustment for Group undertakings				
Sanlam Investment Management	**(4 378)**	(4 152)	**–**	–
Santam	**(7 961)**	(8 306)	**–**	–
SDM Limited	**(5 958)**	(5 832)	**–**	–
Capital requirements of life insurance subsidiaries, adjusted for minority interests	**(3 637)**	(2 049)	**–**	–
Inadmissible assets	**(119)**	(418)	**(275)**	(228)
Other	**(6 947)**	(5 898)	**–**	–
Unsecured subordinated bond	**2 094**	2 159	**–**	–
Excess of assets over liabilities for prudential regulatory purposes	**33 636**	30 970	**311**	242
Capital adequacy requirements				
Capital adequacy requirements (CAR) before management actions	**11 225**	10 050	**111**	97
Management actions assumed	**(3 675)**	(2 925)	**–**	–
Reduction in future bonus rates	**(2 703)**	(2 310)	**–**	–
Reduction in non-vested bonuses	**(225)**	(218)	**–**	–
Capitalisation of portion of expected future profits held as discretionary margins	**(138)**	(62)	**–**	–
Reduction in grossing up of the assets covering CAR and other	**(609)**	(335)	**–**	–
CAR after management actions assumed	**7 550**	7 125	**111**	97
Times CAR covered by excess of assets over liabilities for prudential regulatory purposes	**4,5**	4,3	**2,8**	2,5

CREDIT RATING

Fitch Ratings, an international ratings agency, issues independent ratings of the following Sanlam Group entities and instruments:

	Most recent ratings issued
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)

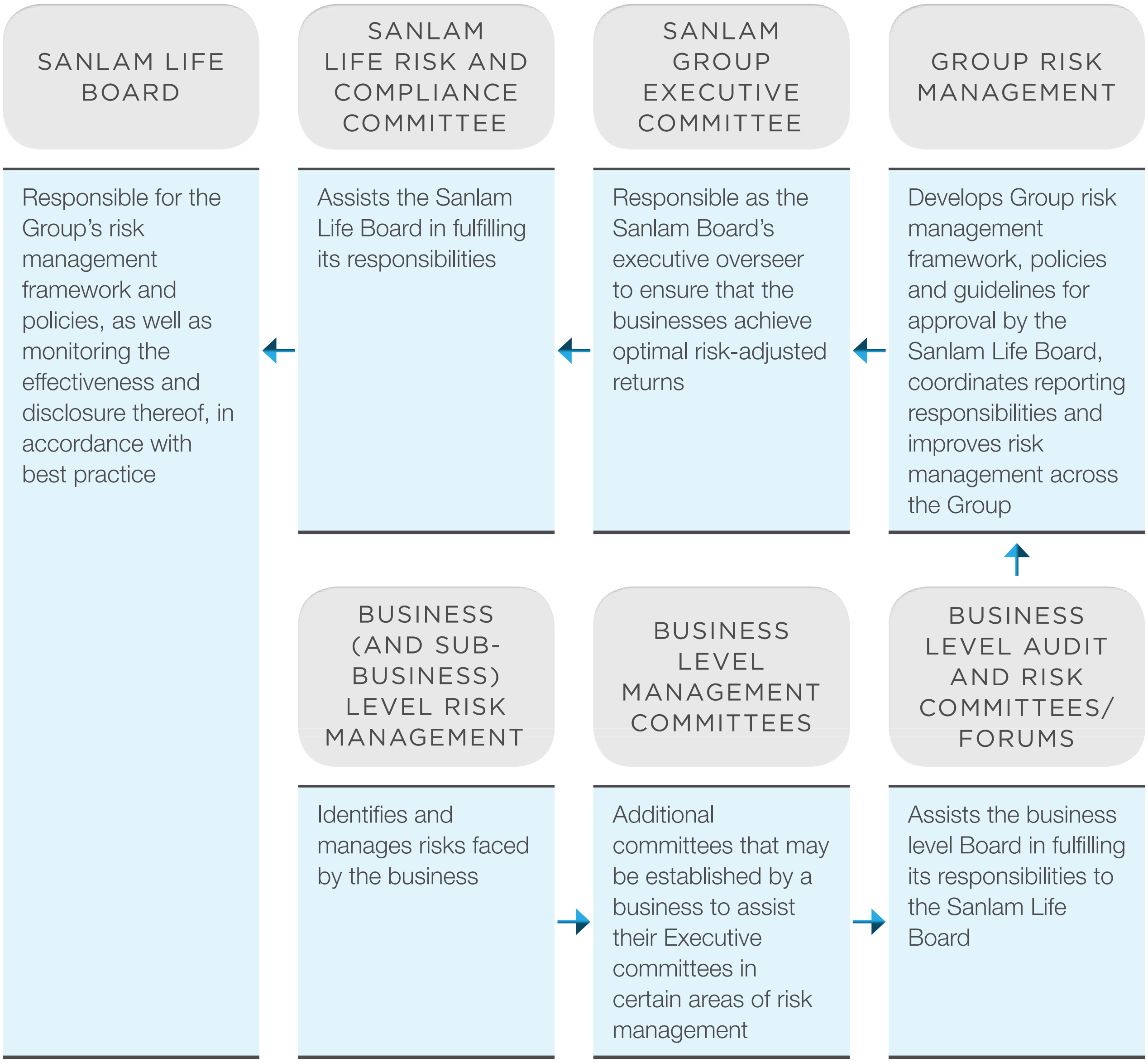
The independent credit ratings provide assurance to the investors in securities issued by the Group as well as the Group's business partners and other stakeholders. It also enables the Group to issue debt and equity instruments at market-related rates. The above ratings were confirmed in October 2013 and have remained unchanged since 2011.

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 53 for further information on the responsibilities of the Sanlam and Sanlam Life Boards and their committees.

The Group operates within a decentralised business model environment. In terms of this philosophy, the Sanlam Life Board sets the Group enterprise 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.



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 management/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 corporate credit risk exposure
Investment committees Determines and monitors appropriate investment strategies for policyholder solutions	**Treasury function** 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 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

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 the mandatory minimum requirements for the 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 internal control framework;
- Sanlam Group outsourcing policy;
- 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 reinsurance and other risk mitigation policy;
- Sanlam investment policy;
- Sanlam financial crime combating policy;
- Sanlam human resources policies;
- Sanlam Group governance framework;
- Sanlam Group high-level authorisation framework;
- Sanlam Life Insurance Audit, Actuarial and Finance committee charter.

Sanlam Group enterprise risk management policy and plan

The Group ERM policy and plan 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 framework.

Independent assurance reviews

The Group developed with an external assurance provider, a risk management maturity model against which the risk management processes across the Group are assessed. Annually, internal audit (in conjunction with Group Risk Management) prepares risk management process audit plans for approval by the Sanlam Life Risk and Compliance committee. The assurance reviews comprise self-assessments and independent reviews. All businesses conduct self-assessments with the independent assessments done either by an external assurance provider or internal audit. Typically, the larger businesses are assessed by an external assurance provider once every three years. Internal audit on the other hand tends to focus on the assessments for the smaller businesses which are done on a rolling basis. The overall results of both the self-assessments and the independent reviews are presented to the Sanlam Life Risk and Compliance committee.

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: **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 critical information. **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's operations or its condition are disrupted or adversely affected by legal proceedings against it, adverse judgments from courts, contracts that turn out to be unenforceable or contractual obligations which have not been provided for. **Compliance risk:** the risk of not complying with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct including acceptable market conduct practices[1], investment management mandates, as well as the failure to uphold the Group's core values and code of ethical conduct. **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 impacting on the Group. It includes both internal and external fraud.	All Group businesses

[1] Market conduct involves the behaviour of an organisation and of those that act on its behalf towards various stakeholders (including potential and current customers, regulators or supervisors, investors, and other market participants). Market conduct comprises market discipline (including transparency and corporate governance) and consumer protection (including treating customers fairly).

	Risk category (primary)	Risk type (secondary) and description	Potential significant impact
General risks *(continued)*	**1. Operational** *(continued)*	**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 Group Equity Value; or the actual policyholder tax being higher than that assumed in the determination of premium rates and guaranteed policy benefits. **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 that are inherent in major projects. **Outsourcing provider risk:** the risk arising from the inability or unwillingness of an outsourcing service provider to discharge its contractual obligations; and from concentration with an individual outsourcing service provider (which exacerbates the former).	
	2. Reputational	Reputational risk is the risk that adverse publicity regarding a Group's business practices, associations and market conduct, whether accurate or not, will cause a loss of confidence in the integrity of the institution. The risk of loss of confidence relates to stakeholders, which include, *inter alia*, potential and existing customers, investors, suppliers and supervisors.	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 arising from the level or volatility of market prices of financial instruments which have an impact upon the value of assets and liabilities of the organisation. Market risk includes: **Equity risk:** the risk resulting from the sensitivity of values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities. **Interest rate risk:** the risk of loss or adverse change in the value of assets and liabilities due to unanticipated changes in the level or volatility of interest rates. **Currency risk:** the risk of loss or adverse change in the value of assets and liabilities owing to unanticipated changes in the level or volatility of currency exchange rates. **Property risk:** the risk that the value of investment properties will fluctuate as a result of changes in the environment (i.e. the risk of loss or adverse change in the value of assets and liabilities due to unanticipated changes in the level and volatility of market prices of property).	Life insurance Retail credit Capital markets Short-term insurance Investment management

Financial and business-specific risks *(continued)*

Risk category (primary)	Risk type (secondary) and description	Potential significant impact
1. Market *(continued)*	**Asset liability mismatching (ALM) risk:** the risk of a change in value as a result of a deviation between asset and liability cash flows, prices or carrying amounts. ALM risk originates from changes in market risk factors. **Concentration risk:** the risk of loss 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). **Credit spread risk:** the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or volatility of credit spreads over the risk-free interest rate term structure.	
2. Credit	Credit risk is the risk of default and deterioration in the credit quality of issuers of securities, counterparties and intermediaries to whom the Company has exposure. Credit risk includes: **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.	Life insurance Retail credit Capital markets Short-term insurance Corporate

Risk category (primary)		Risk type (secondary) and description	Potential significant impact
Financial and business-specific risks *(continued)*	**3. Funding liquidity**	Funding liquidity risk is the risk relating to the difficulty/inability to access/raise 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):** 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: **Underwriting risk:** the risk that the actual experience relating to mortality, longevity, disability and medical (morbidity) 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. It covers the risk of loss or adverse change in insurance liabilities due to unanticipated change in the rate of policy lapses, terminations, renewals and surrenders. **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. It covers the risk of loss or adverse change in insurance liabilities due to adverse variation in the expenses incurred in servicing insurance and reinsurance contracts. **Concentration risk:** the risk of financial loss due to having written large proportions of business with policyholders of the same/similar risk profile (including catastrophe risk).	Life insurance
	5. Insurance risk (Short-term insurance business)	**Insurance risk (short-term insurance business):** 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: **Claims risk (premium and reserve 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. Claims risk is often split into reserve risk (relating to incurred claims) and premium risk (relating to future claims). **Non-life 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.	Short-term insurance

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 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 137 and 201 of this Integrated 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. The Group IT committee provides guidance to the Head of Group IT regarding his duties, such as the establishment of policy.

A quarterly IT Governance report, summarising the Group-wide situation is 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:

Automated pre-compliance rules for clients' investment guidelines are loaded on the order management system. This means that a system rule will generally prevent any transaction that may cause a breach. Apart from this continuous monitoring, post-trade compliance reports are produced from the order management system. Reporting of compliance monitoring with investment guidelines is done on a monthly basis, although the monitoring activities happen continuously. When a possible breach is detected, the portfolio manager is requested to confirm whether a breach has taken place, to explain the reason for the breach and indicate when it will be rectified. When a breach is confirmed, the portfolio manager must generally rectify the breach as soon as possible. The action taken may vary 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.

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.

Outsourcing provider risk

A Group outsourcing policy is in place and aims to provide clear direction and policy regarding the strategic management (e.g. assessment of outsourcing options, establishment of agreements, the on-going management of and reporting on outsourcing) of all outsourcing arrangements, whether external or internal within the Sanlam Group.

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.

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 analysis 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 direct financial risk as this risk is assumed by the policyholder. The life insurance businesses' capital is invested in financial instruments, 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 260 for a description of the different policyholder solutions; as well as to note 15 on page 287, 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	×	✓	×[4]	×[4]	✓	✓[3]	×	✓
Other non-participating liabilities								
Guarantee plans	×	✓	×[4]	×	✓	✓[3]	✓	×
Other	✓	✓	×[4]	✓	✓	✓[3]	✓	✓
Capital portfolio	✓	✓	✓	×[4]	✓	×	×	×

[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*
× *Risk not applicable to item*

The management of these risks is described below.

1. Market risk

Life insurance businesses exposed to risk via:	MARKET RISK **Equity**	**Interest rate**	**Currency**	**Property**
Policyholder solutions				
Linked and market-related	✓	✓	✓	✓
Smoothed-bonus business:				
Stable bonus	✓	✓	✓	✓
Reversionary bonus	✓	✓	✓	✓
Participating annuities	✓	✓	✓	✓
Non-participating annuities	×	✓	×	×
Other non-participating liabilities				
Guarantee plans	×	✓	×	×
Other	✓	✓	×	✓
Capital portfolio	✓	✓	✓	×

✓*Risk applicable to item*
×*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 professional practice notes 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 2013, 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 Customers' 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. 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, equity and property investments. The risk is managed through investments in appropriate asset classes. A number of the products comprising this business are matched using interest-bearing instruments, similar to non-participating annuities.

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 Group's 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 Group's capital portfolio to currency risk is analysed in the table below.

R million	Euro	United States dollar	British pound	Botswana pula	Indian rupee	Other currencies	Total
31 December 2013							
Investment properties	–	–	–	122	–	204	326
Equities and similar securities	575	549	156	408	–	870	2 558
Equity-accounted investments[1]	–	–	–	1 376	4 597	968[2]	6 941
Interest-bearing instruments	–	3	95	266	–	147	511
Government interest-bearing investments	–	3	27	–	–	28	58
Corporate interest-bearing investments	–	–	68	169	–	18	255
Mortgages, policy and other loans	–	–	–	97	–	101	198
Investment funds	15	573	14	30	–	5	637
Cash, deposits and similar securities	10	423	220	437	–	198	1 288
Net working capital	231	1 218	83	(377)	–	15	1 170
Total	831	2 766	568	2 262	4 597	2 407	13 431
Exchange rates (rand)							
Closing rate	14,51	10,53	17,42	1,21	0,17		
Average rate	12,78	9,61	15,00	1,16	0,17		
31 December 2012							
Investment properties	–	–	–	154	–	92	246
Equities and similar securities	292	1 194	280	97	–	455	2 318
Equity-accounted investments[1]	–	–	–	1 122	2 604	–	3 726
Interest-bearing instruments	3	2	75	240	–	111	431
Government interest-bearing investment	3	2	–	244	–	6	255
Corporate interest-bearing investment	–	–	75	–	–	29	104
Mortgage, policy and other loans	–	–	–	(4)	–	76	72
Investment funds	–	646	7	–	–	–	653
Cash, deposits and similar securities	10	322	311	243	–	128	1 014
Net working capital	162	627	128	(269)	–	31	679
Net other liabilities	7	2	9	(24)	–	–	(6)
Total	474	2 793	810	1 563	2 604	817	9 061
Exchange rates (rand)							
Closing rate	11,19	8,48	13,79	1,11	0,16		
Average rate	10,53	8,20	12,99	1,10	0,15		

[1] *Equity-accounted investments only include significant entities that have foreign currency exposure.*
[2] *Investment in Pacific & Orient, Malaysia.*

The capital portfolio has limited exposure to investment properties and accordingly the related property risk.

Sensitivities

Refer to page 189 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	✓

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 corporate 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 Investment Management (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. 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. External ratings (e.g. Moody's Investor Services, Standard & Poor's, Fitch Ratings and Global Credit Ratings) are taken into account when available.

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 2013 and 2012 financial years. Given the strong financial position and rating of the Group, the credit rating of its liabilities remained unchanged.

The tables below provide an analysis of the ratings attached to the Group's life insurance businesses' 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 %	Not rated %	Other %	Total %	Carrying value R million
31 December 2013												
Government interest-bearing investments	85	5	–	2	–	–	–	1	7	–	100	52 516
Corporate interest-bearing investments	5	22	28	10	4	8	4	2	13	4	100	37 149
Mortgages, policy and other loans	–	–	7	6	10	3	23	–	51	–	100	3 055
Cash, deposits and similar securities	35	15	10	2	–	12	–	–	25	1	100	10 823
Net working capital	–	–	–	–	–	–	–	–	100	–	100	881
Total	48	12	11	5	2	4	2	2	13	1	100	104 424
31 December 2012**												
Government interest-bearing investments	93	–	–	–	–	–	1	2	4	–	100	46 347
Corporate interest-bearing investments	5	26	18	21	4	8	2	1	9	6	100	40 289
Mortgages, policy and other loans	–	–	13	13	15	1	9	–	49	–	100	2 082
Cash, deposits and similar securities	6	11	12	23	1	12	4	–	28	3	100	8 986
Net working capital	–	–	–	–	–	–	–	–	100	–	100	723
Total	46	12	9	11	2	4	2	1	11	2	100	98 427

* *Rated externally or by using internationally recognised credit rating techniques.*
** *Comparative information has been adjusted for the reclassification of investment funds.*

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 2013												
Government interest-bearing investments	85	1	–	7	–	–	–	2	5	–	100	556
Corporate interest-bearing investments	12	21	24	9	4	11	3	2	9	5	100	9 157
Mortgages, policy and other loans	–	–	–	6	–	7	20	5	48	14	100	616
Cash, deposits and similar securities	48	7	5	1	–	8	–	–	24	7	100	3 092
Net working capital	252	64	2	–	8	–	3	2	(152)	(79)	100	1 055
Total	39	19	17	7	3	9	3	2	2	(1)	100	14 476
31 December 2012**												
Government interest-bearing investments	72	–	–	9	–	–	–	8	11	–	100	465
Corporate interest-bearing investments	3	32	19	18	3	11	3	2	1	8	100	8 856
Mortgages, policy and other loans	–	–	4	11	20	–	–	–	65	–	100	400
Cash, deposits and similar securities	–	35	28	1	–	6	3	–	23	4	100	2 360
Net working capital	53	696	15	12	–	20	51	–	(867)	120	100	509
Total	7	57	19	14	3	10	5	2	(27)	10	100	12 590

* *Rated externally or by using internationally recognised credit rating techniques.*
** *Comparative information has been adjusted for the reclassification of investment funds.*

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.

