Annual Report 2005

Sanlam

Thinking ahead

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Financial Calendar

Annual general meeting: 7 June 2006

Interim results: 7 September 2006

Trading update: 8 June 2006 and 7 December 2006

Dividends

Last date to trade for 2005 dividend: 20 April 2006

Shares will trade ex dividend from: 21 April 2006

Record date for 2005 dividend: 28 April 2006

Payment of dividend for 2005: 10 May 2006

For your convenience we include the Annual Report on a disc (in pdf format). We have also included additional financial information on the Group's interim and final financial results.

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

Results at a Glance

New business inflows

R73,5 billion

▲ 23%

Core earnings

R3,3 billion

▲ 23%

Net operating profit

R2,3 billion

▲ 27%

Dividend

65 cents per share

▲ 30%

		2005	*2004*
New business volumes	R million	**73 481**	59 852
Net operating profit	R million	**2 300**	1 812
Core earnings	cents per share	**129,7**	103,4
Headline earnings	cents per share	**229,8**	115,3
Dividend	cents per share	**65**	50
Embedded value	cents per share	**1 615**	1 344

Sanlam is one of the largest financial services groups in South Africa. It was established in 1918 and listed on the JSE Limited and the Namibian Stock Exchange in 1998.

The Group comprises a number of **mutually interdependent** or complementing business entities and apart from South Africa, also has business interests elsewhere in **Africa, the United Kingdom, Europe and India.**

In its **87 years** Sanlam has grown from a small life insurance company to a significant financial services group focusing mainly, but not exclusively, on the **wealth creation**, management and protection value chain.

The Sanlam group is held together by a shared business philosophy that creates a One Firm Firm. This philosophy has its roots in an entrepreneurial culture with its essence captured in traditional values of honesty, diligence, superior ethical behaviour, innovation, stakeholder values and strong ties with business partners. The Sanlam business model focuses on client-centricity and is solution oriented.

Operationally the Group's components, profit centres or business units are relatively autonomous. The culture is one of owner-manager, underwritten by key concepts of entrepreneurship, empowerment and accountability.

This report conveys our progress and achievements in 2005 and details the direction we are pursuing.

We are satisfied with our results and trust that they will meet your expectations of the Sanlam group. Our contact details are provided on the inside back cover of this report and you are welcome to raise any comments you may have with us.

In line with our vision of being the leader in wealth creation, we remain primed to grasp the opportunities that come our way and to meet the challenges that confront us.

Our strategy of effective capital utilisation, growth, cost structures and transformation was embedded during 2005. We are entrenching ourselves as a world-class, though truly South African, financial services player and not only a life insurance group.

We are continuously thinking ahead and adapting to a challenging and changing environment.

And as our logo has developed over the years so has the Sanlam brand.

2005 witnessed the repositioning of the Sanlam brand to enable us to meaningfully differentiate our Group in a cluttered, competitive market place. Our new brand gives expression to our vision of client-centricity through personalised financial solutions for the individual – as the profiles of our clients on the next few pages depict.

"As a chartered accountant and director at one of South Africa's top accounting firms, people rely on me to deliver the very best professional service. I, in turn, need equally professional and skilled people to look after my personal finances. I have been a Sanlam client for more than seven years. In that time, my Sanlam intermediary has always considered my individual needs in coming up with solutions that fit my requirements. It is this type of professional client dynamic that makes me feel confident and secure."

Bridgette Modise

"I am an entrepreneur, husband and father and my farm is not only my source of income, but has also been in my family for generations. As a Sanlam client, I can tend to my business of running the farm, secure in the knowledge that professionals are both looking after my personal financial needs and safeguarding my livelihood against risk. Sanlam understands my business and I have always found my Sanlam adviser to be knowledgeable, caring and empathetic – my partner in securing my family's legacy."

Albert Bredell

"I completed my studies and started working two years ago. I know that I have made the right choices in my studies and the legal career in which I am going to be successful. The dedication and single-minded focus that will get me there, also applies to my personal financial planning. I have started to provide for my future financial success through solutions offered by Sanlam where planning for my individual needs are looked after with the same dedication and single-mindedness."

Llewellyn Alard

"Charlotte and I have been Sanlam clients since 1972. Although we are well into retirement age, I am still active as a civil engineer and Charlotte still teaches music. Sanlam and our intermediary have helped us to ensure that our retirement, when it comes, will not require an adjustment in our lifestyle. Our range of investments with Sanlam provides us with peace of mind for our future."

Paul and Charlotte van der Merwe

A substantial and **positive turnaround** in earnings since 2003 across all major business clusters, with the benefits of a **clearly defined focus on growth** and capital efficiency coming through in 2005.

The sale of Sanlam's stake in Absa during the year to Barclays PLC created **an exciting opportunity to unlock value and greatly improve capital efficiency** through effective deployment of capital.

R4 billion of capital **returned to shareholders** through share buy-backs.

The acquisitions of **African Life Assurance Company** as well as a controlling interest in **Channel Life,** have deepened our penetration of the emerging market, substantially bolstering our capabilities in that arena.

Successful integration of **Sanlam Capital Markets** into the Investment cluster.

Top performing unit trust fund in South Africa **over two and three years**.

Entering the lucrative Indian market through joint venture company **Shriram Life Insurance,** in which Sanlam holds a 26% stake.

Assets under management by the Investment cluster increase to **more than R300 billion** for the first time.

Entering **health management,** through the acquisition of a majority interest in healthcare provider **Resolution Health.**

Continuous scrutiny of strategic partnerships and acquisitions, particularly where they are aligned with our move into emerging growth sectors – Sanlam acquired a stake in UK-based intermediary distribution company **Intrinsic** during the year.

Sanlam's strong operating results for 2005 validate the steps that Sanlam has taken *en-route* to sustained profitability and value creation in a constantly evolving market.

Key financial features

Earnings

- Headline earnings per share up 99%
- Core earnings per share up 25%

Business flows

- Total new business volumes up 23% to R73 billion
- Investment inflows up 29% to R53 billion
- Net fund inflows of R15 billion

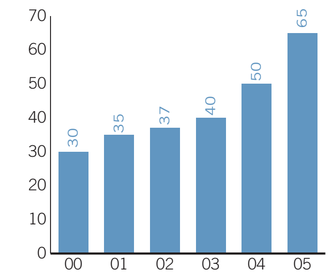
Embedded value

- Embedded value of 1 615 cents per share
- Return on embedded value per share 24,4%
- Embedded value of new life business R291 million
- New business embedded value margin 13,5%

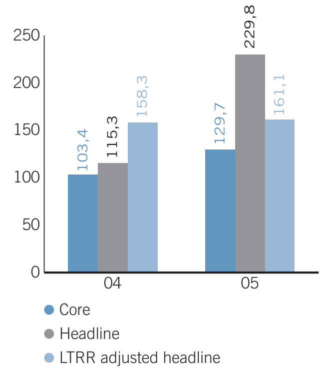
Dividend up 30% to 65 cents per share

Our Achievements: Financial Performance

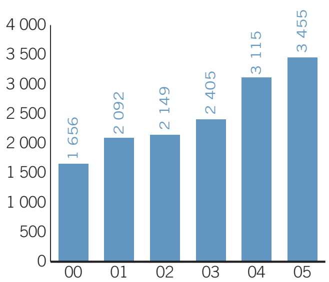
Dividend per share
in cents



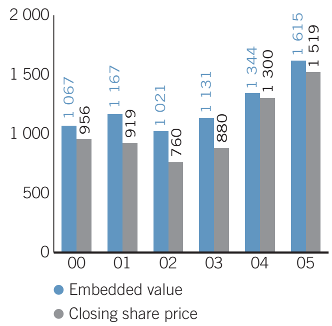
Earnings per share
in cents



Gross result from operations
in R million



Value of Sanlam shares
in cents

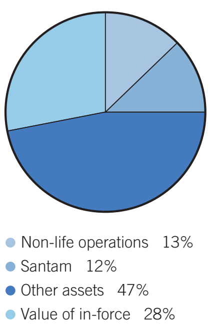


*2003 and prior not restated for IFRS

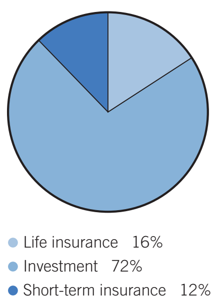
*2003 and prior not restated for IFRS

Major progress has been made in 2005 on Sanlam's strategy to grow a more balanced business within a defined financial services framework and to create an optimal capital structure for the Group. The sale of Absa to Barclays PLC facilitated a restructuring of the Group's capital, enabling the repurchase of some 12,5% of Sanlam's issued shares and a major investment in African Life and a number of other new strategic growth opportunities.

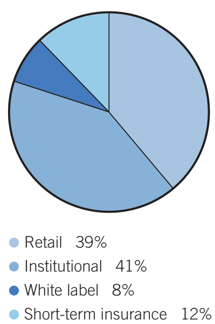
Sanlam group embedded value



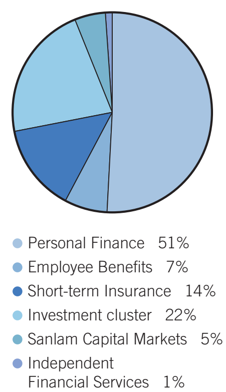
Contribution to new business inflows



Contribution to new business inflows



Contribution by businesses to net result from operations



Group Ten-year Review

	2005 R million	2004(1) R million	2003 R million	2002 R million
Extracts from financial statements				
Result from financial services before tax	**3 455**	3 115	2 405	2 149
Core earnings	**3 280**	2 659	2 641	2 280
Headline earnings	**5 813**	2 963	2 351	2 127
Headline earnings based on the LTRR	**4 075**	4 070	3 291	3 227
Shareholders' fund	**25 020**	19 685	21 687	20 651
Policy liabilities	**198 234**	163 556	134 079	129 329
Total assets under management	**443 927**	346 958	279 237	245 953
Net asset value per share (cents)(3)	**1 293**	1 093	883	798
New business embedded value	**291**	321	232	320
Embedded value per share (cents)	**1 615**	1 344	1 131	1 021
Group administration cost ratio (%)(4)	**29,1**	31,4	33,6	34,7
Group operating margin (%)(4)	**20,7**	21,6	17,5	16,9
New business				
Long-term insurance business				
Individual insurance	**9 033**	8 707	7 566	10 375
• Recurring premiums – indexed growth	**642**	619	643	564
– other	**946**	829	861	976
• Single premiums	**5 803**	5 700	4 506	7 033
• Continuations	**1 642**	1 559	1 556	1 802
Employee benefits	**2 829**	2 493	2 446	2 748
• Recurring premiums	**199**	140	127	156
• Single premiums – gross	**2 630**	2 429	2 384	2 618
– intergroup switches	**—**	(76)	(65)	(26)
Total long-term insurance business	**11 862**	11 200	10 012	13 123
Other business	**61 619**	48 652	28 774	19 134
• Linked products	**7 340**	6 068	5 103	4 199
• Segregated funds – Sanlam Investment Management	**12 602**	11 815	6 014	673
• Segregated funds – International	**12 427**	7 569	1 627	830
• SIM Multi-Manager	**3 094**	3 226	1 032	—
• Collective investments: Retail	**8 937**	6 779	4 370	4 388
• Collective investments: Wholesale	**2 510**	2 145	1 363	1 521
• Collective investments: White Label	**5 838**	3 331	2 510	1 975
• Short-term insurance	**8 871**	7 719	6 755	5 548
Total new business	**73 481**	59 852	38 786	32 257
Recurring premiums				
Long-term insurance business				
Individual insurance	**8 196**	8 010	7 268	8 634
Employee benefits	**2 977**	2 869	2 829	2 903
Total recurring premiums	**11 173**	10 879	10 097	11 537
Staff				
Office staff (excluding intermediaries) (number of persons)	**8 945**	8 575	9 570	9 716

(1)*Restated for the adoption of IFRS in the 2005 financial year. Figures for years prior to 2004 have not been restated.*

(2)*Pro forma figures to reflect the demutualisation and restructuring of Sanlam in 1998.*

(3)*Shareholders' interest in subsidiaries adjusted from net asset value to fair value.*

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

(5)*Figures not readily available as the definition of new business was only introduced in 1999.*

	2001 R million	2000 R million	1999 R million	1998 R million	1997[2] R million	1996[2] R million	Average annual growth rate %
	2 092	1 656	1 722	1 237	1 026	1 070	14
	2 628	2 406	1 955	—	—	—	9
	2 628	2 406	1 955	—	—	—	20
	3 534	3 495	2 721	—	—	—	7
	22 231	19 012	18 075	14 904	10 172	9 005	12
	145 248	133 952	134 319	114 176	119 506	114 647	6
	256 396	224 911	215 924	176 792	166 382	147 969	13
	927	831	810	630	528	466	12
	290	240	101	57	—	—	26
	1 167	1 067	1 004	827	—	—	10
	35,2	32,3	29,8	27,8	—	—	
	18,4	16,5	17,9	12,9	—	—	
	9 735	9 795	7 704	6 319	7 743	6 733	3
	558	525	527	500	500	425	5
	974	1 149	749	830	1 039	1 301	(3)
	6 009	5 881	4 804	3 107	5 458	4 376	3
	2 194	2 240	1 624	1 882	746	631	11
	3 562	4 399	2 633	5 247	5 154	3 503	(2)
	171	219	139	137	[5]	[5]	5
	3 466	4 180	2 494	5 110	5 154	3 503	(3)
	(75)	—	—	—	—	—	—
	13 297	14 194	10 337	11 566	12 897	10 236	2
	23 284	23 506	15 473	18 280	12 214	8 757	24
	3 450	1 687	1 706	1 423	431	—	43
	3 479	7 973	2 310	4 498	5 519	4 666	12
	276	—	—	—	—	—	159
	—	—	—	—	—	—	73
	4 908	9 342	8 154	8 266	2 957	1 164	25
	2 382	—	—	—	—	—	1
	3 482	—	—	—	—	—	14
	5 307	4 504	3 303	4 093	3 307	2 927	13
	36 581	37 700	25 810	29 846	25 111	18 993	16
	8 336	8 455	8 344	8 496	8 354	7 781	1
	2 910	3 050	3 029	2 740	3 000	2 958	—
	11 246	11 505	11 373	11 236	11 354	10 739	—
	10 024	9 709	10 159	11 669	12 756	12 635	(4)

Salient Features for the year ended 31 December 2005

		2005	2004	∆%
Sanlam Limited Group				
Earnings:				
Result from financial services after tax	R million	**2 300**	1 812	27
Core earnings[(1)]	R million	**3 280**	2 659	23
Headline earnings[(2)]	R million	**5 813**	2 963	96
Net result from financial services per share	cents	**90,9**	70,5	29
Core earnings per share[(1)]	cents	**129,7**	103,4	25
Headline earnings per share[(2)]	cents	**229,8**	115,3	99
Dividend per share	cents	**65**	50	30
Group administration cost ratio[(3)]	%	**29,1**	31,4	
Group operating margin[(4)]	%	**20,7**	21,6	
Business volumes:				
New business volumes	R million	**73 481**	59 852	23
Net fund flows	R million	**15 168**	16 591	
Value of new business	R million	**291**	321	(9)
Life insurance new business APE[(5)]	R million	**2 153**	1 958	10
Value of new business margin[(6)]	%	**13,5**	16,4	
Embedded value:				
Embedded value	R million	**38 204**	36 633	4
Embedded value per share	cents	**1 615**	1 344	20
Growth from life business	%	**22,3**	26,5	
Return on embedded value per share[(7)]	%	**24,4**	22,6	
Sanlam Life Insurance Limited				
Shareholders' fund	R million	**27 314**	26 308	4
Capital adequacy requirements (CAR)	R million	**5 375**	6 550	(18)
CAR covered by prudential capital	times	**3,9**	3,6	8

Notes

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

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

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

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

(5) *APE = annual premium equivalent and is equal to new recurring premiums (excluding indexed growth premiums) plus 10% of single premiums.*

(6) *Value of new business margin = value of new business as a percentage of life insurance new business APE.*

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

The above is extracted from segmental information, except for embedded value results.

In economic terms 2005 was a remarkable year

The window of opportunity that has opened due to the favourable international environment should not be squandered, but utilised to effect the necessary supply-side reforms to cement the long-term gains from South Africa's newly found confidence.

In economic terms 2005 was a remarkable year. The South African economy achieved a real growth rate of close to 5% for the first time in more than 20 years. The JSE surpassed all expectations, achieving one all-time high after another, with the all-share index rising by 43% by the end of the year. At the same time, the boom in house prices continued, although it seems to have reached a cyclical peak.

Inflation, as measured by the CPIX, at one stage threatened to break the lower bound of the South African Reserve Bank's targeting range, and the repo rate was cut yet again. The yield on government bonds continued its relentless downward spiral that was initiated in 1999, with the ten-year generic yield declining to *circa* 7,5%.

Global investor interest in emerging markets, in particular listed equities, reached unprecedented levels, as reflected in record net foreign purchases of JSE-listed securities amounting to R52 billion in 2005. This was complemented by the single largest foreign direct investment transaction in South Africa's history with the acquisition of a controlling interest in banking group Absa by Barclays PLC, all of which saw South Africa's foreign exchange reserves continue to rise month by month.

Government finances have surprised because of a huge overrun in revenue collection generated by the buoyancy in the economy, and the budget deficit of 0,5% of GDP for the current fiscal year is the lowest since 1981. International rating agencies upgraded South Africa to a level bordering on a coveted A-rating.

And yet there is a feeling of uneasiness about all of this as positive developments outlined above are counterbalanced by a growing deficit on the current account of the balance of payments, which, at 4,7% of GDP in Q3 2005, reached its highest level since 1983. South Africa's manufacturing base is being hollowed out, and evidence of infrastructure bottlenecks is the order of the day.

The household savings rate declined to a mere 0,2% of disposable income, its lowest level since 1952, with household debt increasing to a record level of 63,4% of disposable income by the third quarter of 2005. Although the rise of the black middle class has provided a boost to consumption spending, the same can unfortunately not be said about savings behaviour. South Africa's national savings rate is the lowest since 1949.

The extent to which the boom conditions of 2005 can be ascribed to an improving structural domestic economic background, rather than extremely favourable international tailwinds resulting from a commodities boom which is bound to eventually subside, still needs to be tested. The answer to this question will determine the sustainability of the current upswing.

The window of opportunity that has opened due to the favourable international environment should not be squandered, but utilised to effect the necessary supply-side reforms to cement the long-term gains from South Africa's newly found confidence. Government's Accelerated and Shared Growth Initiative is a welcome and necessary step towards this, but urgency and efficiency in its execution is of the greatest essence.

The financial services industry also benefited from the buoyant economic conditions of 2005, although more so the banking sector with its emphasis on facilitating transactions and lending, rather than the contractual savings industry. While one can lament the regrettable standoff between the Pension Funds Adjudicator and the contractual savings product providers during 2005, indications of sustained employment growth nevertheless hold the promise of an enlarged future market for financial services of all kinds.

Apart from their relevance to the economic fortunes of South Africa, economic conditions in the developing world will increasingly influence Sanlam's financial results because of its expansion into new markets in India and considered moves into Africa.

India appears to have succeeded in raising its sustainable growth rate to between seven and eight percent through ongoing reforms since the early nineties. Many commentators view its long-term prospects to exceed those of China, and its business environment to be more amenable to profitable foreign participation. In addition, India is the undisputed champion of global business process outsourcing, creating opportunities far beyond its borders.

The African Renaissance was never going to be realised other than in fits and starts, but there are encouraging signs of a new growth dynamic taking hold. Governance issues remain the biggest stumbling block to sustainable development, but here also the tide is turning. Many investors regard Africa as the last emerging market, and we may yet see a new scramble-for-Africa of a different kind.

The outlook for 2006 is positive, although not at the same blistering pace as in 2005. The most important caveat is the continuation of global capital flows to emerging markets.