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	×	3.6

✓ *Risk applicable to item.*
× *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 2013					
Insurance contracts	5 422	24 883	61 702	66 568	158 575
Investment contracts	3 821	30 853	75 486	113 574	223 734
Total policy liabilities	9 243	55 736	137 188	180 142	382 309
Properties	—	—	—	8 280	8 280
Equities and similar securities	—	—	538	79 234	79 772
Government interest-bearing investments	380	4 161	47 935	41	52 517
Corporate interest-bearing investments	6 789	18 743	10 842	2 429	38 803
Mortgages, policy and other loans	186	1 522	1 346	1	3 055
Structured transactions	4 453	4 775	1 003	81	10 312
Investment funds	94	845	64	179 115	180 118
Cash deposits and similar securities	8 252	2 289	279	2	10 822
Deferred acquisition costs	—	—	—	156	156
Long-term reinsurance assets	18	157	614	6	795
Term finance	—	—	(571)	—	(571)
Derivative liabilities	(467)	(126)	(351)	(93)	(1 037)
External investors in consolidated funds	—	—	—	(1 841)	(1 841)
Net working capital	1 690	2	—	(564)	1 128
Total policyholder assets	21 395	32 368	61 699	266 847	382 309
31 December 2012					
Insurance contracts	5 071	22 065	57 742	63 549	148 427
Investment contracts	3 663	23 835	59 917	92 742	180 157
Total policy liabilities	8 734	45 900	117 659	156 291	328 584
Properties	—	—	—	9 746	9 746
Equities and similar securities	—	15	67	70 182	70 264
Government interest-bearing investments	606	4 561	41 238	—	46 405
Corporate interest-bearing investments	8 821	21 129	9 000	1 375	40 325
Mortgages, policy and other loans	41	620	1 176	245	2 082
Structured transactions	6 776	5 445	409	(18)	12 612
Investment funds	332	578	36	137 261	138 207
Cash deposits and similar securities	6 949	1 758	258	5	8 970
Deferred acquisition costs	—	—	—	297	297
Long-term reinsurance assets	16	104	605	21	746
Term finance	—	—	(524)	—	(524)
Derivative liabilities	(3)	(35)	(136)	(341)	(515)
External investors in consolidated funds	—	—	—	(762)	(762)
Net working capital	1 135	—	—	(404)	731
Total policyholder assets	24 673	34 175	52 129	217 607	328 584

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 243 for more information).

4. Insurance risk

Life insurance businesses exposed to risk via:	INSURANCE RISK Persistency	 Other insurance risks
Policyholder solutions		
Linked and market related	✓	✓
Smoothed-bonus business:		
Stable bonus	✓	✓
Reversionary bonus	✓	✓
Participating annuities	✓	✓
Non-participating annuities	×	✓
Other non-participating liabilities		
Guarantee plans	✓	✓
Other	✓	✓
Capital portfolio	×	×

✓ *Risk applicable to item.*
× *Risk not applicable to item.*

Insurance risk arises primarily from the writing of non-participating annuity and other non-participating life business, as these products expose the Group to risk if actual experience relating to expenses, mortality, longevity, disability and medical (morbidity) 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 re-rating 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 income market and high net worth clients.

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.

Non-participating annuity payable per annum per life insured

	NUMBER OF LIVES		BEFORE REINSURANCE		AFTER REINSURANCE	
R'000	2013	2012	2013 %	2012 %	2013 %	2012 %
0 – 20	215 488	216 429	37	44	37	44
20 – 40	19 996	19 397	17	18	17	18
40 – 60	6 728	6 459	10	9	10	9
60 – 80	3 568	3 283	9	6	9	6
80 – 100	2 109	1 828	8	5	8	5
>100	5 032	3 768	19	18	19	18
	252 921	251 164	100	100	100	100

Comparative information has been restated to include entry-level clients.

Value of benefits insured: non-participating life business

Benefits insured per individual life	NUMBER OF LIVES		BEFORE REINSURANCE		AFTER REINSURANCE	
R'000	2013	2012	2013 %	2012 %	2013 %	2012 %
0 – 500	9 179 423	8 822 105	27	30	32	33
500 – 1 000	279 564	275 298	17	16	17	18
1 000 – 5 000	281 773	273 519	37	39	37	38
5 000 – 8 000	10 511	10 195	8	7	6	6
>8 000	7 192	6 281	11	8	8	5
	9 758 463	9 387 398	100	100	100	100

Comparative information has been restated to include entry-level clients.

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.

	2013		2012	
	R million	%	R million	%
South Africa	320 290	84	278 410	85
Africa	26 127	7	25 650	8
Other international	35 892	9	24 524	7
Total policy liabilities	382 309	100	328 584	100

Retail credit

Retail credit business relates mainly to loan business provided by Sanlam Personal Loans (SPL) and to the retail credit and banking businesses in the Sanlam Emerging Markets (SEM) cluster.

Sanlam Personal Loans

The balance of loans advanced by SPL to clients at 31 December 2013 is shown below:

R million	2013	2012
Sanlam Personal Loans		
Gross balance	**3 608**	3 040
Provisions	**(214)**	(139)
Net balance	**3 394**	2 901

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 277.
- 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 Company's policy to subject its 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.

Sanlam Emerging Markets

Retail credit and banking profits have become a significant part of Sanlam Emerging Markets' (SEM) operating earnings. This is due to the addition of the investment in Shriram Capital Limited (which has indirect holdings in Shriram Transport Finance Company and Shriram City Union Finance) in India and the subsequent direct investment in Shriram Transport Finance Company, to the existing SEM retail credit investment in Letshego that is owned by Botswana Insurance Holdings Limited. SEM's exposure to banking business has increased with the additional investment in Capricorn Investment Holdings Limited (which has an indirect stake in Bank Windhoek Holdings Limited) in Namibia.

The main risk emanating from the retail credit and banking operations is credit risk. These investments have been equity accounted to reflect SEM's percentage interest in the net asset value of the respective investments. SEM's exposure to credit risk in these investments is limited to the value of SEM's investment in these businesses.

SEM's credit risk management process entails the monitoring of key drivers in each of the significant retail credit or banking businesses, including an analysis of trends. Risk parameters have been set for each of these key drivers and performance against these targets is monitored and reported to the SEM Audit, Actuarial and Risk committee on a quarterly basis. SEM benefits from the diversification provided by the geographic spread of its operations (throughout Africa and in India), types of credit provided (secured and unsecured lending) and range of market segments targeted. This inherently reduces the overall level of credit risk exposure.

Though SEM only holds minority stakes in the different credit businesses, they do track the key results and trends in these businesses.

Capital markets

SCM is the largest division in the Sanlam Investments: Capital Management sub-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 proprietary 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 managers and operators. 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 two-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, property 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 Sanlam'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 R45 million (2012: R24 million).

	MAXIMUM NET LOSS (R MILLION)	
Incremental change in price	**31 Dec 2013**	31 Dec 2012*
-5% to 5%	**6**	6
-10% to 10%	**12**	6
-15% to 15%	**17**	6
-30% to 20%	**45**	24

**Comparative information has been restated to incorporate enhancements to the calculation methodology.*

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*.

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 2013**	31 Dec 2012
10% to -10%	**4**	3
20% to -20%	**7**	5
50% to -20%	**12**	10

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 R320 million (2012: R339 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;
- 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.

	31 Dec 2013	31 Dec 2012*
Stress results 1 (1 Notch)	**(115)**	(116)
Stress results 2 (2 Notch)	**(244)**	(211)
Stress results 3 (3 Notch)	**(396)**	(369)

**Comparative information has been restated to incorporate enhancements to the calculation methodology.*

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 44% (2012: 45%) of total credit risk capital, but only 18% (2012: 19%) of the total exposure. SCM is therefore not exposed to significant concentration risk.

3. Liquidity risk

The maximum available facilities of R9 billion (net of qualifying collateral and certain other intergroup utilisation) exceed the amount utilised of R7,7 billion (2012: R7,4 billion), indicating 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.

Committed facilities granted by SCM were R292 million (2012: R404 million). A significant portion of trading account assets and liabilities is due within one year.

Santam

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.

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, such as swaps, to provide a degree of hedging against unfavourable market movements in interest rates. At 31 December 2013, 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's exposure to currency risk is mainly in respect of foreign investments made in line with the long-term strategy approved by the Board for seeking desirable international diversification of investments to expand its income stream. The company has investments in foreign subsidiaries whose net assets are exposed to currency translation risk, primarily to the British pound. In addition, the Southern African operations have foreign exchange exposure in respect of net monetary assets denominated in foreign currency, predominantly US dollar and the British pound.

Santam does not take cover on foreign currency balances, but evaluates the need for cover on transactions on a case by case basis.

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. Mandates, as set by the Santam Investment Committee, govern 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 Santam 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 international ratings from independent ratings agencies such as Standard & Poor's or, where such ratings are not available, by either national ratings or internal analysis. Santam seeks to avoid concentration of credit risk to groups of counterparties, to business sectors, product types and geographical segments.

Financial assets are graded according to current issuer credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB. Financial assets which fall outside this range are classified as not rated. Credit limits are set for each counterparty based on default probabilities that are in turn based on the ratings of the counterparty concerned.

The following table provides information regarding the aggregated credit risk exposure for financial assets:

	CREDIT RATING									
R million	AAA	AA+	AA	AA-	A+	A	A-	BBB	Not rated	Carrying value in statement of financial position
31 December 2013										
Debt securities – quoted	307	122	146	180	79	288	399	1 818	370	3 709
Debt securities – unquoted	–	528	627	139	32	60	401	1 520	290	3 597
Receivables due from contract holders/intermediaries	–	–	–	–	3	28	33	8	1 808	1 880
Reinsurance receivables	–	11	–	224	3	2	97	–	80	417
Other loans and receivables	20	29	2	4	23	2	10	45	252	387
Cash and other short-term interest-bearing instruments	113	366	309	557	378	15	1 018	870	141	3 767
Total	440	1 056	1 084	1 104	518	395	1 958	4 261	2 941	13 757
31 December 2012										
Debt securities – quoted	432	896	375	1 001	56	370	95	7	287	3 519
Debt securities – unquoted	–	1 132	931	991	9	60	–	51	264	3 438
Receivables due from contract holders/intermediaries	–	29	14	–	–	21	–	2	1 437	1 503
Reinsurance receivables	–	1	–	4	6	5	26	–	55	97
Other loans and receivables	6	53	11	27	3	5	21	1	361	488
Cash and other short-term interest-bearing instruments	126	1 480	229	976	268	194	33	17	65	3 388
Total	564	3 591	1 560	2 999	342	655	175	78	2 469	12 433

The carrying amount of assets included in the statement of financial position represents the maximum credit exposure. Receivables that are due from contract holders and intermediaries emanating from the Southern African business amounted to R1 880 million (2012: R1 503 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. Debtors falling into the "Not rated" category are managed by the internal credit control departments on a daily basis to ensure recoverability of amounts.

The financial instruments, except amounts owed by reinsurers and Santam's exposure to the four large South African banks, do not represent a concentration of credit risk. In terms of Santam's internal risk appetite framework not more than 15% of portfolio assets may be invested in any one of the four major South African banks. Accounts receivable are spread among a number of major companies and intermediary parties, customers and geographic areas.

Reinsurance credit exposures

Reinsurance is used to manage insurance risk. However, this does not discharge Santam's liability as the 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 (2012: Lloyds).

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 locally and internationally 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.

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:

	2013	2012	2011	2010	2009	2008	2007
Claims paid and provided %*	69,3	68,3	64,2	64,1	70,6	68,4	68,2

**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.

Santam underwrites insurance contracts in Southern Africa. The Santam Re business unit underwrites insurance contracts in other emerging market territories, including Africa, India and South-East Asia.

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.

Payment development

Short-term insurance claims – gross

Reporting year	Total R million	CLAIMS PAID IN RESPECT OF 2013	2012	2011	2010	2009	2008	2007	2006 and prior
– 2013	13 148	9 152	3 411	250	154	106	47	18	10
– 2012	11 341	–	8 176	2 366	370	171	158	58	42
– 2011	10 327	–	–	7 767	2 141	247	52	54	66
– 2010	9 999	–	–	–	7 144	2 236	411	116	92
– 2009	10 016	–	–	–	–	7 702	1 959	197	158
– 2008	8 996	–	–	–	–	–	7 181	1 547	268
– 2007	7 971	–	–	–	–	–	–	6 219	1 752
– 2006	6 988	–	–	–	–	–	–	–	6 988
– 2005	5 955	–	–	–	–	–	–	–	5 955
– 2004	4 797	–	–	–	–	–	–	–	4 797
Cumulative payments to date	89 538	9 152	11 587	10 383	9 809	10 462	9 808	8 209	20 128

Short-term insurance claims – net

Reporting year	Total R million	CLAIMS PAID IN RESPECT OF 2013	2012	2011	2010	2009	2008	2007	2006 and prior
Actual claims costs:									
– 2013	11 335	8 423	2 493	168	127	79	35	7	3
– 2012	9 904	–	7 616	1 743	250	116	137	36	6
– 2011	8 989	–	–	7 082	1 673	148	39	23	24
– 2010	8 710	–	–	–	6 401	1 816	323	103	67
– 2009	8 805	–	–	–	–	6 928	1 651	131	95
– 2008	7 727	–	–	–	–	–	6 172	1 381	174
– 2007	6 672	–	–	–	–	–	–	5 292	1 380
– 2006	6 020	–	–	–	–	–	–	–	6 020
– 2005	5 185	–	–	–	–	–	–	–	5 185
– 2004	4 064	–	–	–	–	–	–	–	4 064
Cumulative payments to date	77 411	8 423	10 109	8 993	8 451	9 087	8 357	6 973	17 018

Reporting development

Short-term insurance claims provision – gross

Reporting year	Total R million	2013	2012	2011	2010	2009	2008	2007	2006 and prior
		CLAIMS PAID IN RESPECT OF							
Provision raised:									
– 2013	5 523	3 267	788	376	462	195	175	151	109
– 2012	4 948	—	3 133	599	434	304	213	170	95
– 2011	4 192	—	—	2 448	652	333	303	191	265
– 2010	3 777	—	—	—	2 325	556	312	171	413
– 2009	4 288	—	—	—	—	2 617	712	401	558
– 2008	4 075	—	—	—	—	—	2 579	630	866
– 2007	3 774	—	—	—	—	—	—	2 804	970
– 2006	3 922	—	—	—	—	—	—	—	3 922
– 2005	3 187	—	—	—	—	—	—	—	3 187
– 2004	2 436	—	—	—	—	—	—	—	2 436
	40 122	3 267	3 921	3 423	3 873	4 005	4 294	4 518	12 821

Short-term insurance claims provision – net

Reporting year	Total R million	2013	2012	2011	2010	2009	2008	2007	2006 and prior
		CLAIMS PAID IN RESPECT OF							
Provision raised:									
– 2013	4 207	2 459	568	331	298	172	146	132	101
– 2012	3 971	—	2 550	466	326	241	162	145	81
– 2011	3 273	—	—	1 919	509	260	220	149	216
– 2010	2 896	—	—	—	1 813	402	228	132	321
– 2009	2 952	—	—	—	—	1 861	435	280	376
– 2008	2 699	—	—	—	—	—	1 805	403	491
– 2007	2 444	—	—	—	—	—	—	1 807	637
– 2006	2 484	—	—	—	—	—	—	—	2 484
– 2005	1 909	—	—	—	—	—	—	—	1 909
– 2004	1 056	—	—	—	—	—	—	—	1 056
	27 891	2 459	3 118	2 716	2 946	2 936	2 996	3 048	7 672

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 periods 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 the 75th percentile level of sufficiency at the very least.

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 program 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 the range of R25 million to R50 million per risk, excluding reinstatement premiums due as a result of the claim against the cover; and
- Catastrophe cover to the extent of 1,3% of the total exposure of the significant geographical areas, amounting to protection of up to R7,5 billion per event in excess of an attachment point or R100 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 & Poor's or AM Best.

Liquidity risk

Santam actively manages its liquid assets to ensure that financial instruments and insurance liabilities are settled on a timely basis. Santam has sufficient liquid and open ended resources to cover its obligations. Open ended resources can be liquidated on demand. R6,6 billion (2012: R9,7 billion) of insurance liabilities are payable within one year, with the remaining balance 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.

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.

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 2013					
Term finance liabilities	(642)	(1 396)	–	–	(2 038)
Interest-bearing liabilities held in respect of margin business (refer to note 16.1 in annual financial statements)	(642)	(1 396)	–	–	(2 038)
Add: Preference shares issued to subsidiaries and eliminated on consolidation.					
Assets held in respect of term finance	1 497	66	–	475	2 038
Equities and similar securities	–	–	–	475	475
Corporate interest-bearing investments	1 472	2	–	–	1 474
Cash, deposits and similar securities	3	–	–	–	3
Working capital assets and liabilities	22	64	–	–	86
Net term finance liquidity position	855	(1 330)	–	475	–

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
31 December 2012					
Term finance liabilities	(1 224)	(263)	—	—	(1 487)
Interest-bearing liabilities held in respect of margin business (refer to note 16.1 in annual financial statements)	(1 224)	(263)	—	—	(1 487)
Add: Preference shares issued to subsidiaries and eliminated on consolidation.					
Assets held in respect of term finance	477	431	—	579	1 487
Equities and similar securities	—	—	—	579	579
Corporate interest-bearing investments	327	367			694
Cash, deposits and similar securities	4	1	—	—	5
Working capital assets and liabilities	146	63	—	—	209
Net term finance liquidity position	(747)	168	—	579	—

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 2013					
Term finance liabilities	—	—	(2 026)	—	(2 026)
Interest-bearing liabilities	—	—	(2 026)	—	(2 026)
Add: Unsecured bonds issued to subsidiaries and eliminated on consolidation	—	—	—	—	—
Assets held in respect of term finance	47	1 289	446	244	2 026
Government interest-bearing investments	—	320	11	—	331
Corporate interest-bearing investments	15	774	424	—	1 213
Mortgages, policy and other loans	—	53	11	—	64
Structured transactions	33	140	—	—	173
Investment funds	—	—	—	244	244
Cash, deposits and similar securities	56	2	—	—	58
Working capital assets and liabilities	(57)	—	—	—	(57)
Net term finance liquidity position	47	1 289	(1 580)	244	—
31 December 2012					
Term finance liabilities	—	—	(2 087)	—	(2 087)
Interest-bearing liabilities	—	—	(2 062)	—	(2 062)
Add: Unsecured bonds issued to subsidiaries and eliminated on consolidation	—	—	(25)	—	(25)
Assets held in respect of term finance	318	1 561	70	138	2 087
Government interest-bearing investments	—	16	23	—	39
Corporate interest-bearing investments	249	1 238	34	—	1 521
Mortgages, policy and other loans	15	24	13	—	52
Structured transactions	158	239	—	—	397
Investment funds	—	—	—	138	138
Cash, deposits and similar securities	(13)	44	—	—	31
Working capital assets and liabilities	(91)	—	—	—	(91)
Net term finance liquidity position	318	1 561	(2 017)	138	—

Sensitivity analysis – market risk

Refer to page 151 for an analysis of the Group's exposure to market risk as measured by GEV.

BASIS OF PRESENTATION

Introduction

The consolidated financial statements are prepared on the historical-cost basis, unless indicated otherwise, in accordance with International Financial Reporting Standards (IFRS), and the Companies Act 71 of 2008 (as amended), in South Africa. The financial statements are presented in South African rand rounded to the nearest million, unless otherwise stated. The following new or revised IFRS and interpretations are applied in the Group's 2013 financial year:

- IFRS 10 – *Consolidated Financial Statements*
- IFRS 11 – *Joint Arrangements*
- IFRS 12 – *Disclosure of Interests in Other Entities*
- IFRS 13 – *Fair Value Measurement*
- IAS 19 – *Employee Benefits* – Amendment regarding removal of corridor method and other comprehensive income treatment
- Amendment to IFRS 7 – Disclosures relating to offsetting of financial assets and liabilities
- Amendments to IAS 1 – Financial statement presentation
- IAS 27 – *Separate Financial Statements* – Consequential amendments resulting from consolidation project
- IAS 28 – *Investments in Associates and Joint Ventures* – Consequential amendments resulting from consolidation project
- May 2012 Improvements to IFRS.

The retrospective application of IFRS 10 required restatement of the Group's previous IFRS financial statements. The nature and the effect of this change are disclosed below. The application of the remainder of the new standards and interpretations did not have a significant impact on the Group's financial position, reported results and cash flows. Certain of these new standards, however, required additional disclosures in the financial statements.

IFRS 10 – *Consolidated Financial Statements*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Previously, only holdings in investment funds of greater than 50% were consolidated. As a result of the adoption of IFRS 10 the Group consolidated a number of additional funds, effectively leading to reclassifications of line items on the statement of financial position and the statement of comprehensive income.

This change has been applied retrospectively, as required by the transitional arrangements of IFRS 10, and hence led to reclassifications of the comparative information.

Alignment of investment classification for SAM classifications

All investments have been reclassified to new revised investment categories. These new categories align IFRS investment classifications with the required SAM classifications. All comparative information has been reclassified accordingly.

The impact of these reclassifications on the statement of financial position as at 1 January 2012 and 31 December 2012 as well as the statement of comprehensive income for the year ended 31 December 2012 is disclosed in note 41.

These reclassifications in the current and prior period had no impact on the Group's total comprehensive income, shareholders' fund or net asset value.

Additional disclosures

IFRS 12 – *Disclosure of Interests in Other Entities*

IFRS 12 is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. Additional information as required by this standard is provided in the annual financial statements.

IFRS 13 – *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 – *Financial Instruments: Disclosures.*

The following new or revised IFRS and interpretations have effective dates applicable to future financial years and have not been early adopted:

- Amendment to IAS 32 – Clarification of the instances in which the set off of financial assets and liabilities is allowed (effective 1 January 2014)
- Amendment to IFRS 10 – Investment entities exemption (effective 1 January 2014)
- IFRS 9 – *Financial Instruments* (effective 1 January 2018).

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 336.

The following sections provide additional information in respect of the presentation of selected items in the Group financial statements on pages 264 to 332.

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;
- The valuation of policy liabilities;
- Potential claims and contingencies; and
- The consolidation of investment funds where the Group has a significant non-controlling interest.

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 264 to 332 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 148 to 193.

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 260 to 263.

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 202 to 243;
- 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 Investments, which includes Investment Management, Capital Management and Sanlam Employee Benefits;
- 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 137 to 193. Refer to the financial review on pages 120 to 135 for additional information on these business segments and to the Group structure on page 14 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 that are controlled by Sanlam Limited or any of its subsidiaries. The Group has control over an entity where it has the right or is exposed to variable returns and has the power, directly or indirectly, to affect those returns. Specifically, the Group controls an entity if and only if the Group has:

- Power or existing rights over the entity or investee that give it the ability to direct relevant activities;
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights, the Group consider all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights.

The Group re-assesses on a continual basis whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

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 the Group has control to the effective dates when the Group ceases to have control, 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 non-controlling shareholders in subsidiaries is stated at the non-controlling shareholders' share of the recognised values of the subsidiaries' assets and liabilities. Net losses attributable to non-controlling shareholders in excess of the non-controlling shareholders' interest are recognised as negative reserves against non-controlling 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 non-controlling shareholders' interest.

The Group offers cell captive facilities to clients. A cell captive is a contractual arrangement entered into by the Group with a cell owner, whereby the risks and rewards associated with certain insurance activities accrue to the cell shareholder. Cell captives allow clients to purchase non-convertible preference shares in the registered insurance company which undertakes the professional insurance management of the cell, including: underwriting, reinsurance, claims management, actuarial and statistical analysis, investment and accounting services. The terms and conditions are governed by the shareholders' agreement. There are currently two distinct types of cell captive arrangements: a) first party, and b) third party.

- *First-party* cell captive arrangements are arrangements where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies. The cell shareholder and the policyholder are considered the same person. Where more than one contract is entered into with a single counterparty, it shall be considered a single contract, and the shareholder and insurance agreement are considered together for risk transfer purposes. As these contracts are a single contract there is no significant risk transfer and such cell captive facilities are accounted for as investment contracts.
- *Third-party* cell captive arrangements are arrangements where the cell shareholder provides its own client base with the opportunity to purchase branded insurance products. The insurance company is the principle to the insurance contract, although the business is underwritten on behalf of the cell shareholder. However, the shareholder's agreement determines that the cell shareholders remain responsible for the solvency of the cell captive arrangements. In substance, the insurance company therefore reinsures this business to the cell shareholder as the cell shareholder remains responsible for the solvency of the cell captive arrangement.

The cell shareholder's interest represents the cell shareholder's funds held by the insurer and is included under liabilities due to cell shareholders. The carrying value of amounts due to cells is the consideration received for preference shares plus the accumulated funds in respect of business conducted in the cells less repayment to cells.

Equipment

Equipment is reflected at its 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 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 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. Equipment 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.

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 non-controlling 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 assets 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 counterparties as part of the Group's capital market activities are not derecognised. No transfer of ownership takes place in respect of collateral other than cash and any such collateral accepted by counterparties may not be used for any purpose other than being held as security for the trades to which such security relates. In respect of cash security, ownership transfers in law. However, the counterparty has an obligation to refund the same amount of cash, together with interest, if no default has occurred in respect of the trades to which such cash security relates. Cash collateral is accordingly also not derecognised.

Classification

Financial instruments are classified into the following categories:

- *Financial assets:* At fair value through profit or loss; Loans and receivables
- *Financial liabilities:* At fair value through profit or loss; Other financial liabilities

The classification of financial instruments is determined at initial recognition based on the purpose for which the financial assets are acquired or liabilities assumed. Financial instruments classified as at fair value through profit or loss comprise 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 external 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 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 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);
- Interest-bearing investment;
- Structured transactions;
- Investment funds; 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. Structured transactions include derivatives, structured notes and collaterised securities.

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 flow 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 IFRS. Immediately before initial classification as held for sale, the assets to be reclassified are measured in accordance with applicable IFRS. 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 or 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 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;
- 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 a 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 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 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* – Amendment regarding removal of corridor method and other comprehensive income treatment 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 or losses recognised in other comprehensive income.

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 2013:

Deferred Share Plan (DSP)

The DSP was introduced in 2007. 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.

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.

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, Channel Life, Safrican Insurance Company and Sanlam Emerging Markets, as well as investment contracts issued by Sanlam Investments and Pensions, 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 2013 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, SAP 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 2013 exceeds the minimum requirements in terms of the LTIA, SAP 104 and APN 110.

The application of actuarial guidance, as set out in SAP 104 and APN 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 7 on page 191 for investment return assumptions per asset class.
- Unit expenses are based on the 2013 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 does 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 assessed annually 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.

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' and Channel Life's 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 6% 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 less than 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, among 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 and Channel Life.

A prospective calculation according to the relevant guidelines is performed for Sanlam Life's non-participating individual policies and for those with a small savings element. The provision for Sanlam Life's other individual policies (30% 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 changes.

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 APN 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.

GROUP STATEMENT OF FINANCIAL POSITION

at 31 December 2013

R million	Notes	2013	RESTATED 2012	RESTATED As at 01-01-12
ASSETS				
Equipment	1	**586**	449	514
Owner-occupied properties	2	**672**	665	586
Goodwill	3	**3 796**	3 457	3 195
Other intangible assets		**111**	63	47
Value of business acquired	4	**1 586**	1 599	1 611
Deferred acquisition costs	5	**2 976**	2 717	2 427
Long-term reinsurance assets	6	**796**	746	674
Investments	7	**477 550**	401 556	346 276
Properties	7.1	**9 182**	10 027	9 381
Fixed properties		**8 940**	9 660	8 899
Straight-line rental adjustment		**242**	367	482
Equity-accounted investments	7.2	**9 780**	5 412	2 938
Equities and similar securities	7.3	**166 122**	135 506	113 357
Interest-bearing investments	7.4	**131 417**	124 212	113 222
Structured transactions	7.4	**11 906**	14 831	13 895
Investment funds	7.4	**131 029**	97 622	79 629
Cash, deposits and similar securities	7.4	**18 114**	13 946	13 854
Deferred tax	8	**361**	450	640
Non-current assets held for sale	38	**415**	308	1 390
Short-term insurance technical assets	9	**2 716**	2 096	1 831
Working capital assets		**69 739**	76 847	61 478
Trade and other receivables	10	**51 339**	60 288	45 697
Cash, deposits and similar securities		**18 400**	16 559	15 781
Total assets		**561 304**	490 953	420 669
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital and premium	11	**22**	22	22
Treasury shares		**(3 581)**	(3 632)	(3 780)
Other reserves	12	**9 250**	8 793	8 865
Retained earnings		**35 274**	31 373	28 352
Shareholders' fund		**40 965**	36 556	33 459
Non-controlling interest	14	**3 651**	2 970	3 046
Total equity		**44 616**	39 526	36 505
Long-term policy liabilities	15	**382 309**	328 584	282 421
Insurance contracts		**158 575**	148 427	135 742
Investment contracts		**223 734**	180 157	146 679
Term finance	16	**6 129**	5 463	6 295
Margin business		**2 038**	1 487	2 414
Other interest-bearing liabilities		**4 091**	3 976	3 881
Derivative liabilities		**1 387**	610	212
External investors in consolidated funds		**55 710**	38 702	30 775
Cell owners' interest		**814**	688	603
Deferred tax	8	**2 142**	1 333	902
Short-term insurance technical provisions	9	**11 032**	9 877	8 682
Working capital liabilities		**57 165**	66 170	54 274
Trade and other payables	17	**54 799**	63 469	52 148
Provisions	18	**285**	396	423
Taxation		**2 081**	2 305	1 703
Total equity and liabilities		**561 304**	490 953	420 669

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

R million	Notes	2013	Restated 2012
Net income		**102 000**	89 337
Financial services income	19	**45 104**	40 414
Reinsurance premiums paid	20	**(4 963)**	(4 611)
Reinsurance commission received	21	**675**	583
Investment income	22	**19 688**	19 522
Investment surpluses	22	**47 350**	38 303
Finance cost – margin business	26	**(69)**	(185)
Change in fair value of external investors' liability		**(5 785)**	(4 689)
Net insurance and investment contract benefits and claims		**(71 376)**	(62 566)
Long-term insurance contract benefits	23	**(26 480)**	(27 977)
Long-term investment contract benefits	23	**(34 106)**	(24 690)
Short-term insurance claims		**(13 861)**	(12 185)
Reinsurance claims received	21	**3 071**	2 286
Expenses		**(18 418)**	(16 408)
Sales remuneration		**(5 825)**	(5 393)
Administration costs	24	**(12 593)**	(11 015)
Impairments	39	**(34)**	(206)
Amortisation of intangibles		**(263)**	(184)
Net operating result		**11 909**	9 973
Equity-accounted earnings	25	**1 224**	584
Finance cost – other	26	**(516)**	(453)
Profit before tax		**12 617**	10 104
Taxation	27	**(3 483)**	(3 670)
Shareholders' fund		**(2 422)**	(2 468)
Policyholders' fund		**(1 061)**	(1 202)
Profit for the year		**9 134**	6 434
Other comprehensive income: to be recycled through profit or loss in subsequent periods			
Movement in foreign currency translation reserve		**1 123**	128
Other comprehensive income: not to be recycled through profit or loss in subsequent periods			
Employee benefits re-measurement gain	32	**3**	—
Comprehensive income for the year		**10 260**	6 562
Allocation of comprehensive income:			
Profit for the year		**9 134**	6 434
Shareholders' fund		**8 131**	5 655
Non-controlling interest		**1 003**	779
Comprehensive income for the year		**10 260**	6 562
Shareholders' fund		**9 030**	5 760
Non-controlling interest		**1 230**	802
Earnings attributable to shareholders of the company (cents):			
Profit for the year:			
Basic earnings per share	28	**419,8**	293,3
Diluted earnings per share	28	**401,2**	281,4

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

R million	Note	Share capital	Share premium	Treasury shares	Non-distributable reserve
Balance at 1 January 2012 – previously reported		21	1	(3 780)	9 792
Change in accounting policies	41	—	—	—	—
Balance at 1 January 2012 – restated		21	1	(3 780)	9 792
Comprehensive income		—	—	—	—
Profit for the year		—	—	—	—
Other comprehensive income		—	—	—	—
Net (acquisition)/disposal of treasury shares[2]		—	—	148	—
Share-based payments		—	—	—	—
Transfer to non-distributable reserve		—	—	—	66
Transfer (from)/to consolidation reserve		—	—	—	—
Dividends paid[1]		—	—	—	—
Acquisitions, disposals and other movements in interests		—	—	—	—
Balance at 31 December 2012		21	1	(3 632)	9 858
Comprehensive income		**—**	**—**	**—**	**—**
Profit for the year		**—**	**—**	**—**	**—**
Other comprehensive income		**—**	**—**	**—**	**—**
Net (acquisition)/disposal of treasury shares[2]		**—**	**—**	**51**	**—**
Share-based payments		**—**	**—**	**—**	**—**
Transfer to non-distributable reserve		**—**	**—**	**—**	**59**
Transfer (from)/to consolidation reserve		**—**	**—**	**—**	**—**
Dividends paid[1]		**—**	**—**	**—**	**—**
Acquisitions, disposals and other movements in interests		**—**	**—**	**—**	**—**
Balance at 31 December 2013		**21**	**1**	**(3 581)**	**9 917**

[1] *A normal dividend of 165 cents per share and a special dividend of 50 cents per share declared during 2013 in respect of the 2012 financial year (2012: normal dividend of 130 cents per share).*

[2] *Comprises movement in cost of shares held by subsidiaries, share incentive trust and other consolidated funds.*

Foreign currency translation reserve	Retained earnings	Subtotal: equity holders	Consoli-dation reserve	Total: equity holders	Non-controlling interest	Total equity
(94)	28 352	34 292	(470)	33 822	3 046	36 868
—	—	—	(363)	(363)	—	(363)
(94)	28 352	34 292	(833)	33 459	3 046	36 505
105	5 655	5 760	—	5 760	802	6 562
—	5 655	5 655	—	5 655	779	6 434
105	—	105	—	105	23	128
—	(320)	(172)	(107)	(279)	2	(277)
—	235	235	—	235	22	257
—	(66)	—	—	—	—	—
—	136	136	(136)	—	—	—
—	(2 556)	(2 556)	—	(2 556)	(851)	(3 407)
—	(63)	(63)	—	(63)	(51)	(114)
11	31 373	37 632	(1 076)	36 556	2 970	39 526
896	**8 134**	**9 030**	**—**	**9 030**	**1 230**	**10 260**
—	**8 131**	**8 131**	**—**	**8 131**	**1 003**	**9 134**
896	**3**	**899**	**—**	**899**	**227**	**1 126**
—	**(195)**	**(144)**	**(175)**	**(319)**	**11**	**(308)**
—	**329**	**329**	**—**	**329**	**46**	**375**
—	**(59)**	**—**	**—**	**—**	**—**	**—**
—	**(29)**	**(29)**	**29**	**—**	**—**	**—**
—	**(4 283)**	**(4 283)**	**—**	**(4 283)**	**(518)**	**(4 801)**
—	**4**	**4**	**(352)**	**(348)**	**(88)**	**(436)**
907	**35 274**	**42 539**	**(1 574)**	**40 965**	**3 651**	**44 616**

GROUP CASH FLOW STATEMENT

for the year ended 31 December 2013

R million	Notes	2013	Restated 2012
Cash flow from operating activities		**10 372**	8 818
Cash generated/(utilised) in operations	36.1	**305**	(2 811)
Interest and preference share dividends received		**11 351**	11 295
Interest paid		**(585)**	(638)
Dividends received		**6 785**	6 706
Dividends paid		**(4 679)**	(3 284)
Taxation paid		**(2 805)**	(2 450)
Cash flow from investment activities		**(4 529)**	(6 611)
Net acquisition of investments		**(2 108)**	(4 461)
Acquisition of subsidiaries and associated companies	36.2	**(2 913)**	(2 654)
Disposal of subsidiaries and associated companies	36.3	**492**	504
Cash flow from financing activities		**143**	(1 337)
Movement in treasury shares		**(308)**	(277)
Term finance raised		**2 570**	85
Term finance repaid		**(2 119)**	(1 145)
Net increase in cash and cash equivalents		**5 986**	870
Cash, deposits and similar securities at beginning of the year		**30 505**	29 635
Cash, deposits and similar securities at end of the year	36.4	**36 491**	30 505

for the year ended 31 December 2013

	R million	2013	2012
1.	**Equipment**		
	Computer equipment	380	269
	Cost	1 184	989
	Accumulated depreciation and impairment	(804)	(720)
	Furniture, equipment, vehicles and other	206	180
	Cost	643	578
	Accumulated depreciation and impairment	(437)	(398)
	Equipment	586	449
	Reconciliation of carrying amount		
	Balance at beginning of the year	449	514
	Additions and expenditure capitalised	348	223
	Disposals	(19)	(74)
	Depreciation	(205)	(216)
	Foreign currency translation differences	13	2
	Balance at end of the year	586	449
2.	**Owner-occupied properties**		
	Balance at beginning of the year	665	586
	Additions and expenditure capitalised	7	79
	Balance at end of the year	672	665

for the year ended 31 December 2013

R million	2013	2012
3. Goodwill		
Balance at beginning of the year	**3 457**	3 195
Gross carrying amount	**3 626**	3 316
Accumulated impairment	**(169)**	(121)
Additions during the year	**296**	306
Impairments	**(5)**	(48)
Foreign currency translation differences	**48**	4
Balance at end of the year	**3 796**	3 457
Gross carrying amount	**3 970**	3 626
Accumulated impairment	**(174)**	(169)
Allocation of goodwill		
Life insurance	**504**	500
Sanlam Life and Pensions UK	**356**	356
Sanlam Developing Markets	**36**	32
Channel Life	**96**	96
Other	**16**	16
Other Sanlam businesses	**3 292**	2 957
Sanlam UK (excluding Sanlam Life and Pensions UK)	**71**	56
Sanlam Investment Management	**442**	442
International: Investment Management	**278**	61
Glacier	**98**	98
Sanlam Netherlands Holding	**49**	49
Santam	**1 042**	955
Other	**114**	98
Goodwill held on Group level	**1 198**	1 198
Balance at end of the year	**3 796**	3 457

The additions to Goodwill are primarily due to the acquisition of a controlling interest in Travel Insurance Consultants and Centriq Holdings by Santam, the acquisition of a controlling interest in FOUR Capital Partners and Centre Asset Management by Sanlam Netherlands Holding and acquisitions by Anglo African Finance (Pty) Limited.