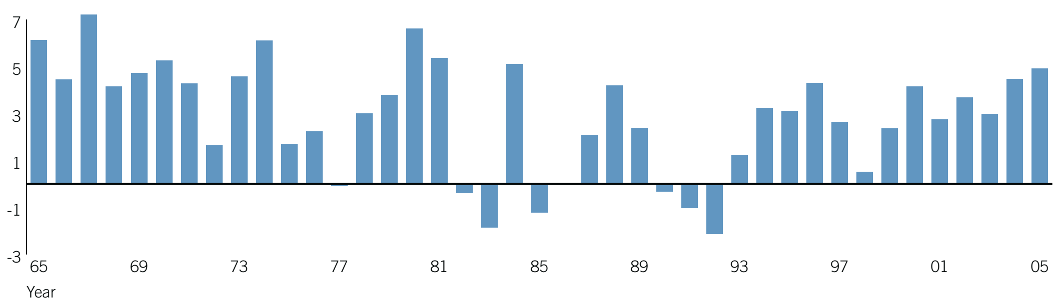
Jac Laubscher
Group economist

Jac Laubscher

Group economist

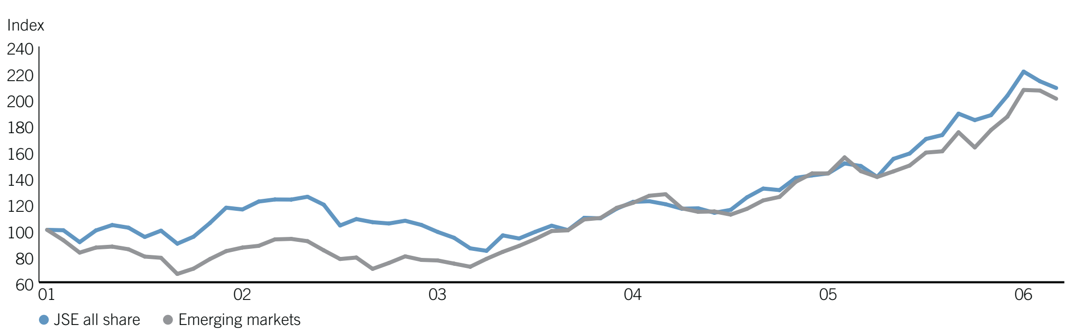
Economic growth

in %



JSE vs emerging markets

based at 1 January 2001



Sanlam

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

(9,4%) Ubuntu-Botho Investments

(14,4%) Public Investment Commissioner

Sanlam Limited

	Life insurance cluster Page 106	Investment cluster Page 126
Scope of business	The Life Insurance cluster includes Sanlam Personal Finance and Sanlam Employee Benefits. ***Sanlam Personal Finance*** is a major provider of a wide range of individual life insurance and personal financial services and products, including estate planning and trusts, home loans, personal loans, linked products, money transfer and financial services in South Africa, Namibia and elsewhere in Africa, the UK and India. **Sanlam Employee Benefits** provides life insurance, investment and annuity products for group schemes and retirement funds and fund administration for retirement and umbrella funds.	The Investment cluster consists of **Sanlam Investment Management** and 11 other businesses which incorporates Sanlam's investment-related businesses in South Africa, the UK, Europe and Namibia. The Investment cluster's areas of service and products include traditional asset management, alternative investment products, property asset management, collective investments (unit trusts), private client investment management and stockbroking, multi-manager management and investment administration. ***Sanlam Capital Markets*** was incorporated into the Investment cluster in 2005. It provides risk management and structured product solutions and associated capital market activities for the South African savings industry, public sector enterprises and corporates.
Contribution to Group operating income (R million)	1 729	850
Operational highlights	New business volumes increase by 16% (individual) and 13% (employee benefits).	Asset under management in excess of R300 billion.
Number of employees	4 947	546

The Sanlam group conducts its business through Sanlam Limited, the corporate head office, and four business clusters. On 31 December 2005 the Group had R444 billion in assets under management and administration.

Short-term insurance cluster Page 138	Independent financial services cluster Page 144	Corporate
The Short-term Insurance cluster is comprised of a 52,7% shareholding (50,7% in shareholders' fund) in **Santam,** the leading short-term insurer in South Africa. Santam focuses on the corporate, commercial and personal markets. It has a market share of almost 30%, total assets of more than R14 billion, a countrywide infrastructure and broker network with more than 650 000 personal lines policyholders. Santam has related business interests in Africa, Europe and the UK.	The **Independent Financial Services** cluster invests in independent customer-facing entities and intermediary businesses in the financial services industry that are generally not Sanlam branded. It provides independent financial advice as well as the distribution and packaging of financial services to high growth segments and independent consulting and actuarial services in the employee benefit market.	The corporate head office is responsible for the Group's centralised functions, which include strategic direction, financial and risk management, group marketing and communications, group human resources and information technology, corporate social investment and general Group services.
1 016	32	(172)
Net written premium increased by 21%.	Enhanced profitability through strategic investments that provide risk adjusted real return on capital.	Sale of Sanlam's stake in Absa, successful share buy-back, acquisition of African Life.
2 733	469	250

Converting aspiration into reality

"We have made substantial strides in realising our vision of becoming the pre-eminent generator of wealth in our markets. Our new, operationally robust Sanlam is positioned to continue to deliver stakeholder value through both investment and organic growth."

The 2005 financial year was spent converting aspiration into reality. Significant headway was made in terms of the implementation of our strategy towards capital efficiency, realignment of core businesses and growth initiatives.

Heightened business volumes for the year were accompanied by positive growth in results, with headline earnings showing a 96% improvement on the IFRS restated results for 2004. Strong equity markets stimulated net business inflows of R15,2 billion, with new inflows showing a 23% year-on-year improvement to R73,5 billion. Total life business flows have also recovered somewhat to show a marginal improvement on 2004, while the 24,4% return on embedded value per share has been encouraging.

Headline earnings per share improved by 99% to 229,8 cents, after providing for the cost of enhanced termination values, while core earnings per share were bolstered by 25% due to improved operational performances. This served to offset the lower profit contribution from Santam, due to the expected more sedate underwriting margins in the short-term environment.

Macro-economic overview

By any measure, South Africa had an epic year. A stable interest rate and a strong rand, falling inflation figures and positive assessments of emerging markets by international investors, saw the South African economy expand at a rate of 5%, its fastest pace since 1984. At the same time, the rampant bull market pushed the JSE all-share index to all-time highs, while the property market continued on its growth track, albeit at a more subdued rate than that experienced during the preceding few years.

Economists are generally confident that South Africa is on track to deliver on Government's year-on-year growth projection of 6%, led by real growth in formal retail sales, enhanced business activity in general, and improving levels of employment.

Of particular relevance to Sanlam was the single largest foreign direct investment transaction in South Africa's history, with the acquisition of a controlling stake in banking group Absa by Barclays PLC. South Africa's foreign exchange reserves also continue to rise month on month.

These buoyant economic conditions had a beneficial impact on the financial services industry, with the banking sector in particular deriving direct deal flow. While the contractual savings sector was less positively stimulated, overall it paints an optimistic picture for growth across the entire financial services spectrum in the years ahead.

Beyond our borders, the healthy economic prognosis for emerging economies is also of significance, in light of Sanlam's expansion into India and Africa and additional prospects that

Roy Andersen
Chairman

are being evaluated in Africa. India in particular provides cause for optimism. With a sustainable growth rate balanced above 7%, the country provides an attractive business proposition.

The current outbreak of avian flu has the potential to become the largest and most serious pandemic in history. There remains a high level of uncertainty about the probability, timing and severity of such a pandemic. Sanlam is closely monitoring the developments.

Policyholder benefits

The life insurance sector continues to navigate a course through difficult waters.

A number of high-profile rulings relating to the charge structures and membership entitlements in respect of early termination of retirement annuities have fuelled negative public sentiment towards life products as an investment medium. In an effort to reaffirm the value proposition of life products, the life industry, through the Life Offices' Association (LOA) and National Treasury, has now reached a broad agreement on minimum fund values to be met by insurers. Sanlam has made a provision of R620 million in its financial results for these termination values.

Sanlam recognises that an evolving socio-economic environment requires new thinking on products, with a lower cost structure and improved returns aimed at attracting more demanding and educated policyholders. We have introduced a new generation of products that provide retirement annuities and endowments with materially improved values when the terms of the policy are altered by the investor, and we continue to evaluate innovations in our product factories.

During the year the LOA tabled a formal discussion document on commissions, outlining certain proposals to reform the current commission regulations on long-term policies, including endowments and retirement annuities. Aimed primarily at reducing upfront costs charged by insurers, the proposals outline the impact of commission on early termination values by spreading the payment thereof.

Sanlam supports the principles that the LOA proposals set out to achieve, as part of the process to ensure a sustainable and rejuvenated industry where all parties – clients, intermediaries and the long-term insurers – get a fair deal. Sanlam understands that intermediaries are critical to our business, yet recognises the imperative to deal with existing inequitable cost structures. Limited scope for further improvement from reductions in the acquisition cost recovery, ensures that we must review the way in which the industry remunerates intermediaries. Sanlam's involvement in this ongoing negotiation will be premised on ensuring that the interests of all stakeholders are taken into account.

While the emerging sector of the market holds promise for an expanded revenue stream, the maturity of the industry has led to lower growth as well as industry consolidation, resulting in keen product pricing and attendant pressure on margins. The low inflationary environment has also brought about lower investment returns, serving further to place yields under pressure. The advent of regulatory changes, in the form of the Financial Information Control Act and the Financial Advisory and Intermediary Services Act, has also had significant administration and cost implications, underlining the heightened focus on cost efficiencies.

The long-term insurance industry plays a critical role in the provision of social and economic security. In its 87-year history Sanlam has paid out billions of rands in disability, disease and death benefits and provided personal financial services and products to millions of South Africans from all spheres of life. With evolved products and within a new regulatory regime, we will continue to do just that.

Strategic positioning

Capital management

The directors and management of Sanlam continue to focus on ensuring an optimal capital structure. The share buyback programme approved by shareholders last September was successfully completed, with a total of 359 million Sanlam shares repurchased for a final consideration of R4,4 billion. The benefit of the buy-back is evident in the improved return on embedded value and the dividend per share.

The productive utilisation of capital is of paramount interest to the board, and management will be focused on investing in profitable growth opportunities. At the same time we will continue to evaluate share repurchases in the open market on a selective basis.

Market strategies

The evolution of Sanlam into a balanced financial services enterprise took shape during 2005. The disposal of Sanlam's shareholding in ABSA realised some R10 billion, with the intention to redeploy some R7 billion deemed as being in excess of the Group's capital requirements. Capital invested in support of Sanlam's growth strategy included the acquisition of shares in African Life Assurance Company for some R2,6 billion, as well as a controlling interest in Channel Life for R116 million. Together with Sanlam Group Solutions and our strategic stake in Safrican, these operations will form the bedrock of Sanlam's entry-level life market strategy. The integration process is on track and we are confident that our operational and return targets will be met.

In line with Sanlam's aim to strengthen its distribution strategy into the middle and upper market segments, Sanlam Personal Finance has had notable success in improving its distribution resources while enhancing the demographic profile of young and black advisers. A more tangible presence in Gauteng has included setting up a separate adviser channel targeting the upper middle class, while the affluent sector of our business continues to be successfully driven through Innofin.

Sanlam's move into health management commenced this year with the acquisition of a majority interest in the Resolution Health Group, a provider of comprehensive healthcare solutions. We have also strengthened offshore diversification with the launch of Shriram Life Insurance, a joint venture between Sanlam and the Shriram group of India. While this represents a small investment, the Indian insurance market holds promise of significant growth. We are confident that the combination of Sanlam's insurance skills and the Shriram group's strong track record and its extensive distribution network will translate into a sound and successful business.

Regulatory environment

Corporate governance and sustainability

The Sanlam board recognises that financial ratios only tell part of the full performance story – that it is critical to look past financial performance and to give substance to socio-economic progress. We recognise further that our ability to create shareholder and policyholder value is hinged on qualitative aspirations, and is linked to the macro environment of which we are a part.

Issues related to human and intellectual capital, social transformation and understanding of our ethical, health and environmental policies go to the heart of our sustainability as a company. We remain committed to the principles and codes of corporate practices and conduct outlined by the King II Report on Corporate Governance and we recognise our responsibility to conduct our affairs with prudence and integrity, with transparency and accountability.

The board further appreciates that corporate governance is a component of equity risk and acknowledges the relationship between governance risk, equity performance and corporate profitability.

The Sanlam group operates according to a decentralised business model and on a partnering basis with its individual business clusters. Each business cluster has its own governance structures to ensure strategic relevance. These are supported by clear approval frameworks and agreed-upon principles, which ensure a coherent and consistent governance approach throughout the Group.

Sanlam is a major player within the socio-economic fabric of South African society. With regard to that responsibility we have established a dedicated committee responsible for monitoring the environmental impact of its business activities. During the year Sanlam successfully participated in the comprehensive assessment process for inclusion in the JSE Socially Responsible Investment (SRI) Index, which features listed companies that measure up to criteria for triple bottom line commitment and performance.

Black economic participation

Above all things, Sanlam understands that it is inextricably bound to the greater community. The Ubuntu-Botho transaction formalised our commitment to meaningful transfer of ownership. During the year our empowerment partners have facilitated the move into new and emerging markets, assisting us also in attracting and retaining financial services talent. From a social responsibility imperative, the Sanlam Ubuntu-Botho Community Development Trust has been established.

Sanlam has also made progress on its employment equity strategy. As indicated in the abridged Sustainability Report, the Group has increased the numbers of previously disadvantaged employees, ensuring that its employee base more closely reflects the changed demographics of its markets. Sanlam has also adopted an affirmative procurement and social investment strategy in line with the Financial Sector Charter.

Board performance evaluation

In November 2005 a board effectiveness review was conducted by Heidrick & Struggles. The review addressed the performance of the board, the chairman and the individual directors and also addressed compliance with King Code II, and current international developments in corporate governance.

The result was positive with only a limited number of areas to be addressed by the board. The review also addressed the performance of board sub-committees and similar processes were followed internally in respect of boards and sub-committees of larger subsidiary companies. Issues of a non-subjective nature – such as governance compliance – are reported on in more detail in the Corporate Governance report.

Board changes

During the latter part of 2005, two non-executive directors, Carmen Maynard and Vusi Khanyile, resigned from the board of Sanlam Limited. Carmen also stepped down from the boards of Sanlam Life and Sanlam Investment Management, where she was a non-executive director. Vusi's resignation was a governance issue and reflected the growing business relationship between Sanlam and Thebe Investment Corporation, of which he is chairman. Non-executive director Dave Brink, who has been a stalwart on the Sanlam board since 1994, has also indicated his desire to step down at the next annual general meeting. While Sanlam will be the poorer for the loss of these directors' valued counsel and vision, we wish them well in their future endeavours. Boetie van Zyl, who has been a Sanlam director since 1995, has also indicated his intention to retire at the AGM in 2007.

The following four new directors were appointed to the Sanlam in March 2006 to fill casual vacancies: Anton Botha, Raisibe Morathi, Sipho Nkosi and Lazarus Zim. They will therefore automatically retire at the Company's next AGM in June 2006, but will be eligible for re-election.

The board now comprises 19 directors, representing an unrivalled depth of talent and diversity, as well as a unique blend of skills and experience.

Appointment of auditors

In the interest of improved efficiency and to eliminate cost duplication, the board reconsidered the joint audit appointment for Sanlam and the use of two different audit firms in the various group companies. It was decided to recommend to the Annual General Meeting that Ernst & Young be appointed as auditors of Sanlam and all entities that are wholly-owned. We wish to thank PricewaterhouseCoopers for their professional and excellent service over many years as auditors.

Dividend

The board declared a dividend of 65 cents per share payable on 10 May 2006 to shareholders recorded in the register on 28 April 2006. The dividend represents an improvement of 30% over the 50 cents per share dividend of 2004.

Prospects

The growth curve of our economy provides a strong foundation for sustainable growth across our business constituents. The challenges remain – as they have since the advent of our young democracy – to achieve growth and transformational development, underpinned by the provision of employment opportunities and housing, the maintenance and development of our infrastructure and the management of the HIV/Aids pandemic and the impact it is having on our business and on our communities.

We have made substantial strides in realising our vision of becoming the pre-eminent generator of wealth in our markets. Our new, operationally robust Sanlam is positioned to continue to deliver shareholder value through both investment and organic growth. We will continue to focus on ensuring optimal capital management, and to challenge ourselves and our competitors through the provision of innovative products and services and entry to new and vital markets. Each of our business clusters is moving in the right direction and I believe we are set for continued growth.

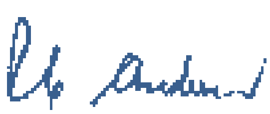
Market conditions, in particular the performance of the equity markets, contribute substantially to Sanlam's headline earnings and will impact in 2006 on our ability to repeat or improve on the 2005 earnings.

Appreciation

The engine of Sanlam's success is its people. In a year dominated by rapid structural change, the people of Sanlam have again shown resolve to emerge ahead of the game.

The board supports the ongoing efforts and successes of Johan van Zyl and his management team who have not only driven the company to a plateau of success through their energy and commitment to growth, but also stimulated positive sentiment from outside the Group, and pride from within our ranks.

My thanks go to our intermediaries for their ongoing support, to our policyholders and investors for their patronage, and to my fellow directors, and Sanlam executive for their diligence and valued counsel.



Roy Andersen
Chairman

Non-executive directors

Roy Andersen (Chairman)

Appointed: 2004

Independent director. Member of the board's Human Resources and Nominations committees.

Qualifications: CA (SA), CPA (Texas)

Former chief executive of Ernst & Young, the JSE Limited and the Liberty Group.

Other directorships: Murray & Roberts Holdings, Virgin Active SA, Chief of Defence Reserves, SA National Defence Force.

Patrice Motsepe (Deputy chairman)

Appointed: 2004

Non-executive director. Member of the board's Human Resources committee and chairman of the Non-executive Directors' committee.

Qualifications: BA LLB

Chairman of Ubuntu-Botho Investments, African Rainbow Minerals and Harmony Gold Mining Company. President of Business Unity SA, Chamber of Commerce and Industry South Africa, NAFCOC and Mamelodi Sundowns Football Club.

Winner of South Africa's Best Entrepreneur of the Year Award for 2002 and voted South Africa's *Sunday Times* Business Leader for 2002.

Boetie van Zyl (Lead director)

Appointed: 1998 (Also served as a director of Sanlam from 1995 to the listing of Sanlam Limited in 1998)

Independent director. Chairman of the board's Human Resources committee.

Qualifications: Pr Ing, BSc Mech Eng

Other directorships: Murray & Roberts Holdings, Naspers, Peace Parks Foundation, Sanlam Life.

Manana Bakane-Tuoane

Appointed: 2004

Independent director. Member of the board's Nominations committee.

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

Director-General: Head of the Office of the Premier of North West province. Held various academic positions at the Universities of Saskatchewan, Lesotho and Fort Hare where she was head of the Department of Economics before joining the civil service in 1995.

Other directorships: African Rainbow Minerals, Sanlam Life.

Dave Brink

Appointed: 1998 (Also served as a director of Sanlam from 1994 to listing of Sanlam Limited in 1998)

Independent director. Member of the board's Human Resources, Nominations and Transformation committees.

Qualifications: MSc Eng (Mining), DCom (hc) (UPE)

Former chief executive officer of Murray & Roberts Holdings and its chairman from 1994 to retirement in 2003. Currently chairman and Trustee of The Nations Trust, a board member of the National Business Initiative, co-chairman of the Business Trust and a Founder Member of the Independent Directors' Initiative and vice-president of the SA Institute of Directors.

Other directorships: Absa, Sappi, Unitrans, BHP Billiton Limited and PLC.

Attie du Plessis

Appointed: 2002

Independent director (with effect from 01/01/2006). Member of the board's Audit and Risk committee.

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

Chairman of Gencor, former executive director of Sankorp and Sanlam and past chairman of Business Unity SA, Business SA and the Afrikaanse Handelsinstituut.

Other directorships: Absa, KWV, Remgro KWV Investments, Sanlam Investment Management, Sanlam Financial Services.

Non-executive directors, continued

Fran du Plessis

Appointed: 2004

Independent director. Member of the board's Audit and Risk committee.

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

Director of chartered accountants Loubser Du Plessis Inc, and former senior lecturer in accounting and commercial law at the University of Stellenbosch.

Other directorships: KWV, Naspers, IDC, Sanlam Life, Sanlam Investment Management.

Wilmot James

Appointed: 2004

Independent director. Member of the board's Transformation and Safety, Health and Environmental committees.