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 148 for an analysis of Group Equity Value as well as pages 173, and 191 to 193 for valuation assumptions used.

R million	2013	2012
4. Value of business acquired		
Balance at beginning of the year	1 599	1 611
Additions during the year	60	180
Foreign currency translation differences	157	43
Disposals	—	(9)
Amortisation	(230)	(147)
Impairments	—	(79)
Balance at end of the year	1 586	1 599
Gross carrying amount	2 543	2 326
Accumulated amortisation and impairment	(957)	(727)
Allocation of value of business acquired		
Sanlam UK	663	582
Sanlam Developing Markets	659	701
Other	264	316
Balance at end of the year	1 586	1 599

The additions to value of business acquired relate primarily to the acquisition of databases by Sanlam UK and the acquisition of Regent and the Centriq Holdings Book by Santam.

Amortisation and impairment of value of business acquired

Value of business acquired is amortised to the statement of comprehensive income 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 to. 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 148 for an analysis of Group Equity Value. Refer to note 39 for impairments of value of business acquired recognised during the year.

R million	2013	2012
5. Deferred acquisition costs		
Balance at beginning of the year	2 717	2 427
Credited to the statement of comprehensive income	259	290
Acquisition costs capitalised	598	515
Expensed for the year	(339)	(225)
Balance at end of the year	2 976	2 717

for the year ended 31 December 2013

R million	2013	2012
6. Long-term reinsurance assets		
Balance at beginning of the year	**746**	674
Movement in reinsurers' share of insurance liabilities	**50**	72
Balance at end of the year	**796**	746
Maturity analysis of long-term reinsurance assets		
Due within one year	**17**	20
Due within two to five years	**167**	133
Due after five years	**612**	593
Total long-term reinsurance assets	**796**	746
Amounts due from reinsurers in respect of claims incurred by the Group that are reinsured, are included in trade and other receivables (refer to note 10).		
7. Investments		
7.1 Properties		
Properties comprise:		
Office buildings	**3 083**	2 634
Retail buildings	**2 511**	4 188
Industrial buildings	**567**	610
Undeveloped land	**28**	43
International properties (situated outside South Africa, including listed properties)	**2 753**	2 337
Other	**240**	215
Total properties	**9 182**	10 027
Less: Straight-line rental adjustment	**(242)**	(367)
Total investment properties	**8 940**	9 660

R million	2013	2012
7. Investments *(continued)*		
7.1 Properties *(continued)*		
Reconciliation of carrying amount of properties		
Fixed properties – balance at beginning of the year	**10 027**	9 554
Additions	**721**	190
Disposals	**(2 348)**	(503)
Other movements	**(2)**	—
Foreign currency translation differences	**524**	151
Investment surpluses	**260**	635
Fixed properties – balance at end of year	**9 182**	10 027
Reconciliation of straight-line rental adjustment		
Straight-line rental adjustment – balance at beginning of the year	**367**	482
Disposals	**(28)**	(24)
Movement for the year included in the statement of comprehensive income	**(97)**	(91)
Straight-line rental adjustment – balance at end of the year	**242**	367
Contractual future minimum lease payments receivable under non-cancellable operating leases:		
Within one year	**641**	899
Within two to five years	**1 501**	1 776
After more than five years	**791**	929
Future minimum lease payments	**2 933**	3 604

R million	Notes	2013	2012
7.2 Equity-accounted investments			
Investments in associated companies	7.2.1	**8 953**	4 927
Shriram Capital		**3 191**	2 604
Shriram Transport Finance Company		**1 406**	—
Letshego		**1 376**	1 122
Pacific & Orient		**968**	—
Capricorn Investment Holdings		**780**	—
Other associated companies		**1 232**	1 201
Investments in joint ventures	7.2.2	**827**	485
Sanlam Personal Loans		**542**	467
Other joint ventures		**285**	18
Total equity-accounted investments		**9 780**	5 412

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R million	Shriram Capital[1] 2013	Shriram Capital[1] 2012	Shriram Transport Finance Company[1] 2013	Shriram Transport Finance Company[1] 2012
7. Investments *(continued)*				
7.2 Equity-accounted investments *(continued)*				
7.2.1 Investments in associated companies				
Details of material associated companies:				
Carrying value of interest – equity method	3 191	2 604	1 406	—
Fair value of interest – based on internal valuation	3 078	2 560	1 297	—
Fair value of interest – based on quoted prices	3 102	2 655	1 284	—
Effective interest in issued share capital – Shareholders' fund[2]	26%	26%	5%	—
Summarised financial information:				
Non-current assets	18 638	13 888	42 817	—
Current assets	3 764	5 209	48 823	—
Non-current liabilities	(2 576)	(2 787)	(43 860)	—
Current liabilities	(6 843)	(5 838)	(34 084)	—
Non-controlling interest	(4 092)	(3 302)	—	—
Shareholders' equity	8 891	7 170	13 696	—
	3 191	2 604	1 406	—
Calculated carrying value	2 947	2 377	681	—
Goodwill recognised in the carrying value of associate	244	227	725	—
Dividends received	—	—	—	—
Revenue	4 096	—	13 322	—
Post-tax profit/(loss) from continuing operations	1 413	—	2 440	—
Other comprehensive income	—	—	—	—
Total comprehensive income	1 413	—	2 440	—

[1] *Shriram Capital was acquired with an effective date of 1 October 2012, with its business operations (credit, life and general insurance) mainly in India. No earnings have been accounted for the period 1 October 2012 to 31 December 2012 due to a three-month lag in the Shriram Capital results as allowed in terms of IFRS due to Shriram Capital having a 31 March year-end. Earnings for 2013 have been accounted for the period 1 October 2012 to 30 September 2013. The Group also holds a 4,97% direct interest in Shriram Transport Finance Company (associated company of Shriram Capital) acquired between February 2013 and August 2013.*

[2] *The interest relates to the holding of Shriram Financial Ventures (Chennai) Limited in Shriram Capital. The Group has a 33,15% interest in Shriram Financial Ventures (Chennai) Limited.*

R million	LETSHEGO(2) 2013	2012
7. Investments *(continued)*		
7.2 Equity-accounted investments *(continued)*		
7.2.1 Investments in associated companies *(continued)*		
Carrying value of interest – equity method	**1 376**	1 122
Fair value of interest – based on internal valuation	**1 286**	1 122
Fair value of interest – based on quoted prices	**1 421**	1 089
Interest in issued share capital – Shareholders' fund	**23%**	25%
Summarised financial information:		
Non-current assets	**146**	109
Current assets	**5 946**	3 980
Non-current liabilities	**(1 505)**	(828)
Current liabilities	**(371)**	(195)
Non-controlling interest	**(113)**	(90)
Shareholders' equity	**4 103**	2 976
	1 376	1 122
Calculated carrying value	**960**	754
Goodwill recognised in the carrying value of associate	**416**	368
Dividends received	**41**	34
Revenue	**1 293**	1 109
Post-tax profit/(loss) from continuing operations	**719**	601
Other comprehensive income	**—**	—
Total comprehensive income	**719**	601

(2) The Group has an effective 23% interest in Letshego, a listed retail credit business in Botswana.

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R million	PACIFIC & ORIENT[3] 2013	PACIFIC & ORIENT[3] 2012	CAPRICORN INVESTMENT HOLDINGS[4] 2013	CAPRICORN INVESTMENT HOLDINGS[4] 2012
7. Investments *(continued)*				
7.2 Equity-accounted investments *(continued)*				
7.2.1 Investments in associated companies *(continued)*				
Carrying value of interest – equity method	968	—	780	—
Fair value of interest – based on internal valuation	956	—	764	—
Fair value of interest – based on quoted prices	—	—	751	—
Interest in issued share capital – shareholders' fund	49%	—	22%	—
Summarised financial information:				
Non-current assets	2 671	—	22 723	—
Current assets	291	—	4 420	—
Non-current liabilities	—	—	(4 322)	—
Current liabilities	(2 105)	—	(19 305)	—
Non-controlling interest	—	—	(1 354)	—
Shareholders' equity	857	—	2 162	—
	968		780	
Calculated carrying value	420	—	482	—
Goodwill recognised in the carrying value of associate	548	—	298	—
Dividends received	—	—	—	—
Revenue	727	—	1 512	—
Post-tax profit/(loss) from continuing operations	115	—	375	—
Other comprehensive income	—	—	—	—
Total comprehensive income	115	—	375	—

[3] The Group acquired a 49% interest in Pacific & Orient Insurance Co Berhad, a niche short-term insurance business in Malaysia with an effective date of 1 May 2013. The earnings recognised in the Group's results are for the period 1 May 2013 to 31 December 2013.

[4] The Group acquired an effective 22% interest in Capricorn Investment Holdings, an investment company in Namibia with an effective date of 1 July 2013. The earnings recognised in the Group's results are for the period 1 July 2013 to 31 December 2013.

R million	2013	2012
Details of immaterial associated companies:		
Post-tax profit/(loss) from continuing operations	400	253
Other comprehensive income	—	—
Total comprehensive income	400	253

R million	SANLAM PERSONAL LOANS[1] 2013	2012
7. Investments *(continued)*		
7.2 Equity-accounted investments *(continued)*		
7.2.2 Investments in joint ventures		
Details of material joint ventures:		
Carrying value of interest – equity method	**542**	467
Fair value of interest – based on internal valuation	**967**	816
Effective interest in issued share capital	**70%**	70%
Class A	**70%**	70%
Class B	**0%**	70%
Summarised financial information:		
Non-current assets	**2 629**	2 225
Current assets	**892**	770
Cash and cash equivalents	**39**	46
Other current assets	**853**	724
Non-current liabilities	**(1 549)**	(1 405)
Deferred tax	**—**	—
Long-term borrowings	**(1 549)**	(1 405)
Other non-current liabilities	**—**	—
Current liabilities	**(1 269)**	(1 093)
Trade and other payables	**(28)**	(30)
Short-term borrowings	**(1 227)**	(1 063)
Taxation payable	**(14)**	—
Non-controlling interest	**2**	1
Net asset attributable to class B shares	**(17)**	—
Total equity	**688**	498
Calculated carrying value	**482**	351
Shareholders' loan	**60**	116
	542	467
Dividends received	**—**	—
Revenue	**129**	117
Interest income	**739**	607
Interest expense	**(220)**	(166)
Taxation	**(86)**	(88)
Post-tax profit/(loss) from continuing operations	**187**	212
Other comprehensive income	**—**	—
Total comprehensive income	**187**	212

[1] *The Group has a 70% interest in Sanlam Personal Loans, a jointly controlled entity in the personal loan business in South Africa.*

	2013	2012
Details of individually immaterial joint ventures:		
Post-tax profit/(loss) from continuing operations	**87**	—
Other comprehensive income	**—**	—
Total comprehensive income	**87**	—

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R million	2013	2012
7. Investments *(continued)*		
7.3 Equities		
Equities and similar securities comprise:		
Listed on the JSE – at market value	65 450	59 774
Unlisted – at directors' valuation	1 488	2 217
Offshore equity investments	4 372	4 802
Listed – at market value	3 524	3 718
Unlisted – at directors' valuation	848	1 084
Equities held by consolidated investment funds	94 812	68 713
Total equities and similar securities	166 122	135 506
Classification of equities and similar securities		
Designated as at fair value through profit or loss	166 097	135 493
Held for trading at fair value	25	13
Total equities and similar securities	166 122	135 506

%	2013	2012
Spread of equities listed on the JSE by sector[1]		
Basic materials	15,4%	20,1%
Consumer goods	16,9%	13,5%
Consumer services	15,1%	11,2%
Financials	19,5%	21,7%
General industrials	11,2%	11,5%
Information technology	0,1%	0,0%
Healthcare	2,2%	1,8%
Property	3,4%	1,2%
Telecommunications	10,8%	11,4%
Other	5,4%	7,6%
	100%	100%

[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 Investments other than equities and similar securities, equity-accounted investments and properties				
31 December 2013				
Interest-bearing investments	**131 017**	**—**	**400**	**131 417**
Government interest-bearing investments	**60 440**	**—**	**—**	**60 440**
Corporate interest-bearing investments	**66 861**	**—**	**309**	**67 170**
Other interest-bearing investments	**3 716**	**—**	**91**	**3 807**
Structured transactions	**11 317**	**589**	**—**	**11 906**
Investment funds	**131 029**	**—**	**—**	**131 029**
Cash, deposits and similar securities	**18 108**	**—**	**6**	**18 114**
	291 471	**589**	**406**	**292 466**
31 December 2012				
Interest-bearing investments	123 781	—	431	124 212
Government interest-bearing investments	52 275	—	—	52 275
Corporate interest-bearing investments	69 104	—	319	69 423
Other interest-bearing investments	2 402	—	112	2 514
Structured transactions	14 337	494	—	14 831
Investment funds	97 622	—	—	97 622
Cash, deposits and similar securities	13 941	—	5	13 946
	249 681	494	436	250 611

[1] *The estimated fair value of investments valued at amortised cost amounts to R406 million (2012: R436 million) and is classified as level 3 instruments and the valuation is based on discounted cash flows.*

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R million	<1 year	1 – 5 years	>5 years	Open ended	Total
7. Investments *(continued)*					
7.4 Investments other than equities and similar securities, equity-accounted investments and properties *(continued)*					
Maturity analysis:					
31 December 2013					
Interest-bearing investments	10 474	33 677	62 027	25 239	131 417
Government interest-bearing investments	505	4 443	48 683	6 809	60 440
Corporate interest-bearing investments	9 588	27 336	11 818	18 428	67 170
Other interest-bearing investments	381	1 898	1 526	2	3 807
Structured transactions	—	—	—	11 906	11 906
Investment funds	—	—	—	131 029	131 029
Cash, deposits and similar securities	11 539	2 522	280	3 773	18 114
Total	22 013	36 199	62 307	171 947	292 466
31 December 2012					
Interest-bearing investments	12 661	36 277	53 063	22 211	124 212
Government interest-bearing investments	1 020	4 601	41 995	4 659	52 275
Corporate interest-bearing investments	11 554	30 824	9 737	17 308	69 423
Other interest-bearing investments	87	852	1 331	244	2 514
Structured transactions	—	—	—	14 831	14 831
Investment funds	—	—	—	97 622	97 622
Cash, deposits and similar securities	8 643	1 793	186	3 324	13 946
Total	21 304	38 070	53 249	137 988	250 611

Structured transactions and investment funds are classified as open ended. Assets are considered open-ended when they have no fixed maturity date or regularly traded to meet liquidity requirements.

R million	2013	2012
Listed	100 539	69 160
Unlisted	48 992	68 998
Designated as at fair value through profit or loss	48 586	68 562
Loans and receivables at amortised cost	406	436
Structured transactions	11 906	14 831
Investment funds	131 029	97 622
Total investments other than equities and similar securities, equity-accounted investments and properties	292 466	250 611
Unlisted investments (other than equities and similar securities, equity-accounted investments, structured transactions, properties and investment funds)		
Maximum exposure to credit risk at the reporting date	48 992	68 998

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 2013 and 2012 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 2012	640	(902)
Temporary differences credited/(charged) to the statement of comprehensive income	(220)	(394)
Accruals and provisions	(60)	—
Tax losses and credits	(121)	—
Net unrealised investment surpluses on shareholders' fund	(6)	(313)
Net unrealised investment surpluses on policyholders' fund	—	(48)
Secondary tax on companies	(80)	—
Other temporary differences	47	(33)
Acquisition of subsidiaries	(10)	—
Foreign currency translation differences	2	(1)
Disposal of subsidiaries	2	—
Balance at 31 December 2012	414	(1 297)
Temporary differences (charged)/credited to the statement of comprehensive income	**(94)**	**(796)**
Accruals and provisions	**(29)**	**4**
Tax losses and credits	**(34)**	**—**
Net unrealised investment surpluses on shareholders' fund	**20**	**(492)**
Net unrealised investment surpluses on policyholders' fund	**—**	**(249)**
Other temporary differences	**(51)**	**(59)**
Acquisition of subsidiaries	**—**	**4**
Foreign currency translation differences	**3**	**(15)**
Balance at 31 December 2013	**323**	**(2 104)**
Analysis of deferred tax balances at 31 December 2013	**323**	**(2 104)**
Accruals and provisions	**221**	**4**
Tax losses and credits	**162**	**—**
Unrealised gains/losses on shareholders' fund	**(39)**	**(1 213)**
Unrealised gains/losses on policyholders' fund	**—**	**(830)**
Other temporary differences	**(21)**	**(65)**
Analysis of deferred tax balances at 31 December 2012	414	(1 297)
Accruals and provisions	250	—
Tax losses and credits	196	—
Unrealised gains/losses on shareholders' fund	(59)	(721)
Unrealised gains/losses on policyholders' fund	—	(581)
Other temporary differences	27	5

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R million	2013	2012
8. Deferred tax *(continued)*		
Total deferred tax asset recognised	361	450
Total deferred tax liability recognised	(2 142)	(1 333)
Total net deferred tax	(1 781)	(883)
9. Short-term insurance technical provisions		
Short-term insurance technical provisions	11 032	9 877
Outstanding claims	7 119	6 336
Provision for unearned premiums	3 740	3 394
Deferred reinsurance acquisition revenue	173	147
Less: Short-term insurance technical assets	2 716	2 096
Reinsurers' share of technical provisions		
Outstanding claims	1 521	1 173
Unearned premiums	823	582
Deferred acquisition cost	372	341
Net short-term insurance technical provisions	8 316	7 781

Analysis of movement in short-term insurance technical provisions

	2013			2012		
R million	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Outstanding claims						
Balance at beginning of the year	6 336	(1 173)	5 163	5 550	(1 069)	4 481
Cash paid for claims settled in the year	(13 144)	1 873	(11 271)	(11 427)	1 481	(9 946)
Increase in liabilities	13 927	(2 221)	11 706	12 213	(1 585)	10 628
Balance at end of the year	7 119	(1 521)	5 598	6 336	(1 173)	5 163
Unearned premiums						
Balance at beginning of the year	3 394	(582)	2 812	3 030	(429)	2 601
Net increase/(release) in the period	346	(241)	105	364	(153)	211
Balance at end of the year	3 740	(823)	2 917	3 394	(582)	2 812

R million	2013	2012
10. Trade and other receivables		
Premiums receivable	4 857	4 528
Accrued investment income	2 344	2 006
Trading account	36 626	43 612
Amounts due from reinsurers	801	419
Accounts receivable	6 711	9 723
Total trade and other receivables	**51 339**	**60 288**
Classification of trade and other receivables:		
Held for trading at fair value	36 626	43 612
Loans and receivables at amortised cost	14 713	16 676
	51 339	60 288
Trade and other receivables, excluding trading account, are receivable within one year. The estimated fair value of receivables at amortised cost approximate the carrying value. This valuation is based on a discounted cash flow basis and is classified as level 3.		
Maturity analysis of trading account – fair value		
Due within one year	6 376	2 521
Due within two to five years	9 375	10 267
Due after five years	6 302	6 758
Open ended	14 573	24 066
Total trading account	**36 626**	**43 612**
Maturity analysis of trading account – undiscounted		
Due within one year	9 152	5 462
Due within two to five years	11 036	13 229
Due after five years	13 198	8 182
Open ended	14 573	24 066
Total trading account	**47 959**	**50 939**

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R million		2013	2012
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 at no par value	R million	—	0,6
Balance at end of the year	R million	40,6	41,2
Issued share capital: ordinary shares			
Total shares in issue at beginning of the year	million	2 100,0	2 100,0
Shares cancelled during the year	million	—	—
Total shares in issue at end of the year	million	2 100,0	2 100,0
Shares held by subsidiaries	million	(168,9)	(163,9)
Balance at end of the year	million	1 931,1	1 936,1
% of ordinary shares held by subsidiaries		8,0%	7,8%
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		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

The contractual measurement period applying to the reclassification of the Sanlam deferred shares ended in December 2013. In terms of the contractual new business volumes formula, a total of 66,5 million deferred shares qualify for reclassification as Sanlam Limited ordinary shares. This includes 10 million of the 'B' deferred shares to be issued to Ubuntu-Botho at 1 cent each in 2014, and together with the 56,5 million 'A' deferred shares, will be reclassified as ordinary shares. This will increase Sanlam Limited's issued ordinary shares to 2 166,5 million.

A register containing details of rights attached to the deferred shares, is available for inspection at the registered office of Sanlam Limited.

Special resolutions by subsidiary companies since the date of the previous directors' report relate to approval of directors' remuneration, general authority to purchase shares, general authority to provide assistance in terms of section 44 of the Companies Act, and general authority to provide assistance to inter-related companies in terms of section 45 of the Companies Act.

	Shares 2013 000's	Options 2013 000's	Average option price 2013 R	Shares 2012 000's	Options 2012 000's	Average option price 2012 R
11. Share capital and premium *(continued)*						
Executive share incentive scheme						
Total number of shares and share options at beginning of the year	**41 536**	**–**	**–**	44 220	3 202	8,22
Unrestricted shares and share options at beginning of the year	**(2 064)**	**–**	**–**	(2 682)	(3 202)	8,22
Restricted shares and share options at beginning of the year	**39 472**	**–**	**–**	41 538	–	–
New restricted shares granted in terms of restricted share and DSP schemes	**7 016**	**–**	**–**	9 593	–	–
Unconditional options and shares released, available for release, or taken up	**(8 996)**	**–**	**–**	(10 372)	–	–
Options and shares forfeited	**(823)**	**–**	**–**	(1 287)	–	–
Restricted shares and share options at end of the year	**36 669**	**–**	**–**	39 472	–	–
Unrestricted shares and share options at end of the year[3]	**1 328**	**–**	**–**	2 064	–	–
Total number of shares and share options at end of the year	**37 997**	**–**	**–**	41 536	–	–
Total equity participation by employees	**37 997**	**–**	**–**	41 536	–	–

	R million	2013	2012
11.	**Share capital and premium** *(continued)*		
	Total equity participation by employees as a percentage of total issued ordinary shares	**1,8%**	2,0%
	Approved maximum level of equity participation by employees (number of shares)	**160 000**	160 000

(1) *Refer Remuneration report on pages 67 to 93 for further details of the schemes.*
(2) *Refer to the Directors' report on page 200 where the directors' interests in contracts, the interests of directors and officers in share capital and changes in directors are disclosed (which have been audited).*
(3) *871 851 shares became unrestricted during 2013.*

Details regarding the restricted shares outstanding on 31 December 2013 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 2014	9 224
31 December 2015	8 411
31 December 2016	13 043
31 December 2017	4 109
31 December 2018	1 882

	2013	2012
Weighted average share price of options exercised during the year	**n/a**	R33,25

A total of 7,0 million (2012: 9,6 million) restricted shares were granted to staff and executive directors during 2013. The fair value of the grants on grant date, calculated in terms of IFRS 2, amounted to R272 million (2012: R302 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	2013	2012
12.	**Other reserves**		
	Non-distributable reserves	**9 917**	9 858
	Pre-acquisition reserves upon demutualisation of Sanlam Life Insurance Limited	**9 415**	9 415
	Regulatory reserves of the Group's Botswana operations	**502**	443
	Foreign currency translation reserve	**907**	11
	Consolidation reserve	**(1 574)**	(1 076)
	Policyholder fund investments in consolidated subsidiaries	**(427)**	(128)
	Policyholder fund investment in Sanlam Limited shares	**(1 147)**	(948)
	Total reserves other than retained earnings	**9 250**	8 793

13. Contingency reserves

Contingency reserves in respect of short-term insurance business of R22 million are included in shareholders' reserves (2012: R19 million).

R million	2013	2012
14. Non-controlling interest		
Santam[(1)]	1 837	1 568
Sanlam Developing Markets[(2)]	1 304	1 032
Sanlam Emerging Markets	202	115
Sanlam Namibia Holdings	189	184
Other	119	71
Total non-controlling interest	3 651	2 970

For additional financial information for subsidiaries with significant non-controlling interest refer to page 331.

[(1)] *Includes the Santam BBBEE vehicle consolidated at a Sanlam Group level.*

[(2)] *Relates mainly to the Group's investment in Botswana Insurance Holdings Limited.*

R million	2013 Total	2013 Insurance contracts	2013 Investment contracts	2012 Total	2012 Insurance contracts	2012 Investment contracts
15. Long-term policy liabilities						
15.1 Analysis of movement in policy liabilities						
Income	111 334	39 704	71 630	95 245	41 388	53 857
Premium income (note 15.2)	57 847	20 323	37 524	48 927	19 760	29 167
Investment return after tax (note 23)	53 487	19 381	34 106	46 318	21 628	24 690
Outflow	(66 338)	(31 481)	(34 857)	(51 065)	(29 048)	(22 017)
Policy benefits (note 15.3)	(36 401)	(16 344)	(20 057)	(31 928)	(14 887)	(17 041)
Retirement fund terminations	(6 300)	–	(6 300)	(2 474)	(5)	(2 469)
Transfer to segregated assets	(5 298)	–	(5 298)	–	–	–
Fees, risk premiums and other payments to shareholders' fund	(18 339)	(15 137)	(3 202)	(16 663)	(14 156)	(2 507)
Movement in policy loans	(39)	(14)	(25)	(174)	5	(179)
Net movement for the year	44 957	8 209	36 748	44 006	12 345	31 661
Foreign currency translation differences	8 768	1 939	6 829	2 157	340	1 817
Balance at beginning of the year	328 584	148 427	180 157	282 421	135 742	146 679
Balance at end of the year	382 309	158 575	223 734	328 584	148 427	180 157

R million	2013	2012
15.2 Analysis of premium income		
Individual business	42 202	36 395
Recurring	19 016	17 321
Single	20 870	16 783
Continuations	2 316	2 291
Employee benefits business	15 645	12 532
Recurring	6 704	6 950
Single	8 941	5 582
Total premium income	57 847	48 927

for the year ended 31 December 2013

R million	2013	2012
15. Long-term policy liabilities *(continued)*		
15.3 Analysis of long-term policy benefits		
Individual business	**30 241**	26 070
Maturity benefits	**16 246**	13 044
Surrenders	**6 395**	5 980
Life and term annuities	**6 237**	5 826
Death and disability benefits[1]	**1 231**	1 138
Cash bonuses[1]	**132**	82
Employee benefits business	**6 160**	5 858
Withdrawal benefits	**2 241**	2 836
Pensions	**1 357**	1 363
Lump-sum retirement benefits	**1 181**	1 085
Death and disability benefits[1]	**1 360**	474
Cash bonuses[1]	**21**	100
Total long-term policy benefits	**36 401**	31 928

[1] *Excludes death and disability benefits and cash bonuses underwritten by the shareholders (refer to note 23).*

R million	2013	2012
15.4 Composition of policy liabilities		
Individual business	**315 376**	265 340
Linked and market-related liabilities	**213 737**	167 443
Smoothed bonus business	**53 800**	50 626
Guaranteed business	**7 005**	8 091
Annuities – guaranteed	**27 723**	27 056
Annuities – participating	**128**	118
Non-participating risk business	**10 324**	9 872
Other non-participating liabilities	**2 659**	2 134
Employee benefits business	**66 933**	63 244
Linked and market-related liabilities	**33 664**	31 645
Smoothed bonus business	**14 525**	13 130
Guaranteed business	**167**	—
Annuities – guaranteed	**6 712**	6 876
Annuities – participating	**6 966**	6 959
Non-participating risk business	**4 746**	4 628
Other non-participating liabilities	**153**	6
Total policy liabilities	**382 309**	328 584

Comparative information has been restated for new product classifications and a reclassification of R7 864 million from individual to employee benefits business.

R million	<1 year	1 – 5 years	>5 years	Open ended	Total
15. Long-term policy liabilities *(continued)*					
15.5 Maturity analysis of investment policy contracts					
2013					
Linked and market-related liabilities	3 023	24 116	75 080	98 490	200 709
Smoothed bonus business	383	90	386	14 565	15 424
Guaranteed business	370	6 562	6	167	7 105
Annuities – guaranteed	43	85	14	—	142
Non-participating risk business	2	—	—	3	5
Other non-participating liabilities	—	—	—	349	349
Total investment policies	3 821	30 853	75 486	113 574	223 734
2012					
Linked and market-related liabilities	2 818	16 069	59 462	79 238	157 587
Smoothed bonus business	339	75	427	13 210	14 051
Guaranteed business	460	7 511	8	106	8 085
Annuities – guaranteed	44	88	20	—	152
Non-participating risk business	2	92	—	4	98
Other non-participating liabilities	—	—	—	184	184
Total investment policies	3 663	23 835	59 917	92 742	180 157

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					
2013					
Linked and market-related liabilities	2 325	10 570	27 563	6 234	46 692
Smoothed bonus business	2 905	12 951	30 927	6 118	52 901
Guaranteed business	9	27	28	3	67
Annuities – guaranteed	16	189	394	33 694	34 293
Annuities – participating	—	—	—	7 094	7 094
Non-participating risk business	161	1 086	2 731	11 087	15 065
Other non-participating liabilities	6	60	59	2 338	2 463
Total insurance policies	5 422	24 883	61 702	66 568	158 575
2012					
Linked and market-related liabilities	2 101	9 281	24 867	5 252	41 501
Smoothed bonus business	2 742	11 681	30 389	4 893	49 705
Guaranteed business	—	—	—	6	6
Annuities – guaranteed	3	32	50	33 695	33 780
Annuities – participating	—	—	—	7 077	7 077
Non-participating risk business	134	1 021	2 434	10 813	14 402
Other non-participating liabilities	92	50	—	1 814	1 956
Total insurance policies	5 072	22 065	57 740	63 550	148 427

Comparative information has been restated for new product classifications.

for the year ended 31 December 2013

	R million	Notes	2013	2012
15.	**Long-term policy liabilities** *(continued)*			
15.7	**Policy liabilities include the following:**			
	Provision for HIV/Aids and other pandemics		**3 599**	4 532
	Asset mismatch reserve		**3 926**	3 325
16.	**Term finance**			
	Term finance comprises:			
	Interest-bearing liabilities held in respect of margin business	16.1	**2 038**	1 487
	Other interest-bearing liabilities	16.2	**4 091**	3 976
			6 129	5 463
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 8,5% (2012: 5,5% and 8,3%) or linked to prime interest rates. The preference shares have different redemption dates up to 2016.		**2 038**	1 487
16.2	**Other interest-bearing liabilities**			
	Unsecured subordinated bond, with interest payable at 8,70% and a final maturity date of 15 August 2023. The bond has a redemption call option at its nominal value of R1 160 million, which the Group can exercise on 15 August 2018.		**1 155**	—
	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 exercised on 15 August 2013.		**—**	1 186
	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.		**870**	901
	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 000 million, which the Group can exercise on 15 September 2017.		**1 022**	1 034
	Mortgage bonds over properties held in unit-linked policyholder funds. The mortgage over each property is negotiated separately, varies in term from 5 to 20 years, with interest rates linked at a premium between 2,5% and 4,5% to the Bank of England base rate.		**626**	524
	Obligations towards beneficiaries of companies limited by guarantee – matched by assets held in this regard.		**93**	109
	Redeemable non-voting preference shares issued by subsidiary company; redeemable in three tranches between 1 April 2014 and 31 March 2015.		**258**	86
	Other		**67**	136
			4 091	3 976

R million	Notes	2013	2012
16. Term finance *(continued)*			
16.3 Maturity analysis of term finance – fair value			
Due within one year		**691**	1 265
Due within two to five years		**2 712**	1 365
Due after more than five years		**2 726**	2 833
Total term finance liabilities		**6 129**	5 463
Maturity analysis of term finance – undiscounted			
Due within one year		**704**	1 302
Due within two to five years		**3 042**	1 774
Due after more than five years		**4 255**	4 044
Total term finance liabilities		**8 001**	7 120
16.4 Classification of term finance			
At fair value through profit or loss	16.4.1	**3 515**	3 455
Valued at stock exchange prices		**3 047**	3 121
Based on internal valuation		**468**	334
Other financial liabilities	16.4.2	**2 614**	2 008
Total term finance liabilities		**6 129**	5 463
16.4.1 Term finance classified as at fair value through profit or loss			
Total designated as at fair value through profit or loss		**3 515**	3 455
Amount contractually payable at maturity		**3 174**	3 171
16.4.2 Term finance classified as other financial liabilities			
Estimated fair value of term finance liabilities measured at amortised cost		**2 614**	2 008

Refer to note 40 for additional fair value disclosures.

This valuation is based on discounted cash flows and is classified as level 3.

R million	Notes	2013	2012
17. Trade and other payables			
Trading account		**32 620**	37 711
Accounts payable		**16 305**	20 663
Policy benefits payable		**3 050**	2 779
Amounts due to reinsurers		**1 235**	826
Bank overdrafts		**23**	—
Operating lease creditor		**31**	26
Claims incurred but not reported		**1 535**	1 464
Total trade and other payables		**54 799**	63 469
Classification of trade and other payables:			
Held for trading at fair value		**32 620**	37 711
Other payables at amortised cost		**22 179**	25 758
Total trade and other payables		**54 799**	63 469

Trade and other payables, excluding trading account, are payable within one year. The estimated fair value of payables at amortised cost approximate fair value. This valuation is based on discounted cash flows and is classified as level 3.

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R million	2013	2012
17. Trade and other payables *(continued)*		
Maturity analysis of trading account – fair value		
Due within one year	20 398	16 857
Due within two to five years	1 517	2 356
Due after five years	1 278	2 137
Open ended	9 427	16 361
Total trading account	32 620	37 711
Maturity analysis of trading account – undiscounted		
Due within one year	21 004	18 437
Due within two to five years	1 653	3 434
Due after five years	1 942	815
Open ended	9 427	16 361
Total	34 026	39 047

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 2012	252	46	15	110	423
Charged to the statement of comprehensive income	(2)	(1)	—	(20)	(23)
Additional provisions	7	—	—	1	8
Unused amounts reversed	(9)	(1)	—	(21)	(31)
Utilised during the year	—	(3)	(1)	—	(4)
Balance at 31 December 2012	250	42	14	90	396
Charged to the statement of comprehensive income	(127)	—	3	40	(84)
Additional provisions	6	—	3	40	49
Unused amounts reversed	(133)	—	—	—	(133)
Utilised during the year	—	(4)	—	(23)	(27)
Balance at 31 December 2013	123	38	17	107	285
Analysis of provisions					
Current	2	2	—	46	50
Non-current	121	36	17	61	235
Total provisions at 31 December 2013	123	38	17	107	285

18. Provisions *(continued)*

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.