Qualifications: PhD (Wisconsin)

Executive director of the Africa Genome Education Institute and Honorary Professor in the Faculty of Health Sciences at the University of Cape Town. Chairperson of the Immigration Advisory Board (Department of Home Affairs). Chairperson of the Cape Philharmonic Orchestra. Trustee of the Ford Foundation of New York.

Other directorships: Media 24, Sanlam Life.

Valli Moosa

Appointed: 2004

Independent director. Chairman of the board's Transformation committee.

Qualifications: BSc (University of Durban-Westville)

Chairman of Eskom Holdings and president of the World Conservation Union (IUCN). Member of the Auditor-General's Advisory Board and former Minister of Environmental Affairs and Tourism in the South African government.

Other directorships: Lereko Investments, SAA, Sterling Waterford, Imperial and Sun International.

Maria Ramos

Appointed: 2004

Independent director. Member of the board's Nominations committee.

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

Group chief executive of Transnet. Worked as a research officer at the London School of Economics, and the Economics Study Commission of the Centre of Development Studies and lecturer at Wits and Unisa before joining the civil service, where she served as the director-general in the Department of Finance until she joined Transnet in 2003.

Other directorships: Transnet, SAA, M-Cell Trust.

George Rudman

Appointed: 2001

Independent director (with effect from 01/01/2006). Chairman of the board's Audit and Risk committee.

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

Retired from Sanlam as executive director: strategy in 2001 after a career that started at the Group in 1964. Was the appointed actuary for Sanlam for the years 1974 to 1984 and had the responsibility for Sanlam's demutualisation process in 1997/98.

Other directorships: Sanlam Life (lead director), Santam.

Rejoice Simelane

Appointed: 2004

Non-executive director. Member of the board's Transformation committee.

Qualifications: PhD (Econ) (Connecticut)

Chief executive officer of Ubuntu-Botho Investments. Former special economics adviser to the Premier's Office of the Mpumalanga province, and worked in the macro-economic chief directorates of National Treasury and the Department of Trade and Industry and lectured at the University of Swaziland.

Other directorships: African Rainbow Minerals, Sanlam Investment Management and Ubuntu-Botho Investments.

Non-executive directors, continued

Bernard Swanepoel

Appointed: 2004

Independent director. Chairman of the board's Safety, Health and Environment committee.

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

Chief executive of Harmony Gold Mining Company and vice-president of the South African Chamber of Mines.

Other directorships: African Rainbow Minerals.

Eugene van As

Appointed: 2003

Independent director. Member of the board's Audit and Risk committee.

Chairman of the Sappi group since 2003 when he stepped down as executive chairman. He was also former Group managing director and chief executive officer of the Group. He serves as a trustee on a number of educational and research bodies.

Other directorships: Sanlam Capital Markets.

Executive directors

Johan van Zyl

Appointed: 2001

Group chief executive.

Qualifications: PhD, DSc (Agric)

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

Past chief executive of Santam. Former vice-chancellor and principal of the University of Pretoria.

Flip Rademeyer

Appointed: 1998

Financial director.

Qualifications: CA (SA), SEP (Stanford)

Appointed financial director in July 1998. Executive director of Sanlam Limited and non-executive director of Sanlam Life, Sanlam Investment Management, Genbel Securities, Santam and Sanlam Capital Markets. Vice-president of the Afrikaanse Handelsinstituut.

Former financial director of General Mining, Metals and Minerals (Genmin).

A substantial and positive turnaround

"Sustained profitability demands that we move into new markets and that we deploy new tactics and resources to cement our place in the forefront of wealth creation and protection.

Our primary goal continues to be the enhancement of return on embedded value."

Building Sanlam

Sanlam's strong operating results for 2005 validate the steps that Sanlam has taken en route to sustained profitability and value creation in a constantly changing market.

Over the past three years, Sanlam has made significant progress on the journey towards sustainable growth. Achievements since the inception of the "back to basics" strategy include a substantial and positive turnaround in earnings since 2003 across all major business clusters, with the benefits of a clearly defined focus on growth and capital efficiency coming through in 2005, despite difficult trading environments.

We have made good headway in moulding a financial services group out of a life insurer. Business clusters have been reshaped to extract value across the entire range of our client base, and the Group has positioned itself as a provider of wealth creation and protection solutions to individual and institutional clients. As we move into 2006, our direction is clear and we are well placed to capitalise on the solid base created over the past three years.

Operating environment

The year was characterised by several key challenges within our operating environment. We recognise the importance of finding common ground with the regulatory authorities and the Pension Funds Adjudicator (PFA), and support the elements of the statement of intent signed with the National Treasury by ourselves and other key representatives of the industry. While consumer activism puts increasing pressure on traditional income streams, we will continue to focus on creating a better value proposition for both our policyholders and our intermediaries.

In 2006 our strategy will be to continue our strong focus on four key pillars:

- ***Capital utilisation:*** We remain committed to optimising the Group's capital structure. We will continue to pursue profitable, strategic local and international growth opportunities as a first priority, while we will continue to buy back shares in the open market on a selective basis. Any additional surplus capital will be returned to shareholders within a reasonable time frame.

Johan van Zyl

Group chief executive

- ***Growth:*** Higher volume business in entry-level markets, as well as initiatives in the middle and affluent markets will continue to underpin the evolution of our retail business. The acquisition of African Life and Channel Life lends critical mass to our investment in Safrican and Thebe Community Financial Services in this regard. The extraction of synergies between our institutional businesses, Sanlam Investment Management, Sanlam Capital Markets and Sanlam Employee Benefits, will continue to be a priority.
- ***Costs and efficiencies:*** Heightened competition and a low inflation environment demand that we continue to tighten our grip on cost structures across the Group, with a particular focus on rationalisation benefits at newly acquired businesses.
- ***Transformation:*** The evolution of Sanlam from a mutual insurer to a world-class financial services entity will continue. This requires the transformation of our human resources capital, and our business philosophy. The Sanlam brand has evolved measurably over the past years, and continues to develop to meet the substantive changes in our target markets. Core to the process is the willingness of our people to take up the challenges that come with building a world-class brand, and facing up to the hurdles of creating a broad-based South African financial services organisation.

Sanlam is committed to identifying structural initiatives aimed at advancing the economic empowerment of the previously disenfranchised, and has taken a leading role in this regard. Our broad-based black economic empowerment (BEE) strategy, led by our groundbreaking Ubuntu-Botho partnership, goes beyond the scorecard measures as mandated by the Financial Sector Charter (FSC). As is noted elsewhere in this report, our approach to BEE is based on long-term sustainability, and to that end we have engaged directly and indirectly with multiple stakeholder groups to generate broad-based value and wealth creation. We are serious about good corporate citizenship and have implemented a wide-ranging corporate social investment programme that crosses the boundaries of culture, economies and environment.

Sustained profitability demands that we move into new markets and that we deploy new tactics and resources to cement our place in the forefront of wealth creation and protection.

As part of our ongoing commitment to recognise the contribution and loyalty of our employees, the Sanlam board in 2005 approved the implementation of a broad-based Employee Share Plan. Our aim is to enable a broad base of Sanlam employees to share in the future growth of the company at minimal cost to themselves.

Strategic delivery

The sale of Sanlam's stake in banking group Absa during the year to Barclays PLC created an exciting opportunity to unlock value and greatly improve capital efficiency through effective deployment of capital. In line with our strategy of deepening our penetration of the emerging market, we have substantially bolstered our capabilities in that arena with the acquisitions of African Life as well as a controlling interest in Channel Life. These acquisitions will be strategically aligned with our investment in Safrican and integrated with Sanlam Group Solutions to provide access to the emerging market with an effective portfolio of solutions.

Further capacity building included a move into health management, through the acquisition of a majority interest in healthcare provider Resolution Health. This acquisition provides the capability and critical mass for a Sanlam-branded solution that further extends our move towards a broader financial services institution.

Our strategy of forging partnerships in sustainable international growth markets also took further shape during the year with our first steps into the growing Indian market through joint venture company Shriram Life Insurance, in which Sanlam holds a 26% stake. While the life company represents an embryonic investment at this stage, the greater Shriram group offers the potential for co-operative opportunities into ancillary sectors such as short-term insurance and asset management.

In evaluating niche opportunities to further utilise Sanlam's locally developed skills, the Independent Financial Services cluster also acquired a stake in UK-based intermediary distribution company Intrinsic during the year. We are confident – as are our co-shareholders Halifax Bank of Scotland and Friends Provident – of a positive return on investment. We will continue to evaluate strategic partnerships and acquisitions, particularly where they are aligned with our move into emerging growth sectors.

The individual life business through Sanlam Personal Finance continued to focus on improving its distribution footprint in the middle market, and adviser numbers were increased during the year from 1 703 to over 1 976. Of particular note was the increase in the number of young black advisers to strengthen our growth thrust into the emerging black middle market. The strategy to bolster Sanlam's presence in Gauteng included the establishment of a separate adviser channel in Sandton early in 2005. While the challenges of this exercise was underestimated, the new channel did contribute to new business inflows. Furthermore, we are confident that a platform for growth in the Gauteng market sector has been established. In particular, we are happy with the increased support we are getting from independent brokers in the retail market. We are pleased that our relationship with Absa has improved markedly and that support from all Absa sales channels is at an all-time high.

In spite of continued pressure on margins, better management of the underwriting risk business at Sanlam Employee Benefits saw a meaningful improvement in profitability during the year. While Sanlam Employee Benefits is favourably positioned to continue attracting business flows, the structure of the business has fundamentally changed. Efficient pension fund administration remains a challenge. In that regard we will be paying particular attention to ensuring the optimisation of our administrative services in future.

The Short-term insurance cluster was again led by excellent earnings from Santam, driven by good growth from corporate underwriting, albeit the overall underwriting results being lower than 2004. In this arena, we are constantly evaluating and pursuing synergies within the broader Group both in the domestic and international markets.

The robust performance of the Investment cluster typifies the more entrepreneurial, client-focused organisation that Sanlam as a Group is trying to build. While clearly buoyant market conditions have played a defining role in driving profits and assets under management to more than R300 billion for the first time, the operating results of Sanlam Investment Management highlights the importance of cultivating talent and building systems from the ground up. Sanlam Investment Management's investment philosophy is demonstrated by a number of top-performing retail and sector-specific funds, while the strategy of developing smaller specialised investment boutiques has also borne fruit. International hedge fund-of-funds manager Octane had a spectacular year, moving ahead of $1 billion under management, while Sanlam Investment Management International also attracted excellent investment flow. During the year Sanlam Capital Markets was successfully incorporated into the Investment cluster, while Sanlam Private Investments boosted assets under management to more than R26 billion.

Sanlam Properties is actively restructuring its business with the aim of positioning itself for opportunities within the black-owned property market. In this regard the Group recently sold a 25% stake in the Vukile Property Fund to Vukile BEEShareCo, under the auspices of the Buhlobo Consortium, a broad-based organisation that is active in the property market. It is an industry first for a property fund of this size, and, together with the launch of the R500 million Vusani Property Fund, serves to reaffirm the relevance and longevity of Sanlam Properties and the Sanlam property portfolio.

In summary, we are particularly proud of the contribution from new businesses and ventures we started in the past three years. Businesses like Sanlam Multi-Managers International, Sanlam Private Investments, Sanlam Private Equity, Sanlam Capital Markets, Octane, Direct Axis, Sanlam Home Loans, Merchant Investors Assurance and Innofin not only contributed the bulk of our growth in 2005, but are also increasingly establishing Sanlam as a financial services player, rather than only a life insurance business.

Looking ahead

The major components of our rebuilding strategy are in place, and we are positioned not only to deliver on the challenges facing our traditional markets, but also to benefit strongly from our new business segments through focusing on the needs of our clients, the development of innovative solutions and improved efficiencies at operating level.

Delivery in 2006 will be measured by growth in our traditional retail market, by success in our entry-level market business, by investment performances and flow of funds, and through unlocking of synergies between Sanlam Investment Management, Sanlam Capital Markets and Sanlam Employee Benefits.

Our major objective continues to be the enhancement of return on embedded value.

In order to meet the diverse needs of the markets we serve and in line with our client-centric strategy, it is imperative that we align our business structure according to the requirements of our retail and institutional businesses. Each of these broad market-facing businesses will concentrate on target client groups, creating appropriate solutions for a new and informed client.

The efficient utilisation of excess capital, aimed at unlocking and creating value for shareholders, remains a priority.

Sanlam is committed to providing an engine for black economic asset growth and ownership through the integration of opportunities afforded by the Ubuntu-Botho consortium and other operationally defined initiatives and business opportunities.

Further, we recognise our role and our responsibility to social transformation, to the investment community and to our shareholders. We will continue to invest in our people, building critical mass in terms of intellectual capital, which I believe is the bedrock of long-term and sustainable growth.

Johan van Zyl
Group chief executive

Executive Committee

Johan van Zyl (Chairman)

Appointed: 2001

Group chief executive.

Qualifications: PhD, DSc (Agric)

Group chief executive of Sanlam since March 2003. Executive director of Sanlam Limited and chairman of Sanlam Life and Sanlam Investment Management. Non-executive director of Santam, Sanlam Netherlands Holding BV, Sanlam Financial Services and African Life. Council member of the University of Pretoria.

Past chief executive of Santam. Former vice-chancellor and principal of the University of Pretoria.

Nick Christodoulou

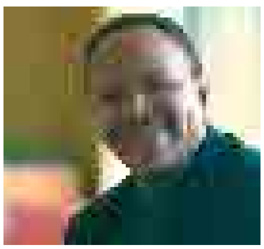
Appointed: 1998

Chief executive: Independent Financial Services.

Qualifications: BSc Eng (Ind) MBA

Joined Sanlam in 1996 as general manager at the then Sanlam Asset Management and later became chief executive of Sanlam Employee Benefits. Chairman of Gensec Property Services and non-executive director of Sanlam Financial Services and Intrinsic.

Former chief executive of the Development Bank of Southern Africa.



Themba Gamedze

Appointed: 2004

Chief executive: Sanlam Employee Benefits.

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

Appointed chief executive of Sanlam Employee Benefits in 2003. Executive director of Sanlam Life. Council member of the Actuarial Society of South Africa and founding president of the Association of South African Black Actuarial Professionals.

Former empowerment executive at Liberty Life and product development analyst at HSBC Securities.

Steffen Gilbert

Appointed: 2003

Chief executive: Santam.

Qualifications: FIA, FASSA

Appointed chief executive of Santam in July 2003. Executive director of Santam, Santam Europe, Westminster Motor Insurance, Bluesure, Nova Group Holdings and SAIA.

Former chief executive of Munich Reinsurance Company of Africa.

Margaret Jenks

Appointed: 2004

Chief executive: Group Marketing and Communications.

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

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

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

Lizé Lambrechts

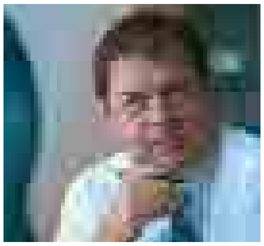
Appointed: 2002

Chief executive: Sanlam Personal Finance.

Qualifications: BSc (Hons), FIA

Appointed chief executive of Sanlam Life (now Sanlam Personal Finance) in August 2002. Executive director of Sanlam Life and non-executive director of Sanlam Namibia, African Life and Merchant Investor Assurance. Director of the Life Offices' Association.

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



Kobus Möller

Appointed: 2003

Chief executive: Finance.

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

Appointed chief executive: Finance in 2002. Non-executive director of Sanlam Capital Markets and African Life.

Former executive director: Operations and Finance of Sanlam Life, executive director: Finance of Impala Platinum Holdings, and group financial manager of Gencor.

Temba Mvusi

Appointed: 2004

Chief executive: Market Development.

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

Appointed chief executive: Market Development in August 2005 after serving as chief executive: Group Services since January 2004. Non-executive director of Sanlam Private Investments.

Former head of external interface at Sanlam Investment Management, general manager of Gensec Property Services and marketing manager of Franklin Asset Management.

Flip Rademeyer

Appointed: 1998

Financial director.

Qualifications: CA (SA), SEP (Stanford)

Appointed financial director in July 1998. Executive director of Sanlam Limited and non-executive director of Sanlam Life, Sanlam Investment Management, Genbel Securities, Santam and Sanlam Capital Markets. Vice-president of the Afrikaanse Handelsinstituut.

Former financial director of General Mining, Metals and Minerals (Genmin).

Johan van der Merwe

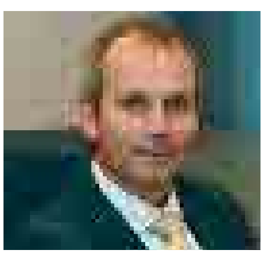
Appointed: 2002

Chief executive: Sanlam Investment Management.

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

Appointed chief executive officer of Sanlam Investment Management in July 2002. Executive director of Sanlam Investment Management and director of all the companies in the Investment cluster and chairman of Sanlam Capital Markets, Sanlam Property Asset Management, Sanlam Multi-Managers International and Sanlam Asset Management (Ireland).

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



Heinie Werth

Appointed: 2005

Chief executive: Developing Markets.

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

Appointed chief executive: Developing Markets in December 2005 after serving as financial director of Sanlam Life from April 2002. Chief executive of African Life and non-executive director of Shriram Life Insurance, India, and Channel Life.

Former senior general manager (IT) of Sanlam Life, financial director of Sanlam Employee Benefits and manager corporate finance of Gencor.

André Zeeman

Appointed: 2005

Chief actuary

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

Appointed chief actuary of Sanlam Limited and statutory actuary of Sanlam Life in September 2005.

Former chief executive: Actuarial of Sanlam Life and held various managerial positions in the Actuarial department.

Core earnings improved by 25% to 129,7 cents per share

Overview of results

Sanlam achieved strong overall results in 2005:

- Headline earnings improved by 99% to 229,8 cents per share;
- Core earnings per share are up 25% to 129,7 cents per share;
- Total new business fund inflows for the Group operations amounted to R73,5 billion, an improvement of 23% on 2004;
- Net fund inflows of R15,2 billion are only marginally down on the R16,6 billion recorded in 2004; and
- The embedded value of new life business written was, however, some 9% lower at R291 million.

Major progress has been made in 2005 on Sanlam's strategy to grow a more balanced business within a defined financial services framework and to create an optimal capital structure for the Group. The sale of our stake in Absa facilitated a restructuring of the Group's capital, enabling the repurchase of some 13% of Sanlam's issued shares and investments in African Life and a number of other new strategic growth opportunities.

The Sanlam share price improved from 1 300 cents per share on 1 January 2005 to 1 519 cents per share by the end of December 2005. Including the annual dividend of 50 cents per share paid during the year, shareholders earned a return of 21% for the year. Over the same period Sanlam achieved a return on embedded value per share of 24,4%, well in excess of Sanlam's internal growth target. The Sanlam share price discount to the embedded value per share of 1 615 cents amounted to 5,9% on 31 December 2005, compared with 3,3% in December 2004.

Earnings

International Financial Reporting Standards

The audited Sanlam group results as presented for the 2005 financial year have been prepared, for the first time, based on and in compliance with International Financial Reporting Standards (IFRS). The 2004 results have been restated accordingly. Details of the changes required in policy and presentation for IFRS compliant reporting is provided on pages 60 to 63. The global development and practical interpretation and application of these accounting standards are however ongoing and certain interpretations and disclosures adopted in these results may be subject to change in future reports.

While we fully support the efforts of the accounting profession to achieve consistency in reporting and to counter any misrepresentation of company results, we are concerned that the current implementation of IFRS may not in all instances reflect economic and contractual reality, the most notable example being the prescribed IFRS valuation bases of investments in subsidiaries, associated companies and own (Sanlam Limited) shares supporting policy liabilities, which has introduced a substantial distortion in Sanlam's reported Headline earnings. We will continue to interact with all role players to find a more appropriate approach to these problem areas.