R million	2013	2012
19. Financial services income		
Analysis per revenue source		
Long-term insurance	20 379	17 164
Short-term insurance	20 344	19 101
Other financial services	4 381	4 149
Total financial services income	**45 104**	40 414
Analysis per revenue category		
Long-term insurance fee income	20 379	17 164
Administration services	3 141	2 663
Investment management fees	560	387
Risk benefit charges and other fee income	16 678	14 114
Short-term insurance premiums	20 344	19 101
Premiums receivable	20 700	19 433
Change in unearned premium provision	(356)	(332)
Other financial services fees and income	4 323	4 103
Trading profit	57	46
Foreign exchange (losses)/gains	1	—
Total financial services income	**45 104**	40 414

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R million	2013	2012
20. Reinsurance premiums paid		
Long-term insurance	1 422	1 182
Short-term insurance	3 541	3 429
Premiums payable	3 741	3 565
Change in unearned premium provision	(200)	(136)
Total reinsurance premiums paid	4 963	4 611
21. Reinsurance income		
Reinsurance commission received		
Long-term insurance	72	67
Short-term insurance	603	516
Total reinsurance commission received	675	583
Reinsurance claims received		
Long-term insurance	845	799
Short-term insurance	2 226	1 487
Total reinsurance claims received	3 071	2 286
22. Investment return		
Investment income		
Equities and similar securities	6 785	6 706
Interest-bearing, preference shares and similar securities	11 583	11 402
Properties	1 214	1 274
Rental income – excluding contingent rental	1 261	1 350
Contingent rental income	89	100
Rental related expenses	(136)	(176)
Income from margin business(1)	106	140
Total investment income	19 688	19 522
Investment surpluses		
Financial assets designated as at fair value through profit or loss	45 847	36 987
Financial assets classified as held-for-trading	1 221	682
Investment properties	163	544
Profit on disposal of associated companies, subsidiaries and operations	119	90
Total investment surpluses	47 350	38 303
Investment return includes:		
Foreign exchange gains	6 504	1 539

(1) *Refer to note 26 for finance cost incurred in respect of margin business.*

R million	2013	2012
23. Long-term insurance and investment contract benefits		
Insurance contracts		
Underwriting policy benefits	7 099	6 349
After tax investment return attributable to insurance contract liabilities (note 15)	19 381	21 628
Total long-term insurance contract benefits	26 480	27 977
Investment contracts		
After tax investment return attributable to investment contract liabilities (note 15)	34 106	24 690
Total long-term investment contract benefits	34 106	24 690
Analysis of underwriting policy benefits		
Individual insurance	4 120	2 995
Employee benefits	2 979	3 354
Total underwriting policy benefits	7 099	6 349
24. Administration costs include:		
Directors' remuneration		
Refer to Remuneration report on pages 67 to 93 for additional audited information on directors' remuneration.		
Auditors' remuneration		
Audit fees: statutory audit	98	87
Other services provided by:	17	18
Subsidiaries' own auditors	14	14
Other Group auditors	3	4
Total auditors' remuneration	115	105
Depreciation	205	216
Operating leases	513	475
Properties	330	302
Equipment	166	156
Other	17	17
Consultancy fees	692	562
Technical, administrative and secretarial fees	459	529
Employee benefits	6 749	5 921
Salaries and other short-term benefits	5 883	5 169
Pension costs – defined contribution plans	302	271
Pension costs – defined benefit plans	30	26
Share-based payments	375	257
Other long-term incentive schemes	159	198
Number of employees	12 953	13 139

Following the reassessment of the aggregation of employee benefits in the current year, comparative information has been restated.

for the year ended 31 December 2013

	R million	2013	2012
25.	**Equity-accounted earnings**		
	Investments in associated companies		
	Shriram Capital	330	—
	Letshego	186	180
	Pacific & Orient	46	—
	Capricorn Investment Holdings	50	—
	Other associated companies	400	253
	Investments in joint ventures		
	Sanlam Personal Loans	131	151
	Other joint ventures	81	—
	Equity-accounted earnings	1 224	584
26.	**Finance cost**		
	Interest paid and term finance cost in respect of interest margin business	69	185
	Finance cost – margin business	69	185
	Interest-bearing liabilities designated as at fair value through profit or loss	470	414
	Interest-bearing liabilities held at amortised cost	46	39
	Finance cost – other	516	453
27.	**Taxation**		
	Analysis of income tax per category		
	Normal income tax	2 593	3 056
	RSA – current year	1 918	1 738
	RSA – prior year	(29)	19
	Dividends tax – Policyholders	109	81
	Foreign	451	455
	Capital gains tax	144	555
	Secondary tax on companies	—	208
	Deferred tax	890	614
	Normal tax – current year	81	131
	Normal tax – prior year	12	16
	Foreign	1	(7)
	Capital gains tax	796	394
	Secondary tax on companies	—	80
	Tax expense	3 483	3 670
	Shareholders' fund	2 422	2 468
	Policyholders' fund	1 061	1 202
	Tax expense	3 483	3 670

R million	2013	2012
27. Taxation *(continued)*		
In addition to income tax the following indirect taxes and levies were paid, which are included in the appropriate items:		
Included in administration costs	**298**	257
Included elsewhere in the statement of comprehensive income	**75**	96
Total indirect taxes and levies	**373**	353

Indirect taxes and levies include value added tax and statutory levies payable to the Financial Services Board.

%	2013	2012
Standard rate of taxation	**28,0**	28,0
Adjusted for:		
Non-taxable income	**(3,9)**	(3,9)
Disallowable expenses	**1,2**	1,1
Share-based payments	**—**	0,1
Utilisation of assessed loss	**0,3**	—
Investment surpluses	**(2,9)**	(0,4)
Prior year adjustments	**—**	0,2
Foreign tax rate differential	**—**	(0,1)
Secondary tax on companies	**—**	2,9
Policyholders	**6,1**	8,5
Other	**(1,2)**	(0,1)
Effective tax rate	**27,6**	36,3

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, treasury shares held by subsidiaries and the conversion of deferred shares. Diluted earnings per share is calculated by dividing earnings by the adjusted diluted weighted average number of shares in issue.

Refer to page 178 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	2013	2012
Basic earnings per share:		
Headline earnings	**416,2**	298,9
Profit attributable to shareholders' fund	**419,8**	293,3
Diluted earnings per share:		
Headline earnings	**397,8**	286,8
Profit attributable to shareholders' fund	**401,2**	281,4

for the year ended 31 December 2013

R million	2013	2012
28. Earnings per share *(continued)*		
Analysis of earnings:		
Profit attributable to shareholders' fund	8 131	5 655
Less: Net profit on disposal of subsidiaries	(27)	(3)
Profit on disposal of subsidiaries	(49)	(27)
Tax on profit on disposal of subsidiaries	1	8
Non-controlling interest	21	16
Less: Net profit on disposal of associated companies	(63)	(63)
Profit on disposal of associated companies	(70)	(63)
Tax on profit on disposal of associated companies	18	—
Non-controlling interest	(11)	—
Plus: Impairments	21	174
Impairments	34	206
Tax on impairments	(1)	—
Non-controlling interest	(12)	(32)
Headline earnings	**8 062**	5 763

Million	2013	2012
Number of shares:		
Number of ordinary shares in issue at beginning of the year	2 100,0	2 100,0
Less: Weighted Sanlam shares held by subsidiaries (including policyholders)	(162,9)	(171,9)
Adjusted weighted average number of shares for basic earnings per share	**1 937,1**	1 928,1
Add: Weighted conversion of deferred shares	61,0	50,7
Add: Total number of shares in respect of Sanlam Limited long-term incentive schemes	28,6	30,6
Adjusted weighted average number of shares for diluted earnings per share	**2 026,7**	2 009,4

29. Dividends

A dividend of 200 cents per share (2012: normal dividend of 165 cents and special dividend of 50 cents per share) was declared in 2014 in respect of the 2013 earnings. Based on the number of shares in issue on declaration date, the total dividend is expected to amount to R4,3 billion, but may vary depending on the number of shares in issue on the last day to trade.

R million	2013	2012
30. Collateral		
30.1 Collateral provided		
The following assets have been pledged as collateral for the Group's derivatives, liabilities or contingent liabilities:		
Investments		
Properties	1 328	1 174
Interest-bearing investments	795	316
Working capital assets		
Trading account	1 368	1 168
Cash, deposits and similar securities	2 992	1 974
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	16 916	14 998
Collateral of between 100% and 120% of the value of the loaned securities is held at 31 December 2013.		
Fair value of the collateral held that the Group is permitted to sell or repledge in the absence of default	4 703	1 273

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 while 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 185 for additional information.

31. Critical accounting estimates and judgements *(continued)*

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 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 191 to 193 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 189 and 174 respectively.

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 the Sanlam Life Insurance Limited group for which the main valuation assumptions used as at 31 December 2013 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
2013				
Base discount rate	**11,3% – 19,1%**	**1%**	**272**	**(255)**
Capitalisation rate	**9,5% – 19,5%**	**1%**	**432**	**(354)**
2012				
Base discount rate	10% – 17,7%	1%	338	(316)
Capitalisation rate	9,5% – 19,5%	1%	558	(455)

31.3 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 260 to 263.

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 14 of 2010 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.

31. Critical accounting estimates and judgements *(continued)*

31.3 Policy liabilities in respect of long-term insurance contracts and investment contracts other than those with investment management services *(continued)*

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:

	SANLAM LIFE		SANLAM DEVELOPING MARKETS		SANLAM LIFE NAMIBIA		SANLAM LIFE AND PENSIONS UK	
%	2013	2012	2013	2012	2013	2012	2013	2012
Reversionary bonus business								
Retirement annuity business	9,9	8,5	n/a	n/a	9,9	8,5	n/a	n/a
Individual policyholder business	8,4	7,2	6,3	5,2	9,2	7,9	n/a	n/a
Individual stable bonus business								
Retirement annuity business	9,6	8,2	8,1	6,6	9,6	8,2	n/a	n/a
Individual policyholder business	8,1	6,9	6,3	5,2	8,9	7,5	n/a	n/a
Non-taxable business	9,6	8,2	n/a	n/a	9,6	8,2	n/a	n/a
Corporate policyholder business	7,6	6,5	n/a	n/a	8,9	7,5	n/a	n/a
Individual market-related business								
Retirement annuity business	9,9	8,5	8,1	6,6	9,9	8,5	3,2	2,3
Individual policyholder business	8,4	7,2	6,3	5,2	9,2	7,9	2,6	1,9
Non-taxable business	9,9	8,5	n/a	n/a	9,9	8,5	n/a	n/a
Corporate policyholder business	7,9	6,8	n/a	n/a	9,2	7,9	n/a	n/a
Participating annuity business	8,1	6,7	n/a	n/a	7,9	6,5	n/a	n/a
Non-participating annuity business*	8,9	7,8	9,6	8,4	7,9	7,9	3,7	3,1
Guarantee plans*	6,4	5,3	7,5	5,8	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 2013. 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 2013 actual figures and escalated at estimated expense inflation rates per annum. Refer to note 1 on page 189 for a sensitivity analysis of the value of in-force covered business to the main valuation assumptions.

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31. Critical accounting estimates and judgements *(continued)*

31.4 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% (2012: 10%) from management's estimates, no impairment of the DAC asset would be required.

31.5 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 238 for further information on the estimation of the claims liability.

31.6 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. Refer to note 40 for additional information.

31.7 Consolidation of investment funds

The Group invests in a number of investment funds and has varying holdings. Previously, only investments in investment funds where the Group had a majority interest were consolidated. In terms of IFRS 10, the Group considers itself to have control of a fund when it both owns the asset manager of the fund and holds greater than 20% thereof. This resulted in a number of additional investment funds that required consolidation and a number of funds that were deconsolidated. Details of the impact of previously reported financial information is disclosed in note 41 on page 321.

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 2013, 98% of employees were covered by defined contribution funds and 2% by defined benefit funds (2012: 98% and 2% 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 R302 million to these funds during 2013 (2012: R271 million).

32. Retirement benefits for employees *(continued)*

32.2 Defined-benefit pension funds

The Sanlam Group has three defined benefit pension funds. These funds relate to:

- Sanlam office personnel (who did not elect to transfer to the defined contribution fund);
- Sanlam Investments and Pensions office personnel; and
- Sanlam Developing Markets defined benefit fund SA.

The majority of the Group's defined benefit obligations is made up of the Sanlam Life Fund. This defined benefit fund is governed by the Pension Funds Act. Plan participants are insured against the financial consequences of old age, disability and death. According to the Act the minimum benefit of a defined benefit fund is the greater of the present value of the member's accrued deferred pension and accumulated value of member contributions and vested employer contributions on the date of withdrawal.

The Registrar of Pension Funds has indicated that a fund will be considered to be financially unsound when an actuarial valuation reveals that the value of the existing assets is less than the value of accrued liabilities. The accrued liabilities are the liabilities in respect of past service benefits of active members and the pension benefits of the inactive members. Adequate allowance for future salary increases for active members and allowance for pension increases in line with the Fund's pension increase policy are required to ensure that the fund is always financially sound.

A board of Trustees oversees the affairs of the defined benefit fund as required by the Pension Funds Act. The responsibilities of the Trustees are defined in the Act and the Fund rules. An actuarial report on the fund is prepared annually and approved by the Registrar of Pension Funds. Other funds are managed in a similar manner.

There are no significant risks the entity is exposed to due to the plan, there are ample reserves to cover shortfalls. The plan has also used some of its reserves for a dynamic hedging strategy, the dynamic hedging investment strategy in respect of the pensioner liabilities at 1 April 2011 was implemented with the purpose of optimising pension growth and the Trustees on advice of the valuator have approved a number of contingency reserve accounts to protect the Pension Fund against specific contingencies. The plan assets are also well diversified. The funding level of the fund is 118,0% (previous year 114%). There are no statutory minimum funding level requirements.

During the year ended 31 December 2013 there were no amendments, settlements or curtailments for any of the benefit plans.

The fund is closed to new entrants and was regarded as financially sound at the end of the financial year.

		Sanlam office personnel	Sanlam Investments and Pensions	Sanlam Developing Markets SA
Principal actuarial assumptions:				
Latest valuation date		31 Dec 2013	31 Dec 2013	31 Dec 2013
Pre-retirement discount rate	% pa	9,0%	4,5%	9,0%
Post-retirement discount rate	% pa	1,5%	4,5%	9,0%
Future salary increases	% pa	7,9%	0%	6,5%
Future pension increases	% pa	6,9%	3,3%	5,0%
Actual experience:				
Actual return on assets	% pa	9,5%	6,0%	21,8%

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32. Retirement benefits for employees *(continued)*

32.2 Defined-benefit funds *(continued)*

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.

R million	2013	2012	2011	2010	2009
Net liability recognised in statement of financial position:					
Present value of fund obligations	**1 886**	1 760	1 760	1 508	1 436
Actuarial value of fund assets	**(2 234)**	(2 006)	(1 771)	(1 678)	(1 599)
Net present value of funded obligations	**(348)**	(246)	(11)	(170)	(163)
Effect of limiting defined benefit asset to amount available to employer (asset ceiling)	**348**	246	11	170	163
Net liability recognised in statement of financial position	**—**	—	—	—	—
Experience adjustments on:					
Fund obligations	**1,0%**	2,1%	0,3%	(0,8%)	0,4%
Fund assets	**1,3%**	6,0%	0,6%	1,8%	4,5%

R million	Fund assets	Fund liabilities	Asset ceiling	Net asset/ liability
2013				
Balance at beginning of the year	2 006	(1 760)	(246)	—
Current service cost	—	(29)	—	(29)
Contributions	30	—	—	30
Employee	4	—	—	4
Employer	26	—	—	26
Benefit payments	(114)	112	—	(2)
Interest income/(expense)	151	(130)	(19)	2
Actuarial gains and losses: change in financial assumptions	—	43	—	43
Returns from plan assets (excluding amounts included in interest)	40	—	—	40
Foreign exchange gains/(losses)	124	(122)	—	2
Effect of limiting defined benefit asset to amount available to employer	—	—	(83)	(83)
Other	(3)	—	—	(3)
Balance at end of the year	**2 234**	**(1 886)**	**(348)**	**—**

32. Retirement benefits for employees *(continued)*

32.2 Defined-benefit funds *(continued)*

R million	Fund assets	Fund liabilities	Asset ceiling	Net asset/ liability
2012				
Balance at beginning of the year	1 771	(1 760)	(11)	—
Current service cost	—	(26)	—	(26)
Contributions	26	—	—	26
Employee	3	—	—	3
Employer	23	—	—	23
Benefit payments	(131)	130	—	(1)
Interest income/(expense)	151	(146)	(1)	4
Actuarial gains and losses: change in financial assumptions	—	76	—	76
Returns from plan assets (excluding amounts included in interest)	154	—	—	154
Foreign exchange losses	37	(36)	—	1
Effect of limiting defined benefit asset to amount available to employer	—	—	(234)	(234)
Other	(2)	2	—	—
Balance at end of the year	2 006	(1 760)	(246)	—

The asset is not recognised as we do not expect any future reduction in contributions or refunds from the fund.

	2013 R million	2012 R million	2013 %	2012 %
Fund assets comprise:				
Properties	**13**	40	**1**	2
Equities and similar securities	**664**	642	**23**	32
Interest bearing investments	**949**	1 043	**35**	52
Cash, deposits and similar securities	**608**	281	**41**	14
	2 234	2 006	**100**	100

The above value of fund assets includes an investment of R5,4 million (2012: R4,6 million) in Sanlam shares. No material portion of these assets is unquoted.

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32. Retirement benefits for employees *(continued)*

32.2 Defined-benefit funds *(continued)*

R million	2013	2012
Net expense recognised in the statement of comprehensive income (included in administration costs):		
Interest	(2)	(4)
Current service cost	29	26
Other	3	4
Total included in staff costs	30	26
The following discounted defined benefit payments are expected to be made out of the defined benefit plan in future years:		
< 1 year	(170)	(158)
1 – 5 years	(622)	(581)
> 5 years	(1 094)	(1 021)
Total expected payments	(1 886)	(1 760)

Sensitivity analysis for significant assumptions as at 31 December 2013:

	% CHANGE IN ASSUMED ACTUARIAL ASSUMPTIONS	
	1,0% increase	1,0% decrease
Sensitivity analysis		
Effect of movement in real rate of return	241	(192)
Total defined benefit obligation for post-retirement benefits	2 127	1 694

The sensitivity analysis above has been determined by varying the major actuarial assumptions.

The assumptions made when preparing the sensitivity analysis have been grouped into two scenarios. In scenario one the base interest rate (affecting the pre- and post-retirement discount rate and expected rate of return) has been decreased by 1% and in scenario two the base interest rate has been increased by 1%.

32. Retirement benefits for employees *(continued)*

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.

R million	2013	2012
Principal actuarial assumptions at 31 December 2013 were as follows:		
Pre-retirement discount rate	**9,0%**	8,2%
Returns for All Bond Index (ALBI)	**9,0%**	8,0%
Expected increase in medical aid contributions	**9,0%**	8,2%
Net liability recognised in statement of financial position		
Balance at beginning of the year	**42**	46
Movement for the year:	**(4)**	(4)
Interest	**3**	4
Actuarial gains and losses	**(3)**	(4)
Benefits paid	**(4)**	(4)
Balance at end of year	**38**	42

R million	2013	2012	2011	2010	2009
Net liability recognised in the statement of financial position:					
Present value of unfunded obligation	**38**	42	46	23	26
Experience adjustments on:					
Fund obligation	**(1,4%)**	(0,6%)	0,5%	3,3%	(10,5%)

	% increase in assumed medical aid contributions	
Sensitivity analysis	**(2%)**	**2%**
Effect of change in assumed medical aid contributions (R million):		
Aggregate of current service and interest costs	**3**	**4**
Total defined benefit obligation for post-employment medical benefits	**39**	**37**

33. Borrowing powers

In terms of the Memorandum of Incorporation 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.

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	R million	2013	2012
34.	**Commitments and contingencies**		
34.1	**Operating leases**		
	Future operating lease commitments:		
	Lease rentals due within one year	**462**	393
	Lease rentals due within two to five years	**700**	553
	Lease rentals due within more than five years	**142**	190
	Total operating lease commitments	**1 304**	1 136

34.2 Guarantees provided in favour of Sanlam Capital Markets (SCM) and others

Sanlam has guaranteed obligations that may arise under SCM's unlisted commercial paper programme and its JSE listed structured note programme, as well as SCM's obligations arising from transactions with approved, specified counterparties through direct guarantees. The total limit for the unlisted commercial paper programme is R15 billion and for the JSE listed structured note programme the limit is R5 billion, but both these and the direct guarantees are subject to an overall R9,5 billion guarantee utilisation limit in terms of the Group governance processes. The total utilisation of the guarantee can be increased to R11 billion, subject to SCM providing acceptable collateral. At 31 December 2013 the value of unlisted commercial paper issued by SCM amounted to R10,4 billion (2012: R8,8 billion) and the value of JSE listed structured notes amounted to R53 million (2012: R56 million).

Sanlam has also issued letters of support, in the ordinary course of business, for the activities of certain subsidiaries in the Group.

34.3 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 arguments 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 shareholder spread is presented on page 333.

35. Related parties *(continued)*

35.2 Transactions with post-employment benefit plans

Contributions to the post-employment benefit plans were R332 million in 2013 (2012: R297 million). There are no amounts outstanding at year-end.

35.3 Transactions with directors

Remuneration is paid to directors in the form of fees to non-executive directors and remuneration to executive directors of the Company. All directors of Sanlam Limited have notified that they did not have a material interest in any contract of significance with the Company or any of its subsidiaries, which could have given rise to a conflict of interest during the year. Details relating to directors' emoluments are included in note 24 and their shareholdings and share options granted in the Company are disclosed as part of the Remuneration report elsewhere in the Integrated 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 to Sanlam Personal Loans. Most of these loans earn interest of the asset swap rate plus a premium of between 1,48% and 2,75%, and will mature in tranches up to 31 December 2015 (refer Capital and Risk Management report). Apart from these financing loans, an interest free shareholders' loan of R60 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.

R million	2013	2012
35.6 Key management personnel compensation		
Compensation paid to the Group's key management personnel is as follows:		
Short-term employee benefits	**339**	303
Share-based payments	**165**	131
Termination benefits	**5**	14
Other long-term benefits and incentive schemes	**71**	58
Total key management personnel compensation	**580**	506

Following the reassessment of key management personnel identifications in the current year, comparative information has been restated.

for the year ended 31 December 2013

R million	2013	2012
36. Notes to the cash flow statement		
36.1 Cash generated/(utilised) in operations		
Profit before tax per statement of comprehensive income	12 617	10 104
Net movement in policy liabilities (note 15.1)	53 725	46 163
Non-cash flow items	(47 313)	(37 874)
Depreciation	205	216
Bad debts written off	384	150
Share-based payments	375	257
Profit on disposal of subsidiaries and associated companies	(119)	(90)
Fair value adjustments	(47 231)	(38 213)
Impairment of investments and goodwill	34	206
Amortisation of intangibles	263	184
Equity-accounted earnings	(1 224)	(584)
Items excluded from cash utilised in operations	(17 889)	(17 610)
Interest and preference share dividends received	(11 689)	(11 542)
Interest paid	585	638
Dividends received	(6 785)	(6 706)
Net purchase of fixed assets	(329)	(147)
Net purchase of owner-occupied properties	(7)	(79)
Increase in net working capital assets and liabilities	(499)	(3 368)
Cash generated/(utilised) in operations	305	(2 811)
36.2 Acquisition of subsidiaries and associated companies		
During the year, various interests were acquired within the Group.		
Investments in associated companies	(2 604)	(2 443)
The fair value of assets acquired via business combinations is as follows:		
Equipment	—	(2)
Trade and other receivables	(48)	(11)
Cash, deposits and similar securities	(18)	(47)
Term finance	—	4
Deferred tax liabilities	—	10
Deferred tax assets	(4)	—
Working capital liabilities	52	24
Non-controlling interest	1	—
Other intangible assets	(22)	—
Goodwill	(296)	(306)
Total purchase consideration	(2 939)	(2 771)
Less: Net asset value contributed	8	70
Cash, deposits and similar securities acquired	18	47
Cash component of acquisition of subsidiaries and associated companies	(2 913)	(2 654)

R million	2013	2012
36. Notes to the cash flow statement *(continued)*		
36.3 Disposal of subsidiaries and associated companies		
During 2013, the Group disposed of its investments in Punter Southall Group, Capricorn Unit Trusts and SMC India		
Equipment	—	1
Investments	15	27
Trade and other receivables	4	—
Cash, deposits and similar securities	—	18
External investors' in consolidated funds	—	(17)
Deferred tax liabilities	—	(2)
Working capital liabilities	(10)	(8)
Non-controlling interest	—	(9)
Investment in joint ventures	—	404
Investment in associated company	364	18
Profit on disposal of subsidiaries and associated companies	119	90
Total disposal price	492	522
Less: Cash, deposits and similar securities disposed of	—	(18)
Cash component of disposal of subsidiaries and associated companies	492	504
36.4 Cash, deposits and similar securities		
Working capital: Cash, deposits and similar securities	18 400	16 559
Investment cash	18 114	13 946
Bank overdrafts	(23)	—
Total cash, deposits and similar securities	36 491	30 505

37. Business combinations

37.1 Material acquisitions of the Group consolidated in the 2013 financial year

There were no material business combinations during the 2013 financial year.

The contribution to profit for 2013 is not material

37.2 Material acquisitions of the Group consolidated in the 2012 financial year

There were no material business combinations during the 2012 financial year.

Other acquisitions relate to the following:

- The acquisition of the remaining 50% interest in Satrix by Sanlam Investments Holding.
- Other smaller acquisitions.

The contribution to profit for 2012 is not material.

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38. Non-current assets held for sale

During 2013, the investment held by Santam International in Cardrow Insurance Limited (previously Westminster Motor Insurance Agency Limited (WMIA)) and the deferred payments previously included under receivables, were classified as held for sale. The holdings in WMIA were sold in 2008 and Santam International only retained deferred payments relating to the sale contracts and Santam UK Limited. Santam Limited is in the process of realising the deferred payment assets which is still subject to regulatory approval.

	R million	2013	2012
38.1	**Non-current assets classified as held for sale**		
	Investment in associates	—	308
	Equities and similar securities	299	—
	Trade and other receivables	116	—
		415	308
39.	**Impairments**		
	Impairment of goodwill	5	48
	Investment management: International	—	6
	Santam businesses	5	35
	Other	—	7
	Impairment of value of business acquired	—	79
	Investment management: International	—	58
	Other	—	21
	Impairment of investments	29	79
	Investment management: International	3	36
	Santam businesses	26	43
	Total impairment of investments, goodwill and value of business acquired for the year	34	206

Refer to note 3 and note 4 on pages 270 and 271 for additional information.

40. Fair value disclosures

Determination of fair value and fair value hierarchy

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 disclosures only cover instruments measured at fair value.

Included in **level 1** category are financial assets and liabilities that are measured 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
40. Fair value disclosures *(continued)*				
Recurring fair value measurements				
31 December 2013				
Properties	—	1 955	7 227	9 182
Equities and similar securities	162 861	1 948	1 313	166 122
Interest-bearing investments	100 900	29 723	394	131 017
Structured transactions	3 161	8 745	—	11 906
Investment funds	115 828	14 742	459	131 029
Trading account assets	3 021	33 605	—	36 626
Cash deposits and similar securities	13 614	4 494	—	18 108
Total assets at fair value	399 385	95 212	9 393	503 990
Investment contract liabilities	—	222 967	767	223 734
Term finance	3 047	209	259	3 515
Margin business	3 047	—	—	3 047
Other interest-bearing liabilities	—	209	259	468
Derivative liabilities	—	1 184	203	1 387
Trading account liabilities	2 265	30 355	—	32 620
External investors in consolidated funds	54 540	1 170	—	55 710
Total liabilities at fair value	59 852	255 885	1 229	316 966
31 December 2012 – restated				
Equities and similar securities	132 164	1 461	1 881	135 506
Interest-bearing investments	87 836	35 782	163	123 781
Structured transactions	1 278	13 431	122	14 831
Investment funds	85 087	12 182	353	97 622
Trading account assets	2 728	40 884	—	43 612
Cash deposits and similar securities	8 985	4 954	2	13 941
Total assets at fair value	318 078	108 694	2 521	429 293
Investment contract liabilities	—	179 505	652	180 157
Term finance	3 281	77	97	3 455
Margin business	3 121	—	—	3 121
Other interest-bearing liabilities	160	77	97	334
Derivative liabilities	—	610	—	610
Trading account liabilities	2 701	35 010	—	37 711
External investors in consolidated funds	37 543	1 159	—	38 702
Total liabilities at fair value	43 525	216 361	749	260 635

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40. Fair value disclosures *(continued)*

Reconciliation of movements in level 3 financial instruments measured at fair value

R million	Properties	Equities and similar securities	Interest-bearing investments	Structured transactions	Investment funds	Cash, deposits and similar securities	Total financial assets
Financial assets							
31 December 2013							
Balance at 1 January 2013	—	1 881	163	122	353	2	2 521
Adjusted due to IFRS 13	8 419	—	—	—	—	—	8 419
Total gains/(loss) in the statement of comprehensive income	440	1 191	92	6	6	—	1 735
Acquisitions/issues	501	222	160	—	56	—	939
Disposals	(2 227)	(1 985)	(34)	(128)	(11)	(2)	(4 387)
Foreign exchange movements	112	4	26	—	—	—	142
Settlements	—	—	(13)	—	—	—	(13)
Transfers from level 1 and level 2							
Not significant (net in/out)	(18)	—	—	—	55	—	37
Balance at 31 December 2013	7 227	1 313	394	—	459	—	9 393
31 December 2012							
Balance at 1 January 2012		2 601	626	89	659	—	3 975
Total gains/(loss) in the statement of comprehensive income		(99)	(216)	11	34	—	(270)
Acquisitions		202	30	103	12	2	349
Disposals		(365)	(276)	(81)	(352)	—	(1 074)
Foreign exchange movements		38	—	—	—	—	38
Transfers from level 1 and level 2		(496)	(1)	—	—	—	(497)
Significant – transfer in		—	(1)	—	—	—	(1)
Significant – transfer out		(496)	—	—	—	—	(496)
Balance at 31 December 2012		1 881	163	122	353	2	2 521

40. Fair value disclosures *(continued)*

Reconciliation of movements in level 3 financial instruments measured at fair value *(continued)*

R million	Investment contract liabilities	Term finance	Derivative liabilities	Total financial liabilities
31 December 2013				
Financial liabilities				
Balance at 1 January 2013	652	97	—	749
Total (gain)/loss in the statement of comprehensive income	113	172	197	482
Acquisitions	151	—	6	157
Issues	160	—	—	160
Disposals	(337)	—	—	(337)
Settlements	—	(11)	—	(11)
Foreign exchange movements	28	1	—	29
Balance at 31 December 2013	767	259	203	1 229
31 December 2012				
Balance at 1 January 2012	752	59	—	811
Total (gain)/loss in the statement of comprehensive income	126	34	—	160
Acquisitions	128	—	—	128
Disposals	(354)	—	—	(354)
Foreign exchange movements	—	4	—	4
Balance at 31 December 2012	652	97	—	749

R million	2013	2012
Gains and losses (realised and unrealised) included in profit or loss		
Total gains or losses included in profit or loss for the period	1 253	411
Total unrealised gains or losses included in profit or loss for the period for assets held at the end of the reporting period	1 007	287
Transfers between categories		

R million	Structured transactions	Interest-bearing investments	Cash, deposits and similar securities	Total financial assets
2013				
Financial assets				
Transfer from level 1 to level 2	2	—	25	27
Transfer from level 2 to level 1	—	—	—	—
2012				
Transfer from level 1 to level 2	—	103	59	162
Transfer from level 2 to level 1	—	—	—	—

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40. Fair value disclosures *(continued)*

Valuation techniques used in determining the fair value of financial instruments

Instrument	Applicable to level	Valuation basis	Main assumptions	Significant unobservable input
Properties	2 and 3	Discounted cash flow model (DCF), Earnings multiple	Bond and interbank swap interest rate curve Cost of capital Consumer price index	Capitalisation rate Discount rate
Equities and similar securities	2 and 3	Discounted cash flow model (DCF), Earnings multiple	Bond and interbank swap interest rate curve Cost of capital Consumer price index	Earnings multiple Cost of capital
Interest-bearing investments (including insurance policies)	2 and 3	Discounted cash flow model (DCF), Earnings multiple Quoted put/ surrender price by issuer	Bond and interbank swap interest rate curve Cost of capital Consumer price index	Earnings multiple
Structured transactions and investment funds	2	Quoted (exit) price provided by fund manager	n/a	n/a
Trading account assets and liabilities	2	DCF	Forward rate Credit risk spread Liquidity spread	n/a
Investment contract liabilities	2	Current unit price of underlying unitised financial asset, multiplied by the number of units held	n/a	n/a
		DCF	Bond interest rate curves	n/a
Term finance	2 and 3	DCF	Bond and forward rate Credit ratings of issuer Liquidity spread Agreement interest curves	Liquidity spread
Derivative assets and liabilities	2 and 3	Option pricing models DCF	Bond and interbank swap interest rate curve Forward equity and currency rates Volatility risk adjustments	Risk adjustments

40. Fair value disclosures *(continued)*

Sensitivity of level 3 financial instruments measured at fair value to changes in key assumptions

Financial assets

R million	Carrying amount[(1)]	Effect of a 10% increase in risk adjust-ments	Effect of a 10% decrease in risk adjust-ments	Carrying amount[(2)]	Effect of a 1% increase in base/ capitali-sation rate	Effect of a 1% decrease in base/ capitali-sation rate
Properties						
2013						
Cash flow risk adjustments	7 227	(723)	723	—	—	—
Base rate	—	—	—	7 227	(255)	272
Capitalisation	—	—	—	7 227	(354)	432

R million	Carrying amount[(1)]	Effect of a 10% increase in multiple	Effect of a 10% decrease in multiple	Carrying amount[(2)]	Effect of a 1% increase in discount rate	Effect of a 1% decrease in discount rate
Other investments						
2013						
Equities and similar securities	755	76	(76)	558	(6)	6
Interest-bearing investments	345	35	(35)	49	(12)	14
Investment funds	459	46	(46)	—	—	—
Total	1 559	157	(157)	607	(18)	20
2012						
Equities and similar securities	1 737	174	(174)	144	(1)	1
Interest-bearing investments	—	—	—	163	(2)	2
Structured transactions	122	12	(12)	—	—	—
Investment funds	353	35	(35)	—	—	—
Cash, deposits and similar securities	2	—	—	—	—	—
Total	2 214	221	(221)	307	(3)	3

(1) *Represents mainly private equity investments valued on earnings multiple, with sensitivities based on the full valuation.*
(2) *Represents mainly instruments valued on a discounted cash flow basis, with sensitivities based on changes in the discount rate.*

40. Fair value disclosures *(continued)*

Sensitivity of level 3 financial instruments measured at fair value to changes in key assumptions

Financial liabilities

R million	Carrying amount[1]	Effect of a 10% increase in value	Effect of a 10% decrease in value	Carrying amount[2]	Effect of a 1% increase in discount rate	Effect of a 1% decrease in discount rate
2013						
Investment contract liabilities	494	49	(49)	273	(8)	8
Term finance	259	26	(26)	—	—	—
Derivative liabilities	—	—	—	203	(37)	14
Financial liabilities	753	75	(75)	476	(45)	22
Investment contract liabilities	652	65	(65)	—	—	—
Term finance	97	10	(10)	—	—	—
Financial liabilities	749	75	(75)	—	—	—

[1] *Represents mainly private equity investments valued on earnings multiple, with sensitivities based on the full valuation.*
[2] *Represents mainly instruments valued on a discounted cash flow basis, with sensitivities based on changes in the discount rate.*

40. Fair value disclosures *(continued)*

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

31 December 2013

R million	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Related amounts not set off in the statement of financial position: Other financial instru-ments[1]	Related amounts not set off in the statement of financial position: Cash collateral received[2]	Net amount	Amounts not set off in the statement of financial position	Total amounts recog-nised in the statement of financial position
Financial assets								
Working capital cash	2 992	–	2 992	(2 504)	–	488	17 912	18 400
Trading account assets	20 457	(718)	19 739	(2 485)	(2 366)	14 888	21 739	36 627
Structured transactions	4 078	(1 494)	2 584	–	–	2 584	9 322	11 906
Financial liabilities								
Trading account liabilities	19 568	(384)	19 184	(9 753)	–	9 431	23 189	32 620
Derivative liabilities	2 049	(3 140)	(1 091)	–	–	(1 091)	2 478	1 387

(1) The figures for other financial instruments column are made up of ISDA netting, CSA collateral, repo's and scrip received. These amounts have been limited to the net amount recognised on the statement of financial position.

(2) Amount used is the lower of collateral received or the value of the financial assets (normally the latter due to over-collateralisation)

ISDA netting refers to the netting of derivative exposures to arrive at the net amount owed to and by each counterparty as envisaged in the ISDA agreements with these counterparties.

Credit Support Agreements (CSA) have been signed with derivative counterparties to place collateral to offset the net exposures in note 1.

Scrip lending agreements are governed by GMSLA agreements in terms of which the collateral provided and the scrip received can be netted.