Left: ***Kobus Möller***
Chief executive: Finance

Right: ***Flip Rademeyer***
Financial director

Headline earnings

Income statement

R million	2005	2004	%Δ
Net result from financial services	**2 300**	1 812	27
Gross result from financial services	**3 455**	3 115	11
Taxation	**(752)**	(789)	5
Minorities	**(403)**	(514)	22
Net investment income	**980**	847	16
Core earnings	**3 280**	2 659	23
Equity-accounted earnings	**478**	720	
Secondary tax on companies	**(88)**	100	
Net investment surpluses	**2 003**	698	
Headline earnings before financial claims and fund transfers	**5 673**	4 177	36
Financial claims	**(590)**	—	
Fund transfers	**730**	(1 214)	
Headline earnings	**5 813**	2 963	96
Cents per share			
Core earnings	**129,7**	103,4	25
Headline earnings	**229,8**	115,3	99

Headline earnings of R5 813 million for the year are up 96% on 2004 while Core earnings of R3 280 million are up 23%. Growth in Headline and Core earnings, on a per share basis, is marginally higher than the absolute increase at 99% and 25% respectively as earnings per share are based on the weighted average number of shares in issue, which is marginally down on 2004. This is largely due to the effect of the new Sanlam shares issued to Ubunto-Botho Investments as part of the black empowerment transaction completed in 2004, being offset by the impact of the Sanlam shares bought back late in 2005. Detail on the changes in share capital is provided on page 53.

Core earnings comprise the net operating result from providing financial services as well as net investment income earned on the shareholders' fund. The latter includes dividends received from associated companies, but Core earnings exclude the equity-accounted retained earnings of associated companies that do not form part of the group operating structure and activities (eg the investment in Absa prior to its disposal). The improvement in core earnings is the combined effect of a 27% growth in the net result from providing financial services and a 16% increase in net investment income.

All major Group operations, with the exception of Santam, reported an increase in **operating profit**. A sterling performance by the businesses in the Investment cluster in particular, including Sanlam Capital Markets, was somewhat offset by the expected contraction of short-term underwriting margins experienced by Santam. The gross result from operations improved by 11% on 2004. After accounting for taxation and minorities' share of income, net operating income is 27% up on 2004.

Net **investment income** consists of dividends and interest earned on the shareholders' fund's discretionary investment portfolio, as well as the margin earned on the Group's preference share portfolio. Investment income for the first six months of 2005 was 36% up on the previous year, substantially the result of the extraordinary dividend of R249 million received on the realisation of the investment in Absa. However, the lower level of capital held in the second half of the year – due to the capital reduction programme – caused a major reduction in the level of investment income (including the effect of receiving no further Absa dividend) and limited the full-year increase on this line to 16%.

Headline earnings are reported net of a **Secondary Tax on Companies** (STC) charge of R88 million, as the STC payable in respect of dividends paid by Group companies exceeded the available STC credits generated in the shareholders' fund. The first-time implementation of a policy to account for unutilised STC credits at year-end resulted in the raising of a R100 million asset and a corresponding income item at the end of 2004. The 2005 income statement charge is the net charge in respect of the dividends paid in 2005 and the movement in the deferred tax asset created in respect of unutilised STC credits.

Equity-accounted retained income of R478 million is down 34% on 2004. This substantially represents the Sanlam shareholders' fund's proportionate share of Absa's earnings prior to the sale of the investment. The reported earnings are in respect of Absa's six months to March 2005, which period coincides with Absa's reporting cycle, and reflects Absa's strong operating performance over that period. The results also include R30 million, being Sanlam's 21% interest in the African Life results for the nine months to 31 December 2005.

Following the introduction of IFRS and the designation of all shareholders' fund investments as "at fair value through profit or loss", Headline earnings now include all **fair value changes** on the investments held by the shareholders' fund. A 187% improvement in net investment surpluses, in part due to the strong equity markets in 2005, made a material contribution to the increase in Headline earnings over 2004.

National Treasury and the Life Offices' Association announced an agreement in December 2005 on minimum standards to be applied on early termination of long-term savings and investment products. The agreement allows for certain enhanced early termination benefits that, where applicable, will also be applied retrospectively for five years. The estimated cost of these enhanced early termination values in respect of Sanlam's existing business are estimated to amount to some R620 million. Net of full tax relief, an amount of R440 million is accounted for in the 2005 financial results as a once-off income statement charge. For embedded value purposes it is, however, assumed that the tax relief will only be realised some time in future. On a net present value basis the charge to embedded value is therefore R500 million. Certain other **financial claims** have been or could potentially be instituted against Group companies, some of which have already been referred to in the 2004 annual report and before. These claims in essence relate to differences on treatment and interpretation between Sanlam and the South African Revenue Services in respect of certain taxation issues, contractual disputes and potential claims flowing from pension fund administration and surplus apportionments. The relevant Group operations are contesting or intend to contest either the merit or quantum of the majority of these claims. The Sanlam board, in taking a prudent view on the potential liability on these claims, decided to strengthen the Group provision created in respect of such claims by R150 million. This should ensure that the provisions more than sufficiently cover the aggregate liability in a best estimate outcome, although not necessarily the maximum exposure in respect of these contingencies.

In terms of IFRS, in determining the Sanlam group results, Sanlam shares held in the policyholder portfolios now have to be treated as treasury shares (and no longer as an investment at fair value) and shares held by these portfolios in group subsidiaries (eg Santam, Vukile and Satrix) and associates (eg Absa in 2004) may no longer be accounted for as investments at fair value, but must be accounted for at their net asset value and equity-accounted values respectively. As a consequence, a **fund transfer** (through Headline earnings) is required to or from the shareholders' fund in respect of the market value changes of these shares. For 2005 this transfer to the shareholders' fund amounted to R730 million, compared to a transfer from the shareholders' fund of R1 214 million for the same period in 2004. Excluding these transfers and the once-off provisions created in respect of potential claims and enhanced termination values, the growth in Headline earnings amounts to 36%.

Earnings per share based on a **long-term rate of return (LTRR)** improved by 2% from 158,3 cents per share in 2004 to 161,1 cents per share. Excluding the once-off impact of the financial claims provision and enhanced early termination benefits, LTRR earnings improved by 16%. LTRR adjusted earnings are presented for information only and comprise net operating income and an assumed overall investment return on the Sanlam shareholders' fund discretionary investment portfolio. The latter includes actual equity-accounted income, as well as an estimated smoothed capital appreciation, dividend, rental and interest income, based on an expected long-term investment return yield. An expected yield of 10% before taxation was used in 2005, based on prevailing long-term interest rates. This is 1% lower than the 11% used in 2004. During the annual review of the LTRR rate, the board decided to lower the rate to 9% from 2006 in line with the lower current interest rates. The cumulative excess in the actual performance compared with the reported LTRR earnings for the period since the first reported LTRR earnings in 1999, amounts to R1 463 million.

LTRR earnings

R million	**2005**	**2004**	**%∆**
Net operating income after tax and STC	**2 212**	1 912	(15)
Financial claims	**(590)**	—	
LTRR Investment return	**2 453**	2 158	14
LTRR adjusted earnings	**4 075**	4 070	—
Earnings per share (cps)	**161,1**	158,3	2

Attributable earnings

Attributable earnings for 2005 of R10,9 billion are 296% higher than the R2,8 billion in 2004. After the adoption of IFRS, there are only a few items that are reported in Attributable earnings but fall outside the definition of Headline earnings. These are essentially limited to profit realised on the sale of subsidiaries or associates and goodwill impairments. Due to the restriction placed by IFRS on not fair value accounting the investment in Absa, Sanlam realised an accounting profit of R5 billion on the sale of its holding in Absa. This represents the difference between the sale/transaction value and the equity-accounted carrying value of the investment.

Attributable earnings

R million	**2005**	**2004**	**%∆**
Headline earnings	**5 813**	2 963	96
Profit on sale of associate and subsidiaries	**5 125**	58	
Goodwill, investment impairments and other	**(11)**	(263)	
Attributable earnings	**10 927**	2 758	296
Cents per share	**432,0**	107,3	303

Goodwill raised on the acquisition of strategic investments is no longer amortised in terms of IFRS, but capitalised and subjected to a regular impairment review. At the end of December 2005 capitalised goodwill in the Group was fairly valued at R2,2 billion.

Dividend

The sound earnings performance in 2005 enabled the Board to increase the total dividend distribution by 15% on 2004. On average the Sanlam dividend grew by 15% per annum since demutualisation. Due to the reduction in the number of shares in issue, after the compulsory and market buy-back of shares, the dividend per share equates to 65 cents per share, an increase of 30% on 2004. The dividend is covered 1.2 times by Cash operating earnings. The board uses cash operating cover as a guide in setting the dividend, subject to the Group’s liquidity and solvency requirements.

The dividend of 65 cents per share will be payable on 10 May 2006. The last date of trade to qualify for this dividend will be 20 April 2006.

Operational performance

This section provides an overview of the Group operational results. Detailed reviews that cover the operational performance of the different Group businesses are provided from page 106.

Business volumes

The reported business volumes (and value of new business) include 100% of the business flows of group subsidiary companies, but only the effective Sanlam interest in the business flows of associates and joint ventures. Investment inflows are accounted for as new flows if the inflow is as a result of a specific client action and in respect of a product on which Sanlam earns a separately identifiable fee. Investment inflows exclude new Sanlam Life policyholder funds invested with SIM.

New business volumes

Total new business inflows at R73,5 billion are 23% higher than in 2004, in particular due to a strong performance in the second half of the financial year. New business inflows in the second six months of the year totalled R43,3 billion, 33% up on that achieved in the comparable period in 2004. Inflows into white labelled unit trust funds, higher Investment inflows, as well as a strong recovery by new Life Insurance product sales, contributed substantially to this improvement.

New business volumes

	Full year			2nd half %∆	1st half %∆
	2005	**2004**	**%∆**	**2005**	**2005**
Life insurance	**11 862**	11 200	6	14	(3)
Investments	**52 748**	40 933	29	41	14
Short-term insurance	**8 871**	7 719	15	14	15
	73 481	59 852	23	33	11
Retail	**28 473**	24 613	16	17	15
Institutional	**19 684**	18 239	8	8	7
SFS (UK)	**10 615**	5 950	78	151	(7)
SCI white label	**5 838**	3 331	75	118	26
Short-term insurance	**8 871**	7 719	15	14	15
	73 481	59 852	23	33	11

- New ***retail*** business flows improved by 16% on 2004 to R28,5 billion.
  - South African Individual Life Insurance business of R8,0 billion is only 2% up on 2004 and comprises 28% of retail flows vs 32% in 2004. This confirms the continuing shift from Sanlam's traditional life insurance business to a more comprehensive and diverse financial services product offering. After a disappointing start to the year (8% down on 2004 for first six months), single premium life inflows in South Africa recovered to end the year on R6,5 billion, approximately the same level as in 2004. Satisfactory growth in continuations, endowments and the sale of Living Life annuities offset the lower demand for guaranteed savings products. New recurring premium inflows improved by 9% on 2004. This is substantially due to the improved demand for Sanlam's Matrix range of risk products.

- South African non-life retail gross inflows of R16 billion are 16% up on 2004. This comprises investment inflows to the Innofin product range, Sanlam Private Investments new inflows, as well as the retail inflows into Sanlam Collective Investments.
- Consolidated Financial Services, created in 2004 through the merger of Sanlam's Namibian life insurance interests with that of other Namibian parties, recorded 26% growth in new life business and a 79% increase in gross unit trust inflows in its first year. Merchant Investors Assurance in the UK achieved an 11% growth to R671 million in new business inflow.

- ***Institutional*** new business flows (excluding SFS (UK)) were just short of R20 billion in 2005, an increase of 8% on 2004.
  - Group Life premiums represent 16% of South African institutional inflows in 2005. It totalled R2,8 billion and is 14% up on 2004. This is the result of strong new inflows attracted in the second half of 2005, which were 25% higher than in the comparable period in 2004. New Group Life business is essentially focussed on risk business due to the trend for an increasing percentage of investment business inflows to be placed with asset managers directly.
  - SIM's institutional investment inflows grew by 7% to R16,9 billion. Approximately R9,4 billion originated from third party wholesale asset management mandates, while Sanlam Multi Manager recorded inflows of R3,1 billion. New wholesale inflows to Sanlam Collective Investments and SIM International improved by 17% and 12% respectively.
- ***Sanlam Financial Services (UK)*** performed exceptionally well to attract new business under management and advice of £0,9 billion (R10,6 billion) in 2005, an improvement of 78% on 2004.

Value of New Life Insurance Business

The embedded value of new life business (VNB) written for 2005 of R291 million, is 9% lower than in 2004, although some improvement on the 14% shortfall recorded in the first half of the year. This is in particular due to a strong recovery in the value of Group Life business in the second half of 2005.

The calculated annual premium equivalent (APE) of R2 153 million is 10% higher than in 2004, with group life business and international life business being up 25% and 27% respectively. After a disappointing first-half performance at the same level than in 2004, the second half APE exceeded the comparable period in 2004 by 19%, in particular due to strong Group Life volumes.

Margins and profitability remained under pressure as is evident from the ratio of VNB to APE. This is largely due to more competitive pricing and cost incurred to support sales growth in 2006. The average APE margin achieved in 2005 amounted to 13,5%, compared with 16,4% achieved in 2004. In terms of the future basis of disclosure for the industry, the profit margin is also expressed as a percentage of the present value of total new business premiums. This provides a better reflection of the true margin to be earned as it eliminates some of the inaccuracies caused by using APE as a base for calculating the margin. On this basis the overall margin reduced from 2,1% in 2004 to 1,8%, although the margin achieved in the second half of 2005 of 1,9% showed some improvement on the 1,6% margin in the first half.

New business embedded value

R million		Full year		2nd half		1st half	
	2005	**2004**	**%∆**	**2005**	**%∆**	**2005**	**%∆**
VNB	**291**	321	(9)	177	(6)	114	(14)
Individual Life	**241**	269	(10)	139	(10)	102	(11)
Group Life	**46**	41	12	40	54	6	(60)
International	**4**	11	(64)	(2)	(129)	6	50
APE	**2 153**	1 958	10	1 234	19	919	—
Individual Life	**1 565**	1 489	5	861	13	704	(3)
Group Life	**445**	356	25	300	40	145	3
International	**143**	113	27	73	11	70	49
Margin (APE)	**13,5%**	16,4%		14,4%		12,4%	
Individual Life	**15,4%**	18,1%		16,5%		14,5%	
Group Life	**10,4%**	11,5%		13,4%		4,1%	
International	**2,8%**	9,7%		(6,8)%		8,6%	
Margin (Premium)	**1,8%**	2,1%		1,9%		1,6%	
PV of premiums	**16 533**	15 357	8	9 358	11	7 175	4

Value of Non-Life Business

The profitability of non-life business is measured and monitored by applying similar methodologies to that used to calculate the value of new life business (VNB). These calculations are still being refined, but it is the intention to disclose the value of new non-life business in future to provide a more complete picture of new business performance. Based on current calculations, non-life retail investment business made a meaningful contribution to the value of total new retail business flows and compensated for the reduction experienced in the value of new life business in 2005.

Net business flows

Net business flows

	Full year		2nd half	1st half
	2005	**2004**	**2005**	**2005**
Life insurance	**(4 464)**	(3 438)	(2 426)	(2 038)
Investments	**16 553**	16 707	15 495	1 058
Short-term insurance	**3 079**	3 322	1 604	1 475
	15 168	16 591	14 673	495
Retail	**3 457**	4 367	2 414	1 043
Institutional	**(2 807)**	2 210	1 815	(4 622)
SFS (UK)	**8 867**	5 683	6 792	2 075
SCI white label	**2 572**	1 009	2 048	524
Short-term insurance	**3 079**	3 322	1 604	1 475
	15 168	16 591	14 673	495

The Public Investment Commissioner withdrew R6 billion of its funds under management from SIM in March 2005 as part of the restructuring of its investment process and mandates. Notwithstanding this withdrawal, the Group achieved positive net business inflows of some R15,2 billion for the year, compared with R16,6 billion in 2004.

- Net business flows from Retail business amounted to R3,5 billion, some R0,9 billion lower than in 2004. Individual Life net flows were the main contributor to this reduction. Total life inflows of R15,6 billion increased by 3% on 2004, but were offset by a 9% increase to R16,6 billion in outflows. Higher equity markets in 2005 had a positive impact on policy values and caused a major increase in policy benefit payments during the year. The level of policy surrenders remained largely unchanged from 2004.
- Notwithstanding the funds withdrawn by the PIC, net outflow of funds from South African institutions could be limited to R2,8 billion for the year, compared with R2,2 billion net inflows in 2004. Excluding the R6 billion withdrawal by the PIC, the other institutional investment businesses in the Group achieved net inflows of R6,7 billion, which is 17% up on 2004. Group Life net outflows remain to be high. A high level of fund terminations, which can in part be ascribed to funds being switched into direct investment portfolios, resulted in net outflows of R3,5 billion for the year, a similar level than in 2004.
- A major contribution came from the net funds received by SFS (UK) which increased from £483 million (R5,7 billion) in 2004 to £767 million (R8,9 billion).
- Net white-labelled SCI business increased to R2,6 billion during the year. Although at a low margin, it made a sizeable contribution to the Investment cluster's revenue for the year.
- Short-term insurance net inflows represent Santam's premium income for the year less claims incurred. The lower level of net flows (R3,1 billion vs R3,3 billion) reflects the anticipated increase in claims and the reduction in underwriting margins.

Result from financial services

Result from financial services

R million	2005	2004	%∆
Income after sales remuneration	16 730	14 827	13
Underwriting policy benefits	(8 410)	(6 965)	(21)
Administration costs	(4 865)	(4 653)	(5)
Discontinued operations	—	(94)	
Gross result from financial services	3 455	3 115	11
Taxation	(752)	(789)	5
Minority interest	(403)	(514)	22
Net result from financial services	2 300	1 812	27

The table above sets out the results achieved from financial services in 2005 that are attributable to Sanlam shareholders. This is a different analysis from the presentation in the statutory income statement on page 173 in that the latter, as required for IFRS disclosure, makes no distinction between shareholder and policyholder interests. A reconciliation of this presentation and the IFRS income statement is presented as part of the financial statements on page 260.

Gross results from operations of R3 455 million are 11% higher than in 2004, which results were greatly assisted by a strong operational performance in the second half of the year. The results for the six months since July 2005 were 20% up on the first half and 15% up on the comparable period in 2004. Income after sales remuneration, which essentially includes the aggregate of fees earned, net of sales remuneration, underwriting premiums received and net interest earned on working capital, is up 13% on 2004. This increase is mainly the combined effect of an increase in net premium income recorded by Santam and increased revenue of the Investment cluster in particular. Net underwriting benefits paid by Sanlam Life and Santam increased by 21%. Administration costs were up by 5% on 2004. Significant cost savings were attained by Sanlam Life and Sanlam Capital Markets. The Group's administration cost ratio improved from 31,4% in 2004 to 29,1%. The gross operating margin of 20,7% is lower than the 21,6% achieved in 2004.

After allowing for an effective group tax rate of 22% (2004: 25%) and minority shareholders' interest in subsidiary businesses (mainly Santam), the net result from financial services amounted to R2 300 million. The taxation charge for the period (as well as for 2004) is net of the utilisation of taxation losses in Sanlam Life that emanated from a historical tax dispensation. As indicated in the 2004 annual report, these losses have substantially been utilised by the end of the 2005 financial year.

Result from financial services

	Licence		Business		Geographical	
	Life	Non-life	Risk	Non-risk	RSA	Non-RSA
2005	**45%**	**55%**	**40%**	**60%**	**88%**	**12%**
2004	39%	61%	45%	55%	83%	17%

The table above provides an approximate analysis of the relative contribution to the gross results.

- As indicated, life insurance focused businesses are responsible for less than half of the Group's operating profit and contributed 45% of the Group results in 2005. The relative increase on the 39% in 2004 reflects Santam's lower profit contribution.
- Risk underwriting (both short- and long-term) remains a key component of the Group's business and contributed 40% of gross profit for the year. This percentage should be even higher in future, including the results of African Life and Channel Life.
- The profit contribution from non-South African based operations was lower at 12% in 2005, notwithstanding the strong performance from all the international operations in the Investment cluster.

Net result from financial services

	Full year			2nd half		1st half	
	2005	**2004**	%∆	**2005**	%∆	**2005**	%∆
Personal Finance	**1 254**	1 119	12	673	19	581	5
Employee Benefits	**159**	143	11	90	6	69	19
Investment cluster	**528**	301	75	320	112	208	39
SCM	**126**	79	59	83	108	43	10
IFS	**22**	19	16	7	75	15	—
Corporate	**(138)**	(149)	7	(72)	1	(66)	13
	1 951	1 512	29	1 101	42	850	15
Santam	**349**	419	(17)	193	(11)	156	(23)
Discontinued/marketing	**—**	(119)	—	—	—	—	—
TOTAL	**2 300**	1 812	27	1 294	34	1 006	19

The net result from financial services of R2 300 million for 2005 is 27% higher than in 2004, the combination of a 19% improvement up to June 2005, followed by a 34% improvement on the comparable period in 2004 in the second half of 2005. With the exception of Santam all Group operations improved on their 2004 operating performances.

- The ***Sanlam Personal Finance*** results for the year have been positively impacted by a positive underwriting experience and, due to the increase in equity markets, an improvement in fees that are linked to fund values. The contribution from non-life business almost doubled on 2004.
- ***Sanlam Employee Benefits*** operating results have been affected by a favourable claims experience during the period under review that yielded a higher margin from underwriting business.
- An expected softening in underwriting margins impacted negatively on short-term underwriting results, and led to a lower operating profit contribution from Santam. Higher investment returns, due to the strong equity markets, compensated for the lower underwriting results and resulted in ***Santam's*** overall earnings being 5% higher than that recorded in 2004.
- The ***Investment cluster*** operating result for the year is well up on 2004, largely due to incentive fees earned on certain segregated portfolios and Octane's hedge funds, commission on a major property transaction concluded by Sanlam Properties and SMMI benefiting from the MIA assets now under its management.
- ***Sanlam Capital Markets*** continued to perform exceptionally well and exceeded its RoE target of 25% for 2005.
- The ***Independent Financial Services*** profit largely consist of the contribution by SFS UK.
- Excluding a one-off marketing provision of R25 million in 2004, ***Corporate expenses*** are 7% lower than in 2004.

Corporate activity

Major progress has been made in 2005 on Sanlam's strategy to grow a more balanced business within a defined financial services framework and to create an optimal capital structure for the Group.

Disposals

- An important milestone has been the disposal of the Sanlam shareholders' fund's entire holding of 124 million shares in ***Absa*** for some R10 billion in July 2005. This transaction removed an imbalance in Sanlam's capital portfolio and released capital for alternative application. It created the liquidity necessary to redeploy capital of approximately R7 billion that the Board regarded as excess to the Group's capital requirement.
- With effect from 1 October 2005 Sanlam disposed of 50% of ***Octane,*** the Group's International Fund-of-hedge funds business based in Switzerland, to the founder management. The disposal was in part in lieu of a final settlement payment due to the founders in terms of the original acquisition agreement, as well as a requirement to align the interests and retain the expertise and skills base of management.

Acquisitions

- In May 2005, Sanlam announced its entry into the Indian insurance market in partnership with the local ***Shriram*** group. Sanlam made a fairly limited initial capital investment in this project and will evaluate future capital requirements against the actual and potential delivery of the venture. The business was formally launched in December 2005. This is a unique opportunity for Sanlam to explore this potentially lucrative market and is in line with the strategy of developing selective international opportunities with the potential to diversify revenue and enhance profitability on a sustainable basis.
- In August 2005, Sanlam announced its intention to acquire all of the issued ordinary shares of ***African Life Assurance Company Limited*** (African Life) for R22,05 per share. At the same time the Momentum group made an offer to acquire African Life Health (ALH) from African Life. The additional value offered by Momentum for ALH enabled Sanlam to increase its offer for African Life to R22,50 per share, or some R2,6 billion. The transaction has been priced at a level that Sanlam is confident will enable it to yield a return that will exceed Sanlam's required hurdle rate. Sanlam has identified the entry-level life insurance market as an important component of our growth strategy. The key objective of the African Life transaction is to enhance business volumes, contributing to improved Group earnings, new business embedded value and return on embedded value.

  A requisite majority of African Life shareholders accepted the offer for African Life, regulatory approvals were obtained and the court sanctioned the scheme whereby Sanlam acquired the total issued share capital of African Life with effect from December 2005. The Momentum group also secured the necessary regulatory approvals for their acquisition of ALH in February 2006. African Life shareholders therefore received a first payment of R22,05 per share on 12 December 2005 and an additional payment of R0,45 per share in respect of the ALH disposal on 16 February 2006.

  For accounting purposes the African Life acquisition will be accounted with effect from 31 December 2005, with the first earnings contribution due in the 2006 financial year. The table below sets out (for information only) the salient features of the African Life results for the nine months to 31 December 2005:

  - The results exclude that of the African Life Health business;
  - The operating results are net of a provision for potential restructuring and retrenchment costs;
  - Consistent with Sanlam's practice, the negative rand reserves (NRR) have been zerorised, with a corresponding increase in the value attributable to the value of the in-force life business;
  - As at 31 December 2005, the embedded value of African Life amounted to R2,8 billion, a 7% premium to the total cost and carrying value of the investment.

African Life results for the nine months to 31 December 2005

R million	
Result from financial services	**133**
Embedded value of new life business	**53**
Recurring premiums	**1 210**
Single premiums	**373**

- In August 2005, Sanlam announced the acquisition of a controlling interest in ***Channel Life*** for some R116 million. The acquisition of African Life, as well as the investment in Channel Life, will provide Sanlam with a meaningful presence from which to consolidate and accelerate the existing offering through Sanlam Group Solutions and Safrican in the Entry Level market segment. The Channel Life acquisition only became effective in February 2006 on obtaining all regulatory approvals.
- During December 2005, Sanlam announced that it has acquired a majority interest in the Resolution Health Group. The ***Resolution Health Group*** undertakes the administration and risk management of the Resolution Health medical scheme and manages the distribution and marketing of the scheme and its related products.
- IFS acquired a 30% interest in Thebe Community Financial Services and 32% of Intrinsic during the year, while increasing its investment in Simeka Employee Benefit Holdings. The latter acquisition facilitated the purchase of Sanlam Consultants and Actuaries by Simeka.

Share buy-back

- In July 2005 Sanlam announced a ***share buy-back*** programme of R4 billion. This entailed a simultaneous:
    - specific and compulsory 10% pro rata repurchase of shares from all participating shareholders at R12,00 per share in terms of a scheme of arrangement;
    - a voluntary offer to shareholders holding less than 300 shares after the compulsory buy-back at R13,67 per share, effectively offering these shareholders a cost effective realisation option; and
    - a general share repurchase in the open market, subject to normal regulatory requirements, as well as internal limits in terms of daily volumes and price.

Shareholders approved the share buy-back programme in September 2005.

- The compulsory share buy-back was subsequently sanctioned by the High Court and implemented in October 2005, utilising R3 billion of the total allocated R4 billion to acquire 250,4 million shares.
- Only 3,3 million shares were acquired in terms of the special offer (R45 million), as very few shareholders chose to accept the offer.
- The balance of the allocated funds was utilised to buy back 76,1 million shares in the open market.

A total of 329,9 million shares was therefore acquired in terms of the R4 billion repurchase programme at an average price of R12,22 per share.

A further 30,2 million shares were acquired in open market transactions during the year at a cost of R415 million, resulting in a total of 360 million shares (13% of the Sanlam issued share capital) being repurchased during the year at an average price of R12,39 per share. 359 million shares so acquired were delisted and cancelled.

Shares in issue

Million	***2005***	***2004***
Shares in issue:		
Opening balance	**2 767,6**	2 654,6
Shares cancelled	**(359,0)**	—
New shares issued to Ubuntu-Botho	**—**	113,0
Actual shares in issue	**2 408,6**	2 767,6
Convertible deferred shares	**6,5**	5,8
Treasury shares held by subsidiary	**(34,8)**	(41,9)
Shares held by share incentive trust	**(13,8)**	(5,6)
Effective shares in issue	**2 366,5**	2 725,9
Average shares in issue:		
Opening balance	**2 767,6**	2 654,6
Shares cancelled	**(76,4)**	—
Shares issued to Ubuntu-Botho	**—**	84,8
Average actual shares in issue	**2 691,2**	2 739,4
Shares under option (SUO)	**89,6**	132,1
SUO to be issued at fair value	**(54,1)**	(102,1)
Convertible deferred shares accrued	**6,2**	3,0
Treasury shares held by subsidiary	**(60,9)**	(55,1)
Average effective shares in issue	**2 672,0**	2 717,3
Shares held by policyholder funds	**(142,6)**	(146,5)
Average effective number of shares in issue	**2 529,4**	2 570,8

Sanlam 'A' deferred shares, held by Ubuntu-Botho Investments, qualify for convertion into Sanlam ordinary shares based on a formula linked to Sanlam's South African business flows for any year. The shares are convertible into ordinary shares when a calculated accrued value add of R7,65 per share, based on the agreed formula, has been achieved. The right to convert is determined and vests on the finalisation of each full year's audited results. To the extent that the conversion rights have vested, the deferred shares are taken into account in the calculation of earnings and embedded value per share and qualify for ordinary dividends. Up to the end of 2005, 6,5 million deferred shares qualified to be converted. The conversion entitlement of 0,7 million in respect of the 2005 financial year is set out in the table below. Included in the current year calculation is an adjustment due to the finalisation of the calculation for 2004.

Ubuntu-Botho deferred shares vesting

	Value add (R million)	Ordinary shares (million)
2005		**0,68**
Life VNB	**9,3**	**1,22**
Third party net investment flows	**(7,9)**	**0,00**
SCI net flows	**2,7**	**0,35**
Less: adjustment		**(0,89)**
Prior years		**5,80**
Total		**6,48**

Embedded value

Sanlam's key performance target is to maximise the return delivered on its capital base and thereby ensuring an acceptable investment return for Sanlam shareholders. For this purpose Sanlam focuses on return on embedded value (ROEV) as a primary measure of performance. This takes into account both the return earned on the capital employed in the Group as well as the growth achieved in the value of the Life companies' in-force book of business. An internal ROEV target has been set to outperform the 10-year bond yield by between 3% and 4% per annum on a sustained basis. The actual average annual return achieved per share for the past three years well exceeded this target.

Net asset value

Group shareholders' funds or **Net asset value** (NAV) (at fair value) increased by 3% to R30,6 billion at the end of December 2005. Due to the lower number of shares in issue, the NAV per share increased by 18%. This presentation of NAV does not consolidate the underlying net asset value of the non-life operating subsidiaries but accounts for these subsidiaries as investments at fair market value.

R million	**2005**	**2004**	**%∆**
Goodwill on life company acquisitions	**1 328**	356	
Non-life Group operations	**9 702**	7 743	25
Santam	**4 749**	4 028	18
Investment cluster	**3 228**	2 384	35
Sanlam Capital Markets	**552**	441	25
Life cluster	**668**	496	35
IFS cluster	**505**	394	28
Portfolio investments	**19 562**	21 683	(15)
Absa	**—**	9 429	(100)
Other	**19 562**	12 254	60
Net asset value (@ fair value)	**30 592**	29 782	3
NAV cents per share	**1 293**	1 093	18

The carrying value of the investments in African Life Assurance ('Aflife') exceeded Aflife's fairly valued net assets as at 31 December 2005 by R942 million, the amount effectively paid for its existing life book. This excess is accounted for as an intangible asset in the Group NAV composition. The balance of the goodwill on life company acquisition essentially relates to the acquisition of Merchant Investors Assurance.

The growth in NAV reflects the improvement in equity markets during the year, but also takes account of the impact of the capital reduction programme. The investment in Absa comprised 32% of NAV at the end of 2004. The realisation of that investment had a major impact on the change in composition of NAV in 2005. R7 billion of the R10 billion proceeds from the sale were earmarked as surplus capital while the remainder was reinvested in a balanced investment portfolio as part of the core capital base. Of the identified surplus, R4 billion was used to fund the share buy-back programme (a reduction in NAV), while R3 billion was allocated for reinvestment in strategic operations (maintaining NAV). Some R2,6 billion was used in respect of African Life and other smaller acquisitions, while the balance formed part of a further R446 million utilised to buy back Sanlam shares.

Non-life Group operations are valued at R9,7 billion, a 25% increase on 2004, and account for almost 32% of total NAV. Santam is the single biggest investment at R4,7 billion and the rise in its share price made a substantial contribution to the NAV growth. Other non-life Group operations are essentially unlisted and the indicated values are based on internal valuations. These are based on applicable valuation methodologies, taking into account appropriate market benchmarks and risk adjusted hurdle rates.

Embedded value

Sanlam's embedded value (EV) amounted to R38,2 billion or 1 615 cents per share on 31 December 2005. This represents an increase of 4% (20% in cents per share terms) on the R36,6 billion as at the end of December 2004. The value of the life in-force business comprised 28% of EV at the end of 2005 (24% in 2004). The Sanlam share price closed at 1 519 per share on the last trading day in 2005, a 5,9% discount to embedded value.

As in 2004, a number of changes are made to NAV for embedded value purposes:

- Fair value for Aflife and MIA includes their underlying net assets plus the remaining value as goodwill or a value of business acquired (VOBA) intangible asset. In the embedded value calculation the goodwill and VOBA are reversed from NAV and replaced in the VIF calculation with the value of Aflife and MIA's in-force business (only MIA in 2004);
- A calculated value of future corporate expenses is deducted from embedded value. The valuation is based on the actual level of expenditure capitalised at the Sanlam LTRR P/E ratio (excluding exceptional items);
- An adjustment is made to embedded value for the estimated current value of the cost to service outstanding staff share options ('the in the money option value'); and
- Other adjustments essentially relates to an allowance for the net time value of actual taxation charges and savings.

The value of the Life businesses' in-force books (VIF) as at the end of December 2005 amounted to R10,6 billion, 19% up on 2004. This is after taking into account the cost of capital at risk of R1,7 billion and minority interest of R0,3 billion. The latter is essentially in respect of the minority shareholders in the African Life group.

R million	2005	2004	%∆
Adjusted net asset value	**27 630**	27 782	(1)
Shareholders' fund at fair value	**30 592**	29 782	3
Eliminate goodwill of Life companies	**(1 328)**	(356)	(273)
Corporate Expenses	**(947)**	(883)	(7)
Fair value of options	**(793)**	(799)	1
Other – taxation	**106**	38	179
Net value of life in-force business	**10 574**	8 851	19
Value of in-force	**12 542**	10 285	22
Cost of capital	**(1 707)**	(1 400)	(22)
Minority interest	**(261)**	(34)	
Embedded value	**38 204**	36 633	4
Embedded value per share	**1 615**	1 344	20
Share price (31 December)	**1 519**	1 300	17
Discount to embedded value (%)	**5,9**	3,3	

Return on embedded value

The **return on embedded value** to the end of 2005 amounted to 20,6% and is calculated as the R7,5 billion increase in embedded value due to operating and investment activities, expressed as a percentage of the opening embedded value. This growth is well in excess of Sanlam's ROEV growth target and is before taking into account the effect of capital activities, ie the dividend of R1,4 billion paid in respect of the 2004 financial year and the R4,4 billion utilised to buy back Sanlam shares. The positive impact of the share buy-back is reflected in the higher return on embedded value per share of 24,4%.

R million	2005		2004	
	EV∆	ROEV	EV∆	ROEV
Growth in NAV	**5 557**	**20,0%**	6 021	28,1%
Non-life operations	**2 610**	**33,7%**	2 334	41,2%
Balanced portfolio	**2 947**	**14,7%**	3 687	23,4%
Growth in VIF	**1 976**	**22,3%**	2 063	26,5%
New business EV	**291**		321	
Expected return	**1 193**		1 148	
Experience variances	**138**		144	
Assumption changes, etc	**354**		450	
Embedded value earnings	**7 533**	**20,6%**	8 084	27,7%
EV return per share		**24,4%**		22,6%

All the non-life Group operations exceeded their return targets in 2005 and yielded an average return on capital of 33,7% (41,2 % in 2004). More modest returns earned on the balanced portfolio, in line with the portfolio composition, resulted in an aggregate return of 20% on the adjusted NAV. Growth from life insurance business, based on the starting value of the in force life book, amounted to 22,3%. This was once again assisted by another year of positive operational experience variances, most notably improved risk profits and interest earned on working capital. The value added by new life business written is 9% lower than 2005. Other factors contributing to the growth in VIF include positive investment and operating assumption variances, offset by negative economic and taxation assumptions. The latter refers to a more conservative view on the potential STC costs on future dividends, while the economic assumption changes are in respect of changes in the assumed asset mix in both the policyholders' funds and shareholders' fund supporting CAR. The effect of a 0,8% reduction to 10,0% in the risk discount rate was partially offset by some strengthening in the valuation base, and contributed some R44 million to the growth in VIF.

Capital management

Capital efficiency

The Sanlam shareholder funds are applied to capitalise the Group operations. This requires:

- ***Supporting capital*** for the Life operations. The level and nature of the supporting capital are determined by minimum regulatory capital requirements, and economic, risk and growth considerations. Regulatory capital must comply with specific requirements. Stochastic modelling techniques are being applied on an ongoing basis to determine and confirm the most appropriate capital levels for the Life businesses.
- ***Working capital*** provided to certain group operations, such as Sanlam Capital Markets. The level of capital provided to these businesses is based on an evaluation of the risk-adjusted return to be earned on such capital.
- ***Capital invested*** in essentially strategic non-life group operations, such as Santam and the businesses in the Investment and IFS clusters. The indicated capital invested in these operations reflects the market or fair value of these businesses. The realisation of the invested capital will in most instances require the disposal of such investment. Certain of the Group's investments in strategic non-life operations qualify to a varying degree to be utilised as regulatory capital for the life companies. Maximum capital efficiency can therefore be achieved by optimising the level of such investments held in the life companies' regulatory capital.

All the Sanlam group operations were adequately capitalised as at 31 December 2005. Both Sanlam Life and Santam exceeded their minimum regulatory capital requirements by a substantial margin.

- As at 31 December 2005, the supporting capital allocated to **Sanlam Life** (including African Life) amounted to R27,3 billion, 90% of the Group's net asset value. After allowing for management actions the statutory qualifying capital of Sanlam Life (R20,9 billion) covered its capital adequacy requirement (CAR) 3,9 times. Based on a stochastic modelling process that simulates a vast number of investment and new business scenarios, aimed at determining a required capital level that will ensure sustained solvency within an acceptable confidence level, Sanlam Life needs to retain a capital level of approximately R17,5 billion. This is relative to a qualifying capital base of R18,8 billion (after an adjustment for the 2005 dividend and treasury shares held by Sanlam Life). Sanlam Life therefore has statutory capital of some R1,3 billion in excess of its required capital level. A major portion of this excess is attributable to the identified surplus capital in African Life's operations.
- The **Santam** board declared a special capital distribution to shareholders of some R0,8 billion following the review of its optimal solvency level and future capital requirements in February 2006. Even after this distribution and its final dividend in respect of 2005, the Santam solvency level of 49% is well within regulatory and economic levels. This surplus allocation has already been taken into account in Sanlam Life's statutory qualifying capital.
- Capital allocated to **Sanlam Capital Markets** has been set at R400 million. As at 31 December 2005, accumulated profit increased the level of capital to R552 million. Comprehensive stress and risk modelling techniques are being applied to its assets and liabilities to ensure that, within a 99,5% confidence level, SCM's actual economic capital exposure or maximum capital at risk remains within its allocated capital base. SCM's current capitalisation of R400 million is regarded to be sufficient to sustain its current business model. To support the former Gensec Bank's external rating and to ensure its competitive market position, Sanlam, at the time, agreed to provide a capital maintenance guarantee of R5 billion to the bank over and above its capital at the time of R2 billion. This facility remains in place until it has been replaced with a form of guarantee more suitable to SCM's activity level and business model. The guarantee is currently under review with a view to replacing it with specific guarantees to creditors as alternative to the capital maintenance guarantee.

The table below provides an indication of the current level of capital application in the Group, indicating an immediate excess of some R1,4 billion as at the end of December 2005. Several initiatives are being pursued to further optimise the usage of capital in the Group, which should lead to an increase in the level of excess capital.

Excess capital

	R billion
Net asset value	30,6
Dividend payable	(1,6)
Cost of share scheme	(0,8)
Non-qualifying or illiquid investments	(9,3)
Regulatory qualifying capital	18,9
Life company's capital requirement	(17,5)
Excess	1,4

Application of excess capital

The Group's performance target to maximise ROEV requires a continuous review of optimal capital levels, including the use of alternative sources of funding. Any capital in excess of requirements, and not optimally utilised, needs to be identified and efficiently redeployed, or returned to shareholders. The pursuit of structural growth initiatives has been set as the preferred application for Group capital, subject to such initiatives yielding the applicable hurdle rate and being complementary to or in support of Group strategy. At the same time, surplus capital will be utilised during periods of relative price weakness to continue the buy-back of Sanlam shares in open market transactions.