Security/collateral received refers to equity collateral that has been pledged to SCM to cover events of default.

for the year ended 31 December 2013

40. Fair value disclosures *(continued)*

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements *(continued)*

31 December 2012

R million	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Related amounts not set off in the statement of financial position: Other financial instru-ments[1]	Cash collateral received[2]	Net amount	Amounts not set off in the statement of financial position	Total amounts recog-nised in the statement of financial position
Financial assets								
Working capital cash	1 973	—	1 973	(1 458)	—	515	16 044	16 559
Trading account assets	32 240	(2 941)	29 299	(4 091)	(1 194)	24 014	19 598	43 612
Structured transactions	5 371	(2 063)	3 308	—	—	3 308	11 523	14 831
Financial liabilities								
Trading account liabilities	25 167	—	25 167	(9 205)	—	15 962	21 749	37 711
Derivative liabilities	1 392	(2 002)	(610)	—	—	(610)	1 220	610

[1] The figures for other financial instruments column are made up of ISDA netting, CSA collateral, repo's and scrip received. These amounts have been limited to the net amount recognised on the statement of financial position.
[2] Amount used is the lower of collateral received or the value of the financial assets (normally the latter due to over-collateralisation)
ISDA netting refers to the netting of derivative exposures to arrive at the net amount owed to and by each counterparty as envisaged in the ISDA agreements with these counterparties.
Credit Support Agreements (CSA) have been signed with derivative counterparties to place collateral to offset the net exposures in note 1.
Scrip lending agreements are governed by GMSLA agreements in terms of which the collateral provided and the scrip received can be netted.
Security/collateral received refers to equity collateral that has been pledged to SCM to cover events of default.

41. Restatements

The application of IFRS 10 has led to certain investments in investment funds being consolidated affecting investment assets and various income and expense items. In addition, the alignment of the investment classes to SAM asset classes has resulted in reclassification within investment assets. Comparative information, including relevant notes has been restated.

Statement of financial position

	31 DECEMBER 2012			
R million	Previously reported	SAM investment category alignment	IFRS 10 adoption	Restated
Assets				
Investments	379 409	—	16 735	396 144
Properties	17 678	(7 651)	—	10 027
Equities and similar securities	202 952	(75 749)	8 303	135 506
Interest-bearing investments	102 343	10 574	11 295	124 212
Structured transactions	—	14 571	260	14 831
Investment funds	—	101 686	(4 064)	97 622
Cash, deposits and similar securities	56 436	(43 431)	941	13 946
Other assets	17 962	—	—	17 962
Working capital assets	46 193	—	30 654	76 847
Trade and other receivables	31 241	—	29 047	60 288
Cash, deposits and similar securities	14 952	—	1 607	16 559
Total assets	443 564	—	47 389	490 953
Equity and liabilities				
Capital and reserves				
Other shareholders' equity	37 632	—	—	37 632
Consolidation reserve	(713)	—	(363)	(1 076)
Shareholders' fund	36 919	—	(363)	36 556
Non-controlling interest	2 970	—	—	2 970
Total equity	39 889	—	(363)	39 526
External investors in consolidated funds	19 596	—	19 106	38 702
Other liabilities	349 256	—	—	349 256
Working capital liabilities				
Trade and other payables	34 823	—	28 646	63 469
Total equity and liabilities	443 564	—	47 389	490 953

for the year ended 31 December 2013

41. Restatements *(continued)*

Statement of financial position *(continued)*

R million	Previously reported	SAM investment category alignment	IFRS 10 adoption	Restated
	1 JANUARY 2012			
Assets				
Investments	326 212	—	17 126	343 338
Properties	15 310	(5 929)	—	9 381
Equities and similar securities	165 582	(60 426)	8 201	113 357
Interest-bearing investments	93 833	8 194	11 195	113 222
Structured transactions	—	13 583	312	13 895
Investment funds	—	83 302	(3 673)	79 629
Cash, deposits and similar securities	51 487	(38 724)	1 091	13 854
Other assets	15 853	—	—	15 853
Working capital assets	40 138	—	21 340	61 478
Trade and other receivables	25 761	—	19 936	45 697
Cash, deposits and similar securities	14 377	—	1 404	15 781
Total assets	382 203	—	38 466	420 669
Equity and liabilities				
Capital and reserves				
Other shareholders' equity	34 292	—	—	34 292
Consolidation reserve	(470)	—	(363)	(833)
Shareholders' fund	33 822	—	(363)	33 459
Non-controlling interest	3 046	—	—	3 046
Total equity	36 868	—	(363)	36 505
External investors in consolidated funds	11 592	—	19 183	30 775
Other liabilities	301 241	—	—	301 241
Working capital liabilities				
Trade and other payables	32 502	—	19 646	52 148
Total equity and liabilities	382 203	—	38 466	420 669

41. Restatements *(continued)*

Statement of comprehensive income	31 DECEMBER 2012 Previously reported	IFRS 10 adoption	Restated
Net income			
Financial services income	40 416	(2)	40 414
Investment income	17 749	1 773	19 522
Investment surpluses	37 091	1 212	38 303
Change in fair value of external investors' liability	(2 463)	(2 226)	(4 689)
Expenses			
Administration costs	(10 416)	(599)	(11 015)
Finance cost – other	(315)	(138)	(453)
Taxation			
Policyholders' fund	(1 182)	(20)	(1 202)

Cash flow statement	31 DECEMBER 2012 Previously reported	IFRS 10 adoption	Restated
Net cash flow from operating activities			
Cash utilised in operations	990	(3 801)	(2 811)
Interest and preference share dividends received	9 864	1 431	11 295
Interest paid	(500)	(138)	(638)
Taxation paid	(2 430)	(20)	(2 450)
Net cash flow from investment activities			
Net disposal/(acquisition) of investments	(1 984)	(2 477)	(4 461)
Net increase in cash and cash equivalents			
Cash, deposits and similar securities at the beginning of the period	65 857	(36 222)	29 635

SANLAM LIMITED STATEMENT OF FINANCIAL POSITION

at 31 December 2013

R million	Notes	2013	2012
ASSETS			
Investments in subsidiaries	2	**17 895**	15 309
Working capital assets		**3 569**	2 465
Cash and bank		**49**	83
Loans to Group companies	2	**3 520**	2 382
Total assets		**21 464**	17 774
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital and premium	3	**22**	22
Non-distributable reserve		**9 342**	9 342
Retained earnings		**8 060**	7 875
Total equity		**17 424**	17 239
Working capital liabilities		**4 040**	535
Accounts payable		**637**	524
Other payables		**—**	11
Loans from Group companies	2	**3 403**	—
Total equity and liabilities		**21 464**	17 774

SANLAM LIMITED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

R million	Notes	2013	2012
Net income		**4 757**	3 612
Dividend income		**4 737**	3 598
Investment surpluses	4	**—**	14
Other income		**20**	—
Expenses			
Administration costs	5	**(12)**	(10)
Net reversal of impairment of loans	2	**41**	110
Net reversal of impairment/(impairment) of investments	2	**28**	(128)
Profit before tax		**4 814**	3 584
Taxation		**—**	(80)
Prior periods underprovisions		**—**	(20)
Secondary tax on companies		**—**	(60)
Profit for the year		**4 814**	3 504
Other comprehensive income		**—**	—
Comprehensive income for the year		**4 814**	3 504

SANLAM LIMITED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

R million	Share capital	Share premium	Non-distributable reserve[1]	Retained earnings	Total equity
Balance at 1 January 2012	21	1	9 342	7 155	16 519
Profit for the year	—	—	—	3 504	3 504
Dividends paid	—	—	—	(2 784)	(2 784)
Balance at 31 December 2012	21	1	9 342	7 875	17 239
Profit for the year	—	—	—	4 814	4 814
Dividends paid	—	—	—	(4 629)	(4 629)
Balance at 31 December 2013	**21**	**1**	**9 342**	**8 060**	**17 424**

[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 2013

R million	Notes	2013	2012
Cash flow from operating activities		**218**	836
Cash utilised in operations	10	**110**	100
Dividends received		**4 737**	3 598
Dividends paid		**(4 629)**	(2 784)
Taxation paid		**—**	(78)
Cash flow from investment activities		**(2 558)**	(486)
Recovery of investments		**—**	14
Additional investment in subsidiaries		**(2 558)**	(500)
Net (decrease)/increase in cash and cash equivalents		**(2 340)**	350
Cash and cash equivalents at the beginning of the year		**2 465**	2 005
Net impairment of loans included in cash and cash equivalents during the year		**41**	110
Cash and cash equivalents at the end of the year		**166**	2 465

for the year ended 31 December 2013

1. Accounting policies

The accounting policies of the Sanlam Group as set out on pages 244 to 259 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. Impairment is considered 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	2013	2012
2. Group companies		
Investments in Group companies	**17 895**	15 309
Current loans with Group companies	**117**	2 382
Loans to Group companies	**3 520**	2 382
Loans from Group companies	**(3 403)**	—
Book value of interest in Group companies	**18 012**	17 691
Net reversal of impairment/(impairment) of investments in Group companies		
Genbel Securities Limited	**42**	362
Sanlam Investments (Pty) Limited	**—**	(490)
Sanlam Netherlands Holding BV	**(14)**	—
Total net reversal of impairment/(impairment) of investments in Group companies	**28**	(128)
Fair value of net investment in Group companies		
Investments in subsidiaries – fair value	**72 703**	65 861
Total fair value of net investment in Group companies	**72 703**	65 861

Investments in Group companies are carried at cost less accumulated impairment. The fair value disclosed are classified as level 3 instruments. Investment management subsidiaries are valued at a P/AUM ratio, subsidiaries that conduct life insurance business are valued at embedded value and other subsidiaries and loans are valued at DCF. For a description of the valuation methodology used and sensitivities of main assumptions, refer to note 2.5 on page 173.

2. Group companies *(continued)*

Loans: Group companies

The loans to/from Group companies are unsecured and payable on demand and are carried at amortised cost less accumulated impairments. No interest is charged but these arrangements are subject to revision from time to time. The carrying value of the loans approximate the fair value. Details regarding the principal subsidiaries of Sanlam Limited are set out on page 330.

R million	2013	2012
Loans to Group companies		
Sanlam Spec (Pty) Limited	**548**	659
Genbel Securities Limited	**77**	110
Sanlam Life Insurance Limited	**2 278**	819
Sanlam Investments (Pty) Limited	**79**	79
Sanpref (Pty) Limited	**538**	715
Loans from Group companies		
Sanlam PrefCo (Pty) Limited	**3 403**	—
Reversal of impairment of loans		
Sanlam Spec (Pty) Limited	**41**	110

3. Share capital and premium

Details of the share capital and premium are reflected in note 11 on page 284 of the Sanlam Group financial statements.

4. Investment surpluses

Investment surpluses relate to the profit on the sale of the investment in associate during the prior financial year, as well as funds received on previously written off loan assets.

for the year ended 31 December 2013

5. Administration costs include:

Directors' remuneration

Details of the directors' remuneration is reflected in note 24 on page 295 of the Sanlam Group financial statements.

6. Dividends

Details of the dividends declared are disclosed in note 29 on page 298 of the Sanlam Group financial statements.

7. Borrowing powers

In terms of the memorandum of incorporation 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 308 of the Sanlam Group financial statements. The maximum utilisation under all of the guarantees granted in favour of Sanlam Capital Markets is R11 billion (2012: R11 billion).

9. Related parties

Details of related parties are reflected in note 35 on page 308 of the Sanlam Group financial statements.

R million	2013	2012
10. Notes to the cash flow statement		
Cash utilised in operations		
Profit before tax	**4 814**	3 584
Non-cash flow items		
Net impairment of investments in Group companies	**(28)**	128
Net (reversal of impairment)/impairment of loans	**(41)**	(110)
Investment surpluses	**—**	(14)
Items disclosed separately		
Dividends received	**(4 737)**	(3 598)
Increase in net working capital liabilities	**102**	110
Cash utilised in operations	**110**	100

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 326. 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:

R million	2013	2012
▸ Carrying value of loans granted	**3 520**	2 382

Further details of risk management are disclosed in the Capital and Risk Management report on page 202.

12. Tax rate reconciliation

The effective tax rate of Sanlam Limited of 0% (2012: 2,2%) differs from the standard rate of taxation of 28% (2012: 28%) due to the effects of non-taxable income -28% (2012: -29,1%), STC 0,0 % (2012: 1,7%), prior year under provision 0,0% (2012: 0,6%) and other differences 0% (2012: 1%)

PRINCIPAL SUBSIDIARIES

at 31 December 2013

R million	% Interest	ISSUED ORDINARY CAPITAL 2013	FAIR VALUE OF INTEREST IN SUBSIDIARIES SHARES 2013	SHARES 2012	LOANS 2013	LOANS 2012
Long-term insurance						
Sanlam Life Insurance Limited	100	5 000	60 542	55 466	2 278	819
Investment and capital markets						
Genbel Securities Limited	100	253	2 042	2 000	77	110
Investment management and consulting						
Sanlam Investment Management (Pty) Limited	100	(1)	(1)	(1)	—	—
Sanlam Independent Financial Services (Pty) Limited(5)	100	(2)	(2)	(2)	—	—
Sanlam Investment Holdings (Pty) Limited(5)	100	(2)	1 705	1 547	—	—
Sanlam Netherlands Holding BV(3)	100	2 309	5 743	4 456	—	—
Investment companies						
Sanlam Spec (Pty) Limited(4)	100	(2)	(2)	—	548	659
Sanlam Investments (Pty) Limited	100	500	10	10	79	79
Sanlam Share Incentive Trust	100	(2)	—	—	—	—
Sanpref (Pty) Limited	100	(2)	(2)	(2)	538	715
Sanlam Prefco (Pty) Limited	100	(2)	2 544	—	(3 403)	—
Total			72 586	63 479	117	2 382

(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) *Sanlam Limited provided a letter of guarantee to Sanlam Spec (Pty) Limited, as well as subordinated its loan to Sanlam Spec (Pty) Limited in favour of other creditors. In addition Sanlam Limited, with Sanlam Spec (Pty) Limited provided a letter of guarantee to Real Futures (Pty) Limited.*
(5) *Sanlam Limited provided a letter of guarantee to Sanlam Investment Holdings (Pty) Limited and Sanlam Independent Financial Services (Pty) Limited.*

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. Sanlam Limited, via its investment in Sanlam Life Insurance Limited, has the following subsidiaries with material non-controlling interests.

Analysis of the Group's holding in subsidiaries with significant non-controlling interests:

	SANTAM LIMITED[1]		BOTSWANA INSURANCE HOLDINGS LIMITED[2]	
	2013 %	2012 %	**2013 %**	2012 %
Shareholders' fund	**59,34**	59,58	**55,46**	50,25
Policyholders' fund	**1,80**	0,29	**2,11**	3,46
Non-controlling interest	**38,86**	40,13	**42,43**	46,29
Total	**100,00**	100,00	**100,00**	100,00

[1] *The financial information of Santam Limited, incorporated and operating mainly in South Africa, has been presented in the Shareholders' information section on page 154 and page 157. The carrying amount of the non-controlling interest is presented in note 14 of the Group financial statements on page 287. The cash flow information of Santam Limited and the dividends paid to the non-controlling interest have been summarised below. The information is provided based on amounts before intercompany eliminations:*

R million	**2013**	2012
Santam summarised statement of cash flows for the year ending 31 December 2013:		
Operating	**1 277**	1 735
Investing	**(1 175)**	755
Financing	**(358)**	(1 640)
Net increase/(decrease) in cash and cash equivalents	**(256)**	850
Dividends paid to non-controlling interest	**340**	689

[2] *The financial information of Botswana Insurance Holdings Limited (BIHL), incorporated and operating mainly in Botswana, which has a material non-controlling interest has been summarised below. This information is provided based on amounts before inter-company eliminations:*

at 31 December 2013

Financial information of BIHL

	2013 R million	2012 R million
Summarised statement of profit or loss:		
Net income	5 733	3 413
Net insurance and investment contract benefits and claims	(4 658)	(2 538)
Expenses	(620)	(558)
Share of profit of associates and joint ventures	220	317
Profit before tax	675	634
Income tax	(99)	(100)
Profit for the year	576	534
Total comprehensive income	602	546
Attributable to non-controlling interests	244	253
Dividends paid to non-controlling interests	45	74
Summarised statement of financial position as at 31 December 2013:		
Assets		
Investments	15 834	15 841
Other non-current assets	209	183
Other current assets	7	10
Cash and cash equivalents (current)	705	844
Trade and other receivables (current)	326	223
Liabilities		
Policyholder liabilities	(13 514)	(14 382)
Deferred tax (non-current)	(29)	(20)
Other non-current liabilities	—	—
Other current liabilities	(42)	(21)
Trade and other payables (current)	(531)	(483)
Total equity	2 965	2 195
Attributable to:		
Sanlam Group	1 707	1 187
Non-controlling interest	1 258	1 008
Summarised statement of cash flows for the year ending 31 December 2013:		
Operating	(4 955)	2 144
Investing	4 625	(2 795)
Net increase/(decrease) in cash and cash equivalents	(330)	(651)

ANALYSIS OF SHAREHOLDERS

at 31 December 2013

Distribution of shareholding	Total shareholders Number	Total shareholders %	Total shares held Number	Total shares held %
1 – 1 000	427 724	86,60	161 235 949	7,68
1 001 – 5 000	58 516	11,84	114 682 876	5,46
5 001 – 10 000	4 801	0,97	32 886 647	1,57
10 001 – 50 000	2 080	0,42	38 074 872	1,81
50 001 – 100 000	230	0,05	16 929 675	0,81
100 001 – 1 000 000	430	0,09	139 895 003	6,66
1 000 001 and over	132	0,03	1 596 294 978	76,01
Total	**493 913**	**100,00**	**2 100 000 000**	**100,00**

Public and non-public shareholders	% shareholding
Public shareholders (470 888)	66,97
Non-public shareholders	
Directors' interest	0,54
Held by subsidiaries	6,66
Employee pension funds	0,07
Sanlam Limited Share Incentive Trust	1,38
Government Employees Pension Fund (PIC)	13,62
Ubuntu-Botho Investments (Pty) Ltd	10,76
Total	**100,00**
Shareholder structure	
Institutional and other shareholding	
Offshore	31,55
South Africa	54,12
Individuals	14,33
Total	**100,00**
Beneficial shareholding of 5% or more:	
– Government Employees Pension Fund (PIC)	13,62
– Ubuntu-Botho Investments (Pty) Ltd	10,76