Contingencies

The note on contingencies (note 35 on page 216) in the Annual Financial Statements provides detail of certain significant taxation and legal claims against the Group. As explained above, existing provisions should cover the best estimate outcome but do not cover the maximum exposure in respect of these contingencies.

Credit rating

During 2004, Sanlam Limited and Sanlam Life Insurance Limited for the first time obtained formal credit ratings from Fitch Ratings International. Sanlam Life was awarded an 'AA' financial strength rating and Sanlam Limited an 'A+' long-term debt rating. These ratings were again confirmed in December 2005. Positive credit ratings enable the Sanlam operations to attract business from clients that require a formal rating from its counterparty or product provider. It also provides an opportunity for Sanlam to issue rated debt instruments, should the need to do so arise.

Prospects

The 2005 Sanlam result has once again been exceptional in that it capitalised in particular on the continuing high underwriting margins being experienced in the short-term insurance industry and the outstanding equity market performance that impacted on both the growth in the capital portfolio and in investment related income sources, most notably performance related investment management fees. Market conditions in 2006, in particular the equity market performance, wil impact on Sanlam's ability to repeat or improve on the 2005 Headline earnings.

Management focus remains on exploring opportunities to diversify and expand the Group's revenue sources to ensure sustained real growth in the long-term.

Adoption of IFRS/Accounting policy and presentation

First-time adoption of IFRS

Being a first-time adopter of IFRS for the 2005 financial year, the Group's date of transition to IFRS is 1 January 2004. The Group's opening balance sheet on 1 January 2004 and comparative information for 2004 have been restated to fully comply with IFRS effective as at 31 December 2005.

The migration to IFRS for insurers will, in its full extent, take a number of years. The results have been prepared in accordance with current interpretations of IFRS. Future results may be impacted, as the development of guidance for the long-term insurance industry, both from an accounting and actuarial perspective, is an ongoing process.

Headline and Core earnings

Following the introduction of IFRS and the designation of all shareholder fund investments as "at fair value through the income statement", the Headline earnings definition has been changed to include all fair value changes on the investments held by the shareholders' fund. Headline earnings now also include a transfer to compensate for the mismatch between the change in fair value of the policyholders' liabilities due to its investments in Sanlam, Absa and Santam and the accounting treatment of these investments.

These factors introduced significant volatility into Headline earnings as is evidenced by the sharp increase in Headline earnings from 2004, mainly due to the different growths in equity markets applicable to the two periods affecting returns on the balanced portfolio as well as the impact of the Sanlam shares held by the policyholders' fund.

Core earnings are presented as part of reported results in an attempt to provide shareholders with an indication of 'normalised' earnings. Core earnings comprise net operating profit and investment income earned on shareholders' fund and exclude items that may cause volatility in earnings, ie the fair value adjustments of the investments in the shareholders' fund, transfers to or from the policyholders' fund and major exceptional items.

Holdings in Group companies

The South African standard applicable to long-term insurers, AC121, has been withdrawn concurrently with the introduction of IFRS. Therefore, long-term insurers will no longer have any form of exemption from applying normal consolidation principles in instances where investments are held in policyholder portfolios to fund policyholder benefits.

Shareholders' fund

In terms of South African Generally Accepted Accounting Practice (SA GAAP) the shareholders' fund's investments in associated companies were carried at their original cost plus the shareholders' fund's share of its retained earnings after acquisition (effectively carried at net asset value including goodwill, if any). In respect of the investment in Absa, Peermont and Safair Lease

Finance, the equity-accounted carrying value was further adjusted to reflect the investment at fair value. These adjustments to fair value are not allowed in the absence of AC121 and Sanlam is required to reflect the shareholders' fund's investment in these companies at the equity-accounted carrying value.

Policyholders' fund

The policyholders' fund's investment in Absa must also be carried at original cost plus its share of retained earnings after acquisition. Portfolio investments in subsidiary companies (eg Santam) can no longer be accounted for at market value but have to be carried at consolidated net asset value. Portfolio investments in Sanlam shares have to be treated as treasury shares and deducted from equity on consolidation. The result is a mismatch between the valuation of long-term policy liabilities, which continues to include the affected investments on a marked-to-market basis, and the policyholder assets underlying these liabilities, which may not be at fair value or may be eliminated on consolidation.

The movement in mismatch in any particular period, referred to above, is accounted for through an income statement transfer to or from the shareholders' fund, impacting on Headline and Attributable earnings as well as net asset value. An appropriate adjustment is made to the value of the shareholders' fund for Embedded Value and Capital Adequacy Requirement purposes to reverse this impact.

Restatements relating to policyholders' fund

A number of restatements arose from the adoption of IFRS.

- ***Deferred acquisition costs:*** In terms of previous practice a substantial component of Life business acquisition costs has been capitalised and deducted from policy liabilities to be recovered over the lives of the particular policies. In terms of IFRS only specific acquisition costs (defined as commission and other costs which vary directly with sales) in respect of investment policy contracts may be capitalised and must be separately disclosed as a deferred asset. The difference between this asset and the amounts previously capitalised, after tax and minorities, has been written off against the shareholders' fund. The fees receivable from policyholders over the remainder of the policy term to "repay" these written off excess costs will now be recognised as profit in future years. (The effect of this change in treatment will result in the recognition of smaller profits at the inception of policies but increased profits over the remaining term of the policy).
- ***Reclassification of reinsurance asset:*** Previously the expected reinsured claims were deducted from the corresponding expected claims included in policy liabilities. It is required to be disclosed separately now.
- ***Zero coupon policy loans:*** Where there is a legal right and intention to set off a financial asset and financial liability, then they should be offset and the net amount reflected in the balance sheet. Zero coupon policy loans fall into this definition and are now offset against the corresponding amount included in policy liabilities.

- ***Reinsurance premiums, claims and commission:*** These items are required to be disclosed separately.
- ***Investment return and tax thereon of the policyholders' fund*** is required to be disclosed in the income statement. A corresponding net "benefit" charge is also reflected in the income statement to transfer the net investment return to policyholder liabilities.
- ***Asset Management fees*** paid to external asset managers were previously offset against fee and investment income. It must now be disclosed as an expense.

Changes in accounting policies

The financial impact and issues illustrated above is the result of the following changes in Sanlam's accounting policies to ensure compliance with IFRS. These changes are also expanded on, in pages 224 to 231 of the financial statements:

- The measurement basis of the investment in Absa and Peermont on the balance sheet is changed from fair value to an equity-accounted valuation;
- Sanlam Limited shares held in policyholder portfolios are treated as treasury shares and eliminated against equity on consolidation (carried at fair value in terms of SA GAAP);
- The policyholders' fund's interest in Santam Limited is consolidated in the balance sheet under IFRS (carried at fair value in terms of SA GAAP);
- Goodwill in respect of business combinations with an agreement date prior to 1 January 2004 are not amortised but subject to an impairment review (amortised in terms of SA GAAP);
- The valuation basis for investment policy contracts is changed from the Financial Soundness Valuation method to fair value;
- Recognition of share option costs in the Group income statement with a corresponding increase in equity (no cost recognised in terms of SA GAAP);
- Reclassification of financial assets formerly designated as 'available for sale' to the 'at fair value through profit or loss' category; and
- The consolidation of certain investment vehicles controlled by the Group, e.g. collective investment schemes (carried as investments at fair value in terms of SA GAAP).

Sanlam's 2005 financial statements include comparative information for the year ended 31 December 2004 on an IFRS basis. The tables included on page 225 of the financial statements summarise the differences in reported earnings and equity between SA GAAP and IFRS for the comparative periods. The changes in accounting policies, as well as the transitional exemptions elected by Sanlam in terms of IFRS, are discussed in further detail in the financial statements.

Shareholders' fund information

The IFRS Income Statement provides the consolidated results of both shareholder and certain policyholder activities, whereas the previous SA GAAP income statement only included the activities of the shareholders' fund. It also does not, as done before, make a distinction between the shareholders' investment and operating return. These are separate areas of management focus and an important distinction in evaluating the Sanlam group's financial performance. A detailed analysis of the information in the IFRS Income Statement and Balance Sheet is therefore provided in the form of segmental reports.

- A Segmental Income Statement and Balance Sheet provides an analysis of the shareholder and policyholder activities included in the IFRS Income Statement and Balance Sheet; and
- Additional segmental information (similar to the previous shareholders' fund disclosure) provides further analysis of the shareholder activities, differentiating between the different operating entities within the Group.

Committed to the highest level of corporate governance and best practice

In the interests of all stakeholders, the board adheres to the principles of transparency, corporate integrity, ethical conduct and risk management, pertaining to its governance practices and to both its internal and external audits.

Statement of commitment

The Sanlam board of directors is committed to the highest level of corporate governance and best practice. We see value in subscribing to a system whereby ethics, personal and corporate integrity and governance practices set the standards for compliance. In this regard, the board is of the opinion that Sanlam complies with the prevailing standards in all material respects.

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

According to Sanlam's decentralised business approach, each of its business clusters operates in concert with its underlying business units. All the business structures in the Group are supported by clear approval frameworks and agreed-upon business principles, ensuring a coherent and consistent governance approach throughout the Group.

Sustainability performance

In as much as the inherent value of a company can be determined by its marketability, there is also a value proposition that equates long-term viability to measurable investment in human and other intellectual capital. In recognition of its obligation to contribute to socio-economic goals and general social upliftment, the Sanlam group strives to conduct its business with due regard for environmental concerns, and is committed to developing operating policies that address the potential environmental impacts of its business activities. In that regard, the board has established a dedicated committee responsible for the continuous monitoring and reporting on these matters and the upholding of the standards of triple bottom line performance.

We are therefore proud to have successfully met the international standards as laid down by the JSE's Socially Responsible Investment (SRI) Index. While it can be said that the SRI Index is in its formative stages, we will continue to strive to meet its international standards of accreditation.

Johan Bester

Company secretary

The board and board committees (as at 31 December 2005)

Board charter

In accordance with the principles of sound corporate governance, the Sanlam board charter – modelled on the charter principles recommended by the King Report ("King II") – incorporates the powers of the board, providing a clear division of responsibilities and accountability of the board members, collectively and individually, to ensure a balance of power and authority. The annual self-evaluation process to review the effectiveness of the board, its committees and individual directors has been entrenched. Copies of the board charter are available on request from the company secretary.

Committee charters

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

Board composition

As at the financial year-end the board comprised 16 members of which 14 were non-executive directors (11 independent non-executives), and two executive directors. Particulars of the Sanlam board members and their capacities, categorised as executive, non-executive and independent, are set out on page 66. The board annually considers and reconfirms the categorising of directors with reference to the guidelines in King II. Their independence in character and judgement, and whether there are any relationships or circumstances which are likely to affect, or could appear to affect their judgement, are also taken into consideration. The roles of chairman and CEO are separated, with Roy Andersen and Johan van Zyl fulfilling these positions respectively. A third of all board members retire every year at Sanlam's annual general meeting (AGM). The independent and non-executive directors on the Sanlam board are highly respected and experienced, having the required integrity, knowledge and skills to make sound judgements on various key issues relevant to the business of Sanlam, independent of management. This includes issues of strategy, performance, human resources, transformation, diversity, employment equity and corporate governance. A number of senior members of management attend the board meetings while other senior managers are invited to attend and participate in certain board discussions.

The major operating companies in the Group each have their own unitary board structures comprising both executive and non-executive directors, as well as the appropriate committees, in accordance with King II principles.

The Sanlam board of directors

Director	***Executive (E) Non-executive (N) Independent (I)***	***Changes 2005 Resignation***
RC Andersen (Chairman)	I	
MMM Bakane-Tuoane	I	
DC Brink	I	
AS du Plessis*	N	
FA du Plessis	I	
WG James	I	
VP Khanyile	I	28/11/2005
CE Maynard	I	14/12/2005
MV Moosa	I	
PT Motsepe	N	
PdeV Rademeyer	E	
M Ramos	I	
GE Rudman	I	
RV Simelane	N	
ZB Swanepoel	I	
E van As	I	
JJM van Zyl	I	
J van Zyl	E	

Composition of the board as at 31 December 2005:
12 male, 4 female and 11 white, 5 black.
**Became independent on 01/01/2006.*

Board meetings

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

Board committees

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

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

The office of the company secretary provides secretarial services for each of the committees, membership of which is delineated in accordance with board mandates. For the period under review, all the committees are satisfied that they have fulfilled their responsibilities in terms of their respective charters.

– Audit and Risk committee:

Members:

GE Rudman (chairman), AS du Plessis (from 07/12/2005), FA du Plessis, VP Khanyile (until 28/11/2005), CE Maynard (until 14/12/2005) and E van As.

Composition: *3 male, 1 female and 4 white: 31/12/2005. All independent directors, except AS du Plessis who became independent on 01/01/2006.*

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

The committee comprises four financially experienced members, all of whom are independent non-executive directors. The recent vacancy as noted is expected to be filled early in the new financial year. In view of this committee's Group-wide relevance, the CEO and the financial director, members of senior management, the chief audit executive, chief risk officer and the external audit partners also attend committee meetings, which are held at least four times a year.

This committee's charter is reviewed annually by the board to ensure that it is aligned with King II and international best practice. As part of the regular corporate governance review, the audit or review of the interim report by the external auditors is currently under consideration again.

– Human Resources committee:

Members:

JJM van Zyl (chairman), RC Andersen, DC Brink and PT Motsepe.

Composition: *4 male and 3 white, 1 black. All independent directors, except PT Motsepe (non-executive).*

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

The committee comprises four members of whom three are independent non-executive directors and one a non-executive director. The CEO, management representatives and the head of Human Resources also attend the meetings.

The committee meets four times a year.

– Nominations committee:

Members:

RC Andersen (chairman), DC Brink, MMM Bakana-Tuoane and M Ramos.

Composition: *2 male, 2 female and 3 white, 1 black. All independent directors.*

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

The committee is chaired by the chairman of the board and comprises four independent non-executive directors. The committee meets at least once a year.

– Committee of Non-executive Directors:

Members:

JJM van Zyl (chairman until 07/12/2005), MMM Bakane-Tuoane, DC Brink, AS du Plessis (appointed 07/12/2005), FA du Plessis, WG James, VP Khanyile (until 28/11/2005), CE Maynard (until 14/12/2005), MV Moosa, PT Motsepe (chairman from 07/12/2005), M Ramos, RV Simelane (appointed 07/12/2005), ZB Swanepoel (appointed 07/12/2005), E van As and GE Rudman (appointed 01/01/2005).

Composition: *9 male, 4 female and 8 white, 5 black : 31/12/2005.*

This committee (formerly the committee of independent directors) is responsible for the governance and functioning of the board and for evaluating the performance and effectiveness of the chairman of the board on an annual basis.

The committee comprises all the non-executive directors, with the exclusion of the chairman of the board. The committee meets subsequent to board meetings.

– Transformation committee:

Members:

MV Moosa (chairman), DC Brink, WG James and RV Simelane.

Composition: *3 male, 1 female and 1 white, 3 black : 31/12/2005. All independent directors, except RV Simelane (non-executive).*

The main responsibilities of the Transformation committee are to recommend for approval, monitor and advise on matters pertaining to transformation and black economic empowerment throughout the Group.

The committee comprises three independent non-executive directors and one non-executive director, and meets four times a year.

– Safety, Health and Environmental (SHE) committee:

Members:

ZB Swanepoel (chairman), PdeV Rademeyer, WG James and J van Zyl.

Composition: *4 male and 3 white, 1 black: 31/12/2005.*

The committee’s main responsibility is to recommend for approval, monitor and advise on matters pertaining to the safety, health and environmental matters throughout the Group.

It comprises two executive and two independent non-executive directors. Suitably qualified persons are co-opted onto the committee when necessary to render specialist services. The committee meets at least twice per year.

– The Executive committee:

Members:

J van Zyl (CEO and chairman), NT Christodoulou, T Gamedze, SC Gilbert, M Jenks, L Lambrechts, JP Möller, TI Mvusi, PdeV Rademeyer, CG Swanepoel (until 31/08/2005), JHP van der Merwe, AP Zeeman (appointed 01/09/2005) and HC Werth (appointed 01/12/2005).

Composition: *10 male and 2 female, 10 white and 2 black: 31/12/2005.*

The Executive committee, which functions under the chairmanship of the CEO, is responsible for assisting the CEO in the operational management of Sanlam, subject to statutory and delegated limits of authority. Its main functions are strategic directing, co-ordination and monitoring performance. The committee comprises the CEO, heads of business clusters, the chief financial officer, the chief actuary and selected senior group executives.

The committee meets every fortnight.

– *Ad hoc* board committees

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

Appointment and re-election of directors

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

Company secretary and professional advice

The board-appointed company secretary is JP Bester. He is also the public officer, compliance officer and the delegated information officer, and is responsible for the execution of all relevant and regulatory requirements applicable to those positions.

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

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

Attendance of meetings

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

Board and committee meetings 2005

Attendance of meetings	*Board*	*Audit and Risk*	*HR*	*Nomination*	*Trans-formation*	*Safety, Health and Environ-ment*
Planned	5	4	4	4	4	2
Held	6	5	4	4	4	2
RC Andersen	6		4	4		
MMM Bakane-Tuoane	4			1		
DC Brink	5		4	4	4	
AS du Plessis	6					
FA du Plessis	6	5				
WG James	6				4	2
VP Khanyile (Resigned 28/11/05)	3	0				
CE Maynard (Resigned 14/12/05)	5	5				
MV Moosa	6				4	
PT Motsepe	6		3			
PdeV Rademeyer	6					1
M Ramos	4			2		
GE Rudman	6	5				
RV Simelane	6				4	
ZB Swanepoel	6					2
E van As	6	5				
JJM van Zyl	6		4			
J van Zyl	6					0

Dealings in JSE securities

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

Communication with stakeholders

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

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

Sanlam's remuneration philosophy

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

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

Employee remuneration

The following principles are used to determine appropriate remuneration levels:

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

Executive directors

The package for executive directors includes a base salary, a variable performance-linked payment and an allocation of share options. All of these are established in terms of the remuneration principles outlined. In line with the Group's remuneration philosophy, remuneration is reviewed annually by the Human Resources committee after evaluating each executive director's performance, including that of the CEO.

Non-executive directors

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

Non-executive directors receive an annual fee for their input. In addition, a fee is paid for attending and contributing to board meetings. Sanlam pays for all travelling and accommodation expenses in respect of board meetings. The chairman receives a fixed annual fee that is inclusive of committee attendances.

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

Directors' emoluments

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

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

Name	Directors' fees	Atten-dance and com-mittees	Fees from Group	Total
Non-executive directors				
RC Andersen (chairman)	1 200	—	—	1 200
MMM Bakane-Tuoane	160	86	82	328
DC Brink	160	147	—	307
AS du Plessis	160	88	435	683
FA du Plessis	160	128	301	589
W James	160	128	82	370
V Khanyile(1)	147	82	51	280
CE Maynard(2)	160	144	336	640
MV Moosa	160	128	—	288
PT Motsepe	240	135	—	375
M Ramos	160	78	—	238
GE Rudman	160	184	426	770
RV Simelane	160	106	109	375
ZB Swanepoel	160	128	—	288
E van As	160	158	100	418
JMM van Zyl	160	160	134	454
Travel and subsistence	—	160	—	160
Total non-executive directors	**3 667**	**2 040**	**2 056**	**7 763**

(1) *Resigned on 28 November 2005.*

(2) *Resigned on 14 December 2005.*

Directors' emoluments for the year ended 31 December 2004 (R'000)

Name	Months in office	Salary/ Fees	Bonus	Company contri-butions	Other benefits	Total
Executive directors						
PdeV Rademeyer	12	2 019	1 950	263	1 000	5 232
J van Zyl	12	3 358	5 250	330	—	8 938
Total executive directors		**5 377**	**7 200**	**593**	**1 000**	**14 170**
Alternate directors						
NT Christodoulou[1]	8	764	—	171	—	935
SC Gilbert[1]	8	1 176	1 836	—	203	3 215
L Lambrechts[1]	8	1 078	—	159	—	1 237
JHP van der Merwe[1]	8	1 139	—	174	—	1 313
Total alternate directors		**4 157**	**1 836**	**504**	**203**	**6 700**

Bonuses reflected are payable in 2005, based on the 2004 results and the formulae applicable for the different businesses.

(1) The position of permanently appointed alternate directors was discontinued on 1 September 2004.

Name	Directors' fees	Atten-dance and com-mittees	Fees from Group	Total
Non-executive directors				
RC Andersen (chairman)[1]	438	—	—	438
MMM Bakane-Tuoane[2]	160	90	63	313
DC Brink	160	160	—	320
AS du Plessis	160	80	445	685
FA du Plessis[2]	160	100	139	399
W James[3]	133	40	63	236
V Khanyile	160	70	92	322
CE Maynard	160	168	321	649
MV Moosa[4]	93	40	—	133
PT Motsepe[5]	180	92	—	272
M Ramos[4]	93	20	—	113
GE Rudman	160	120	381	661
RV Simelane[5]	120	70	54	244

Directors' emoluments for the year ended 31 December 2004 (R'000) *(continued)*

Name	Directors' fees	Attendance and committees	Fees from Group	Total
ZB Swanepoel[(5)]	120	50	—	170
E van As	160	118	23	301
JMM van Zyl	160	120	102	382
T Vosloo[(6)]	315	—	—	315
Travel and subsistence	—	227	—	227
Total non-executive directors	**2 932**	**1 565**	**1 683**	**6 180**

[(1)]*Appointed non-executive director and chairman on 3 June 2004.*

[(2)]*Appointed 1 January 2004.*

[(3)]*Appointed 1 March 2004.*

[(4)]*Appointed on 3 June 2004.*

[(5)]*Appointed on 1 April 2004.*

[(6)]*Resigned as non-executive director and chairman on 2 June 2004.*

Interests of directors in share capital

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

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

The majority shareholder of Ubuntu-Botho is Sizanani-Thusanang Helpmekaar (Proprietary) Limited, the majority shares of which are beneficially owned and controlled by Patrice Motsepe or a trust or other entity created for his benefit or that of his immediate family. A number of directors have a beneficial interest in the share capital of Ubuntu-Botho through its shareholding structure. Their effective holdings in the 10 000 000 Ubuntu-Botho shares in issue are: MMM Bakane-Tuoane, MV Moosa, M Ramos, R Simelane and ZB Swanepoel – 7 142 shares each; WG James – 1 000 shares. As a result they are the indirect beneficial shareholders of a part of the 226 000 000 Sanlam ordinary shares and a part of the 56 500 000 Sanlam "A" deferred shares held by Ubuntu-Botho.

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

	Beneficial	*Non-beneficial*	*Options exercised*
Executives			
PdeV Rademeyer	84 335	191 340	1 468 995
J van Zyl	193 693	—	4 064 724
Total executives	**278 028**	**191 340**	**5 535 719**
Non-executives			
RC Andersen	911	—	—
MMM Bakane-Tuoane	—	—	—
DC Brink	38 899	—	—
AS du Plessis	—	—	222 222
FA du Plessis	300	433	—
WG James	—	—	—
VP Khanyile	—	—	—
CE Maynhard	—	—	—
MV Moosa	—	—	—
PT Motsepe	—	—	—
M Ramos	—	—	—
GE Rudman	135 661	119 364	—
RV Simelane	—	—	—
ZB Swanepoel	—	—	—
E van As	904	1 000	—
JJM van Zyl	9 559	—	—
Total non-executives	**186 234**	**120 797**	**222 222**
Total	**464 262**	**312 137**	**5 755 941**

Directors' share incentives

Details regarding the directors' restricted share options held under the Sanlam Limited Share Incentive Scheme, and the financial years during which they become unconditional, are as follows (in thousands):

	Dec 2004	Re-leased	Dec 2005	Unre-stric-ted	Becoming unrestricted in: 2006	2007	2008	2009	Strike price range	Ave-rage price
Executive directors										
PdeV Rademeyer										
– restricted fully paid shares	—	—	—	—	—	—	—	—	—	—
– share options	1 469	146	1 323	282	245	353	307	136	R6,03 – R9,80	R8,05
J van Zyl										
– restricted fully paid shares	—	—	—	—	—	—	—	—	—	—
– share options	4 065	—	4 065	417	1 489	1 042	964	153	R6,03 – R9,80	R6,43
Total: executive directors	**5 534**	**146**	**5 388**	**699**	**1 734**	**1 395**	**1 271**	**289**		

Corporate code of ethical conduct

Business ethics and organisational integrity

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

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

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

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

Forensics

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

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

A Group 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 an individual 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 executives of the different business clusters are responsible for the implementation of the policy in their respective business clusters and are accountable to the Group CEO and the board of Sanlam Limited.

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

Strategic risk management

In acknowledging its responsibility for strategic risk management (SRM) within the Sanlam group, the board has tasked the Audit and Risk committee to ensure that its responsibilities are fulfilled. A major function of the committee is therefore to analyse and report back to the board on the status of various risks, including risk management.

Considered an integral part of the decision-making process in the Group, the primary objective of the Group's SRM programme is to optimise the Group's risk-adjusted return on capital and embedded value. To ensure an optimal return, an organisation assumes an acceptable level of risk in conducting its operations. This level of risk is dependent on the organisation's risk appetite, as determined and managed by the board. The role of risk management is therefore to enhance the organisation's ability to manage, and not necessarily avoid or eliminate these risks, ensuring that the overall risk profile remains acceptable. This may involve various risk responses or a combination thereof, namely acceptance, mitigation and/or avoidance of the risk. The processes in place provide reasonable, but not absolute assurance, that the risks are adequately managed. These processes have been in place throughout the period under review, and cover all material activities of the Group.

The SRM policy is regularly reviewed and updated where necessary, evaluating risk as a combination of impact and likelihood. The assessments of the various risks in the Group are evaluated on both a quantitative and qualitative basis, while amendments to the SRM policy require board approval. Risks characterised by a low likelihood of occurring but with a potentially catastrophic impact, are regarded as unacceptable, and are actively avoided as far as practically possible. The SRM policy sets out the minimum standard of risk management that the various businesses have to adopt and adhere to.

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

The Group risk management function, headed by the chief risk officer, is tasked with ensuring adherence to the SRM policy. The chief risk officer has direct access to the Sanlam Limited Audit and Risk committee, Sanlam Limited Executive committee members, and the Executive committee members of the various businesses.

To ensure that risks affecting the Group are suitably monitored and addressed, formal quarterly meetings are held between Group risk management and the business units. Risks are either reported in terms of the formal escalation policy or as part of regular feedback by the various businesses to Group risk management. The escalation policy has been adopted on a Group-wide basis and ensures that risks meeting criteria set by the Sanlam board receive the necessary attention. Risks are also evaluated at the various businesses and considered by the respective boards as well as the various Audit and Risk committees. The outcome of the above processes is reported to the Sanlam Limited Audit and Risk committee and board.

Rigorous policies, procedures and methodologies have been adopted and implemented throughout the Group, enabling the effective identification and management of risks. All processes and procedures have been designed to provide reasonable assurance that the risks are adequately managed.

A disaster is defined as an event that has a significant impact on the Group's operating activities. Documented policies, plans and procedures are in place, enabling the Group to continue its critical business processes in the event of a disaster. Plans, procedures and policies are revised and tested on a regular basis.

In 2005, a review of the risk management processes within the Sanlam group was conducted by an independent service provider. This review found the processes to be effective.

Accounting, auditing and actuarial

Internal audit

The Group's internal audit function operates on a decentralised basis and is co-ordinated at Group level by the chief audit executive of Sanlam Limited. A board-approved internal audit charter governs internal audit activity within the Group. It carries out regular risk-focused reviews of internal control and risk management systems. The chief audit executive of Sanlam Limited is appointed in consultation with the chairman of the Audit and Risk committee and has unrestricted access to the chairman of the committee. The authority, resources, scope of work and effectiveness of the functions are reviewed regularly.

André Zeeman

Chief actuary

External audit

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

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

Going concern

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

Statutory actuary

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

In his reporting he is required to take policyholders' reasonable expectations duly into consideration.

Sanlam's smoothed bonus governance

Governance structures

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

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

Governance practices

Governance practices can be classified under three main headings:

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

(i) Sound financial management:

(a) Product design and pricing

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

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

(b) Separation of assets

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

(c) Investment policy

ALCO oversees the investment policy for the various smoothed bonus portfolios. 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 counterweight in the benchmark portfolio;
- Limits on exposure to some particular types of assets, such as property and hedge funds;
- Regulatory constraints; and
- Fund performance benchmarks against which the investment manager is measured.

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

(d) Bonus declarations

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

(e) Bonus philosophy

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

(f) Bonus rules

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

The approach is to base bonus rates on:

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

(ii) Balancing the interests of policyholders and shareholders

(a) Profit entitlement rules

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

(b) Financial support for portfolios

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

(iii) Managing policyholder expectations

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

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

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

Sanlam's reinsurance policy

Sanlam makes use of reinsurance to:

- access underwriting expertise;
- access product opportunities;
- enable it to underwrite risks greater than its own risk appetite; and
- protect its mortality/risk book against catastrophes.

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

Achieving sustained profits over the long-term

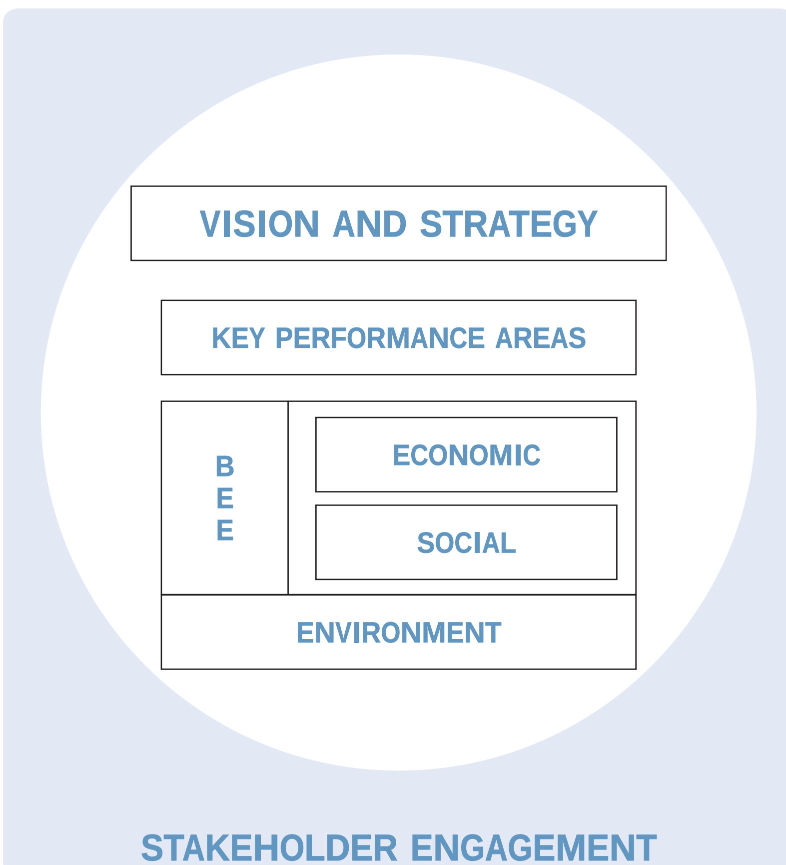
Introduction

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

Positioning Sanlam for sustainable growth

Achieving sustained profits over the long term requires that Sanlam understand, engage with and manage sustainability issues that influence its operating environment. The diagram below aims to provide the reader with an understanding of how we manage and govern issues relating to sustainability, and provides a structure for this report.

Governance of sustainability



Governance of sustainability

Central to the business

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

King II – integrated sustainability reporting

Section 4 of the King II report on Corporate Governance deals with integrated sustainability reporting, covering a number of important elements of sustainability and referring to director or board responsibilities and governance procedures. Sanlam fully subscribes to the recommendations put forward by the King II, as is evident from its report on corporate governance contained in this annual report.

Sanlam also had its performance against King II independently audited in 2005, and was found to be materially compliant. We also have plans in place to address the minor issues highlighted.

Dedicated resources and structures

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

- ***Reporting*** – Sanlam produces a sustainability report in various formats each year. This version represents an abridged report for inclusion in the annual report. A full report will be published as a stand-alone printed report, as well as on the Sanlam website, describing sustainability activities undertaken in the 2005 financial year.
- ***Central co-ordination*** – The management of stakeholder engagement, policy, implementation and measurement is co-ordinated centrally by the head: Group Sustainability Management, reporting to the chief executive: Market Development, and with direct access to the CEO.
- ***Committees*** – There are two dedicated subcommittees of the board that deal specifically with the topic of sustainability:
    - Transformation committee; and
    - Safety, Health and Environmental committee

  In addition to these are a number of supportive subcommittees:
    - Audit and Risk committee;
    - Human Resources committee;
    - Nominations committee;

Temba Mvusi

Chief executive: Market Development

- Committee of Non-executive Directors;
- The Executive committee; and
- *Ad hoc* board committees.

- ***Policy framework*** – Policies providing direction and operational guidance include those for ethical conduct and the environment, amongst others.

Governance at Group level

There are a few important issues which relate to the governance of sustainability for the Sanlam group as a whole and dealt with at a central level. These are:

- ***Ethics and organisational integrity*** – Sanlam Forensic Services initiated the revision of the Group's Code of Ethics and Financial Crime Combating Policy in 2004. These, together with Sanlam's Fraud and Ethics hotline, were launched during 2004 and 2005 and actively communicated throughout the Group via relevant communication channels as well as the company intranet. Breaches of ethics (as well as allegations) are tracked and the information applied to upgrading training programmes and communication initiatives.

Sanlam's head of Forensics

Serves on the Minister of Finance's Money Laundering Advisory Council and is one of business's 10 representatives on the National Anti-Corruption Forum. Sanlam also actively participates in cross-sector anti-crime initiatives, such as SABRIC.

- ***Client protection*** – Sanlam has appointed its own internal ombudsman to deal with policy-related queries. This action demonstrates Sanlam's commitment to fair and responsible product stewardship.

Vision for sustainable growth

As stated above, achieving sustained profits over the long term requires that Sanlam understand, engage with and manage sustainability issues influencing its operating environment.

Within this context, Sanlam's vision is to:

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

Broad-based black economic empowerment (BEE)

Central to Sanlam's business strategy is the leadership role it is currently playing in the transformation of society through the economic empowerment of previously disadvantaged groups. In this regard, both national imperatives and the business case coincide, presenting exciting opportunities for the company's future growth.

Broad-based black economic empowerment (BEE) at Sanlam comprises a balanced scorecard of measures, including those published in the Financial Sector Charter (FSC), which promote both direct and indirect empowerment through a range of redistributive and developmental measures, to the benefit of multiple stakeholder groups.

Sanlam also recognises that sustainable development goes well beyond black economic empowerment, and into the realm of issues such as HIV/Aids, the company's impact on the environment and its substantial direct and indirect influence on the social landscape.

This document aims to place in context the business rationale for pursuing sustainable development as central to the way Sanlam intends conducting business, and to describe the company's progress and response thus far.

Key performance areas

Highlights 2005

- Sanlam played a proactive role in finding an equitable solution to the industry-wide problems with policy clauses in retirement annuities and endowments, welcoming and committing itself to the joint solution reached between National Treasury and the Life Offices' Association (LOA).
- Significant strides towards the transformation of Sanlam's business, as evident from FSC progress. One element of our transformation strategy has resulted in the number of black financial advisers employed rising from 274 at end 2004 to 463 at end 2005, an increase of 69%.
- The financial services industry will be the first to formally report on empowerment credentials to the FSC Council. Sanlam is meeting its interim targets.
- Formal acceptance on the JSE SRI Index allows Sanlam to benchmark itself against its peers and serves to foster commitment amongst competing companies to embrace economic transformation.
- Sanlam board formally endorsed the Group's environmental commitment.

Black economic empowerment (BEE)

Promoting meaningful empowerment

Sanlam views economic transformation – through black economic empowerment – as being implemented through two main channels, the one redistributive, the other developmental. Neither can be effective on its own. Immediate impact and higher empowerment scores can be achieved through affirmative action, preferential procurement, and other measures, but long-term economic sustainability must be accompanied by the industry's commitment to developmental elements such as skills development, capacity-building and entrepreneurial development.

Although no empowerment scorecards are yet formally gazetted as codes of practice for the measurement of BEE, Sanlam has been measuring its BEE status against the FSC, in order to provide investors with guidance as to our probable empowerment positioning, were the FSC to be gazetted in its current form. The accompanying table illustrates an unaudited estimate of our FSC empowerment rating.

Component	*Page #*	*2005 score*	*FSC max*
Ownership and control	90	22,4	22
Access to financial services	91	n/a	n/a
Procurement and enterprise development	92	9,4	15
Empowerment financing	92	22	22
Human resource management	93	2,2	20
Corporate social investment	96	3	3
Total score		**59**	**82**
Charter rating		**A**	

Sanlam is on course to achieve full compliance with the Financial Sector Charter (FSC).

Ownership and control

Ubuntu-Botho transaction (UB)

Sanlam was far ahead of most of the market in the conclusion of this transaction. The partnership continues to provide the company with a broad base of beneficiaries assisting both partners with access to new markets, as well as ensuring that Sanlam's solutions and brand remain relevant in the changing socio-economic landscape.

Business flows have accrued to almost all of Sanlam's businesses as a direct result of the relationship. The transaction is already viable financially and the focus is now on managing new customer relationships with the company's innovative solutions.

Vukile Property Fund Limited

Sanlam's most recent empowerment initiative was the formation of the R500 million Vukile Property Fund. In 2005, Sanlam introduced a BEE equity shareholder, Vukile BEEShareco, into Vukile Property Fund Limited, representing the company's firm commitment to meaningful transformation and broad-based empowerment within the property sector. Sanlam will continue to hold a meaningful stake in Vukile, allowing the company's policyholders and shareholders to fully participate in the changing financial services landscape and benefit from Vukile's empowerment credentials.

Extract from the Financial Sector Charter Scorecard

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

Provision of access to financial services

The underserviced emerging market (LSM 1 – 5) can be divided into various levels. At the upper end (income up to R8 000 per month), Sanlam has launched a number of initiatives and is making substantial inroads into this emerging market. The lower end represents a population that is recognised as being more challenging – requiring an industry-wide approach.

Internal initiatives for emerging market

During 2005, Sanlam acquired ownership of African Life, the country's leading provider of affordable financial security products to predominantly emerging black middle-class families, both in South Africa as well as in Namibia, Botswana, Kenya, Ghana, Zambia, Lesotho and Tanzania. This equity deal, together with substantial investments in Channel Life and Safrican, illustrates Sanlam's commitment to reaching across cultures and economic classes with its financial services solutions.

Sanlam has also worked at improving its products and policy cost structures in order better to accommodate the needs of those clients who require higher degrees of flexibility and choice in order to meet their savings requirements.

As FSC requirements and product standards for life insurers have not yet been finalised through the charter process, we are not reporting our score in this area for 2005.

Transformation of the supply chain

All Sanlam subsidiaries have for some time now been implementing targeted procurement and enterprise development programmes to facilitate the transformation of the Group's supplier base and contribute towards the growth and development of emerging businesses.

The objective of the Sanlam-targeted procurement policy is to ensure that transformation is achieved without compromising profitability, productivity and service levels to internal and external customers. The policy aims to influence operational processes and behaviours in a principled and largely non-prescriptive manner.

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

Empowerment funding and leveraging of investment capital

Sanlam recognises that it occupies a powerful position in the economy through the allocation of capital the company controls. Sanlam pays close attention to the quality of the companies in which it invests, in particular the management team and the company's corporate culture. Market-beating returns will always remain the main priority of our investors and customers alike.

However, decisions relating to allocation of capital are also informed by target companies' qualifications relative to the JSE SRI, and Sanlam plays an active role where it can to influence decisions relating to governance issues. Sanlam meets at least four times a year with larger businesses in which it has significant shareholding.

We also recognise the unique role that we have as a financial institution to act as a catalyst in transforming the South African economy in general. In this context we have and will continue to play a leading role both in the provision of capital for BEE deals as well as in the provision of financing for critical infrastructure that the economy badly needs if it is to grow in a sustainable manner.

Extract from the Financial Sector Charter Scorecard

Core component of BEE	*Target 2008*	*Achieved 2005*	*Achieved 2004*
Targeted investments	3 943	2 004	2 941
BEE transaction financing	2 683	1 378	1 208

We estimate that Sanlam has performed in excess of R5 billion in empowerment funding to date.

Human resource management

Sanlam recognises that its people hold the key to the company's ability to operate profitably and transform successfully.

Sanlam's HR strategy has three pillars:

- The strategic management of human capital;
- The facilitation of transformation within the Group; and
- The incubation of a diverse and business-relevant Group culture.

Sanlam places a strong emphasis on skills development and training. The company believes that this allows for maximum capitalisation on its inherent potential. Sanlam also continues to be committed to practices of employment equity, not only in accordance with legislative requirements, but to take advantage of the significant opportunity to enter new markets effectively.

Skills development and training

Sanlam spends around 5% of annual payroll on training and development initiatives. Since the promulgation of the skills development legislation, Sanlam has successfully recouped the maximum levies available and has complied with all legislative requirements.

Extract from the Financial Sector Charter Scorecard

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

- ***Accreditation and alignment***

  Sanlam offers a combination of customised local and international business school accredited courses together with executive coaching and individualised learning. These programmes equip candidates with the skills necessary to take advantage of opportunities across the Group's different businesses.

  Sanlam has met the accreditation requirements as set by the South African Qualification Authority (SAQA), and is one of the first financial services companies to provide training at National Qualifications Framework (NQF) level 5.

- ***Investors in People***

  We have accepted the Investors in People standard. A phased approach is being implemented and thus far Sanlam Personal Finance and Sanlam Employee Benefits have complied with the International Investors in People standard.

- ***Learnerships***

  Sanlam is addressing the present lack of skills in the financial sector by creating opportunities for unskilled matriculants though its learnership programme, first launched in September 2004. Thirty learners enrolled and all completed the National Certificate in Financial Services Level 3 qualification. The second programme was launched in October 2005 with an intake of 79 learners.

  The Information Technology learnerships – in Systems Development and Technical Support (an NQF Level 4 qualification) – were implemented in March and July 2005 respectively, with three learners on each programme.

Sanlam employs learnership graduates

Not only has Sanlam contributed to the development of disadvantaged individuals, but has also been able to employ all the young graduates from the learnership programmes.

Employment equity

Transformation is a strategic business priority for Sanlam. Sanlam is keenly aware that to reach new markets being created by the country's transforming economic landscape, it needs to address transformation in its own workplace. Product development and service delivery require a cultural understanding of the client, and Sanlam is committed to creating a workforce that is both representative of its market and competent to serve.

Extract from the Financial Sector Charter Scorecard

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

Our employment equity statistics based on the Employment Equity Act, at 30 June 2005, are as follows:

Occupational categories	***Male***				***Female***			
	African	***Coloured***	***Indian***	***White***	***African***	***Coloured***	***Indian***	***White***
Legislators, senior officials and managers	3,5%	6,2%	2,3%	41,0%	1,7%	4,5%	1,8%	39,0%
Professionals	0,0%	0,0%	6,7%	80,0%	0,0%	0,0%	0,0%	13,3%
Technicians and associate professionals	10,0%	0,0%	14,0%	26,0%	8,0%	2,0%	4,0%	36,0%
Clerks	6,7%	8,6%	0,5%	4,1%	9,0%	21,0%	2,4%	47,7%
Service and sales workers	11,0%	3,0%	3,3%	62,7%	2,6%	0,8%	0,6%	16,0%
Elementary occupations	15,3%	12,2%	0,0%	2,3%	31,3%	25,2%	0,0%	13,7%
Total permanent	6,8%	6,5%	1,8%	29,6%	5,6%	11,0%	1,7%	37,0%
Non-permanent employees	3,2%	11,6%	1,7%	19,4%	6,0%	26,0%	1,7%	30,4%
Total	6,6%	6,8%	1,8%	29,0%	5,6%	12,0%	1,7%	36,5%

Corporate Social Investment (CSI)

CSI is an important pillar of Sanlam's overall transformation strategy guided by an overall philosophy of enlightened self-interest that aims to serve both Sanlam's business goals as well as the interests of marginalised communities.

The Group's investment practice has moved away from traditional methods of social investment that had little regard for the ability or the sustainability of the organisations implementing the project. The Group realises its business model predominantly ignores a large part of South African society, and that social investment creates an opportunity for it to assist in the development of markets from the bottom up. It is a policy that considers the long-term goals of both parties.

Sanlam's strategic CSI goals

- *Move beyond pure philanthropic donations;*
- *Do extensive research and consultation with Government and civil society;*
- *Pursue investments with strong potential for creating long-term value; and*
- *Create and unlock sustainable value in the lower third of the income pyramid.*

Focus areas

Sanlam's four focus areas of social investment aim to position the Group as socially responsible, as a valued investor in nation-building and a driving force behind the cultural transformation of the Group and the nation. The focus areas are:

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

Extract from the Financial Sector Charter Scorecard

Core component of BEE	*Indicators*	*Target 2008*	*Achieved 2005*	*Achieved 2004*
Corporate Social Investment	% of post-tax operating profit directed to CSI per annum	0,5%	0,5%	0,6%

An updated list of our CSI projects will be published in Sanlam's full Sustainability Report for 2006.

Margaret Jenks

Chief executive: Group Marketing and Communications

Marketplace

Sanlam regards high ethical standards as priceless assets, and operates by a code of ethics that guides the company's dealings and relationships with all its stakeholders. In order to monitor its performance against these principles of conduct, the company undertakes occasional assessments by outside agencies.

An ethical climate

Following on the previous study in 2003, Sanlam is participating in an ethical climate study, using KPMG's Integrity Thermometer to provide an accurate indication of the ethical climate of the Group. Sanlam also drives ethical behaviour through various initiatives and programmes, such as the Ethics Awareness Campaign launched in May 2005.

Termination values and commission structures

Sanlam has played a proactive role in finding an equitable solution to the issue of early termination values of savings products, welcoming and committing itself to the joint solution reached between National Treasury and the Life Offices' Association (LOA) to set minimum values for early termination.

Well before the issue was referred for adjudication, Sanlam had committed itself to improve its products and policy cost structures to build trust and deepen client relationships at the level of the individual. The acclaimed new StratusSP product that was launched in 2005 addresses exactly these needs.

With regard to commission structures, Sanlam supports the process, facilitated by the LOA, to ensure a sustainable and rejuvenated industry where all parties – clients, intermediaries and the long-term insurers – get a fair deal (see further detail in the Chairman's Report).

Sanlam has appointed its own internal ombudsman to deal with policy-related queries, demonstrating Sanlam's commitment to fair and responsible selling practices.

Client satisfaction

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

Another external assessment, surveyed in 2004 but reported on in 2005, was the BrandVision Report undertaken by Market Research and Information. This survey compared Sanlam against all the major industry players and offered trend information since 2001. The results indicate that client satisfaction has decreased during the survey period for all insurance companies. Sanlam is addressing this proactively.

HIV/Aids

Sanlam recognises the impact that the HIV/Aids virus has on both its internal stakeholders as well as on wider society, where the company has influence through the marketplace and through its Corporate Social Investment programme.

Sanlam has updated its 2001 HIV/Aids strategy with the assistance of a task team including specialists from a wide variety of relevant fields. The strategy focuses on:

- Managing the impact of the pandemic on the business;
- Evaluating products;
- Preventing new infections;
- Preventing disability due to infection;
- Eliminating discrimination against people living with HIV/Aids; and
- Effective stakeholder engagement.

Internal HIV/Aids awareness campaign

In 2005, Sanlam responded to the crisis with a structured internal awareness campaign, a support group for those infected with and affected by the virus, and the development of a resource centre on our intranet. Our awareness campaigns were organised to coincide with Sanlam Health Week and World Aids Day. The awareness campaigns were aimed at educating and counselling employees, as well as gathering information in order to further inform management and follow-up.

Sanlam has played a leadership role in the industry, having already stopped using Aids exclusions on all its products since 1996. From January 2005, the LOA has also banned all HIV/Aids exclusions for new business.

Recognising the impact of the HIV virus on its business, Sanlam tests for prevalence among prospective policyholders and monitors the year-on-year trends closely. The current prevalence trend is downward. The issue of HIV testing for policyholders has come under scrutiny from the Department of Finance. In response, the LOA Aids Strategy committee has drafted a written submission motivating for HIV testing and is currently awaiting a response.

Provision for HIV/Aids-related claims

In response to the financial risk implied by the pandemic, Sanlam Life has set up a specific provision for HIV/Aids-related claims. This provision remains similar at R1 256 million (with rerating) in December 2005, compared with R1 273 million the previous year.

Environment

While the JSE Socially Responsible Investment (SRI) Index categorises financial services companies in the ”low impact” category with regard to their direct impact on the environment, Sanlam recognises that it can have a significant indirect impact on the environment in the way the company conducts its business activities. Such impacts relate to the company’s property and investment portfolio management and investments for SRI-related products, or integrating environmentally responsible investment practices.

Sanlam has an environmental policy in place which commits the Group to integrate environmental considerations throughout its operations and to regularly measure, review and report on its environmental footprint.

Management

Ultimately, every Sanlam employee is considered to be responsible for effective implementation of responsible environmental management. Key facilitators in future will be:

- The Sanlam Safety, Health and Environment (SHE) committee – for overall environmental governance;
- Business clusters to consider Sanlam’s business practices;
- Internal implementation structures;
- Key service providers; and
- Group sustainability management.

Flagship programme

The most significant of the environmental projects to which Sanlam contributes directly through its CSI programme is a partnership venture between Sanlam, the Government and the WWF for the creation of the world's largest marine-protected area around the Prince Edward islands. Sanlam contributed its first of five annual tranches of R1 million in 2005.

Direct impacts

- *Energy and water use*
- *Waste generation*
- *Paper use*
- *Supply chain issues*

For more detail on our environmental impacts, please refer to our full sustainability report.

Meeting the financial markets' sustainability standards

Dow Jones Sustainability Indices

While Sanlam narrowly missed inclusion on the DJSI, it achieved creditable scores relative to its industry.

Dimension	*Sanlam's score*	*Sector average*	*Lowest score**
Economic	69	61	66
Social	59	44	52
Environmental	36	38	45
Total	56	47	61

**These are the lowest scores obtained by the companies that qualified for the DJSI.*

Locally, the JSE's SRI Index is already serving as an accepted benchmark for corporate responsibility and will increasingly influence investment behaviour. Sanlam achieved qualification for the JSE SRI in 2004 and from initial feedback it is well-placed to qualify in 2005. Similarly, the Dow Jones Sustainability Group Indices (DJSI) in New York provide international investors with the assurance that companies based in emerging markets, as well as developed markets, are meeting internationally applied sustainability standards. The DJSI lists only the top 7 to 12% of companies worldwide, and while Sanlam came just short in terms of qualifying scores last year (see accompanying table), our goal is to qualify for the list in 2006, and we have implemented an action plan to address areas of underperformance.

Sanlam's direct economic impact

Value added statement

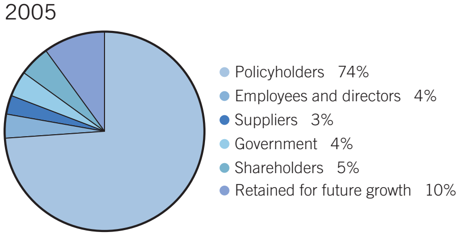
Sanlam's impact on its major stakeholder groups is summarised as follows:

Sanlam Group value added statement

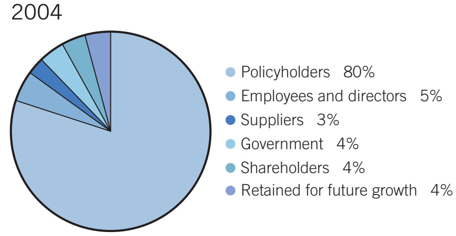
For the year ended 31 December 2005

R million	**2005**	**2004**	**%Δ**
Premium income	**31 905**	29 975	6
Other operating income	**2 226**	1 755	27
Investment return	**45 029**	25 894	74
Commission and other sales remuneration paid to advisers and brokers	**(2 677)**	(2 361)	(13)
Wealth accumulated	**76 483**	55 263	38
Wealth distributed among stakeholders			
Policyholders			
Policyholder benefits, claims and increase in reserves	**56 887**	44 223	29
Employees and directors	**2 831**	2 706	5
Salaries and other staff costs	**2 808**	2 679	5
Directors' fees	**23**	27	(15)
Communities			
Corporate social investment and cause-related marketing	**23**	49	(53)
Suppliers			
Procurement of goods and services	**2 061**	1 832	13
Government	**3 032**	1 978	53
South African normal income tax	**1 228**	1 231	—
South African capital gains tax	**1 293**	278	365
Foreign tax	**129**	134	(4)
Tax on retirement funds	**153**	128	20
Indirect taxes and levies	**229**	207	11
Shareholders	**3 569**	2 102	70
Ordinary dividends paid to Sanlam Limited shareholders	**1 363**	1 082	26
Retained income distributed due to shares cancelled	**1 042**	—	100
Income attributed to minority shareholders	**1 164**	1 020	14
Retained for future growth	**8 080**	2 373	240
Retained earnings	**8 003**	2 302	248
Depreciation and amortisation	**77**	71	8
Wealth distributed	**76 483**	55 263	38

Wealth distributed to stakeholders
2005



Wealth distributed to stakeholders
2004



Sanlam

Goals for 2006

- Continue with the significant successes achieved thus far with the demographic transformation of our business.
- Sanlam aims to achieve inclusion onto the Dow Jones Sustainability Group Index in 2006, emphasising Sanlam as a first-world business operating in an emerging market, and well-positioned to attract the broader investment community.
- Sustainability management – we aim to have a sustainability scorecard in place at executive management level in 2006.
- We intend including an analysis of shareholder activism-related activities in the next reporting cycle.
- The primary CSI-related objective for 2006 will be to further entrench the investment philosophy of long-term, sustainable value into Sanlam's portfolio of social investments. We aim to minimise the quantity of projects and concentrate on larger investments which have greater long-term impact in the communities we operate in. In addition, Sanlam CSI will launch the company's staff involvement programme in 2006.

Stakeholder engagement

Sanlam's leadership in sustainability – Anticipating and influencing outcomes

A fast-changing business environment leads to risks and opportunities. For companies that play a dominant or major role within an industry sector, the business impact arising from external events can be substantial. As addressed in this report, the issues relating to the Pension Funds Adjudicator represents one such example.

Over the years, Sanlam has built up a wealth of expertise and knowledge of the financial services sector. It is in the Group's interests and in the interests of its stakeholders that such expertise is employed within the wider society to ensure that decisions affecting the business are made from an informed and sensible basis.

Financial Sector Charter (FSC) an inclusive process

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

Sanlam co-ordinates the LOA FSC implementation committee as well as its empowerment financing committee and actively contributes to a number of other industry BEE processes.

Sanlam's head of Public Affairs:

- *serves on Business Unity SA's Transformation committee; and*
- *represents BUSA as a commissioner on the Department of Labour's Commission for Employment Equity.*

Sanlam contributes to the wider national discourse relating to BEE through Business Unity South Africa and Nedlac.

From the inception of the FSC, Sanlam has played a strong leadership role by contributing and often leading industry processes, both through industry associations, such as the LOA and active support of the FSC charter council, as well as broader industry associations such as Business Unity South Africa (BUSA). The Group also actively gets involved in relevant Nedlac deliberations.

Although the first draft of the FSC appeared in 2003, its development is an ongoing process that has recently gained momentum and the industry is proud to announce that we will be the first to formally submit empowerment reports to a charter council shortly.

Working with industry to reach LSM 1-5

Sanlam recognises the need to ensure that the lower end of the emerging market (LSM1-5) is educated on financial matters and obtains access to the right financial products so that more people can move from the second economy to the first.

There is an important industry-wide initiative currently under development through the Life Offices' Association (LOA), whereby "access" is being interpreted for life insurers. Sanlam fully supports and participates in the initiative and is positioning its own strategies to be able to offer product solutions in answer to the considerable challenge presented by this market.

Proposed interpretation of "access"

- *Products appropriate for identified needs, eg death, serious illness and provision for old age*
- *Affordability, value for money and fair terms, also known as CAT (fair Charges, easy Access, decent Terms)*
- *Simplicity of documentation*
- *Transactional access*
- *High community awareness of key product and service information*

DTI codes of practice

Sanlam is particularly committed to leading the effort to find common ground between the FSC and the Department of Trade and Industries' (DTI) Codes, and towards this end it serves on the FSC Council's Gazetting subcommittee. The primary objective is to ensure that the financial services industry can work towards a long-term plan for economic transformation that is measurable and realistic for all stakeholders.

Employee engagement forums

- *Management structures*
- *EE forums*
- *Future Leaders conference*
- *Brightest Young Minds conference*
- *CEO interactive engagement*
- *INSETA*
- *Internal media, including the company intranet, TV and print publications*

Engaging our investors

The investment community is a major stakeholder group with whom Sanlam regularly communicates and interacts – through the medium of this report, as well as by means of the company's website, interactive presentations, international events and direct, personal communication.

Sanlam's shareholders represent a diverse cross-section of South African society. Shareholders have a short-term expectation of return on investment, but also a long-term expectation of consistent and reliable profit generation. Whilst investment decisions are often made on short-term profit projections, Sanlam believes that an important input to that decision is based on the comfort of reliable and stable growth projections.

In addition to pure financial returns, many of Sanlam's shareholders are also interested in how the business is performing on non-financial issues, at least in terms of compliance with current legislation. BEE and sound ethical and moral standards are now being placed on the shareholder agenda. Institutional shareholders, particularly in the international arena, are starting to adopt a more participatory approach by taking an active stance on select issues.

Sanlam has regular interaction with the approximately 800 Ubuntu-Botho (UB) shareholders spread across the nine provincial companies and has established advisory boards (representative of internal staff and UB shareholders) in each province to further the relationship. Systems have been created to measure the partnership contribution to Sanlam, and a call centre has been established specifically for UB shareholders.

Clients and our brand

Client satisfaction is one of the principal measures of any business's success. Both Sanlam's business strategy and the evolution of its brand demands focus on deepening its relationships with its clients and focusing on individuals with unique needs rather than broad market segments. This underscores the company's commitment to increasing client satisfaction.

The Sanlam brand has been a significant part of the tapestry of the South African financial and economic landscape since 1918. The brand has evolved over time as the environment in which we operate has changed.

Over the past decade, the pace of change in South Africa has accelerated significantly. It has become increasingly apparent that the Sanlam brand needs to be repositioned and refreshed to ensure that it matches the fast changing, dynamic market of post-apartheid South Africa. Although the traditional stronghold of the Sanlam brand remains as important and relevant to us going forward as it has been in the past, it is critical that the brand also appeals to the much broader and diverse burgeoning South African market.

The past year has seen an increased pace in the evolution of the brand. The point of departure has been support for the Sanlam vision of being the leaders in client-centric wealth creation and protection. The brand is now positioned as providing customised solutions to clients – both retail and institutional – tailored specifically for their individual needs. We believe that the successful support of this positioning through consistent execution and delivery of the promise will differentiate Sanlam in the cluttered financial services landscape.

In order to communicate this differentiated offering more clearly to specific market segments, individual subbrands were launched for specific retail segments – Sanlam Sky in the entry level market, Sanlam Topaz in the middle market and Sanlam Cobalt for self-employed individuals. The coming year will see the launch of the final subbrand in this set for the mass affluent market segment. Each of these subbrands identifies a unique portfolio of solutions, tailored for the relevant market segment's needs.

In the institutional market, each of the core businesses, such as Sanlam Investment Management, Sanlam Capital Markets and Sanlam Employee Benefits, has always had customised solutions specifically for the needs of their clients and therefore they reinforce the overall corporate brand positioning strongly.

The new positioning has been further supported by advertising and other marketing elements which have been given a very different look and feel, and, again, have been tailored very specifically to each of the key market segments – both on the retail and on the institutional side.

The coming year will see the further extension and consolidation of the work initiated in 2005. Initial responses from the market indicate that the strategy is creating a different perception and energy in the market and we believe that we are now well positioned to build on this with the further extensions planned.

Community

We realise that to remain relevant at all operational levels, the Group needs to engage in meaningful dialogue with all its stakeholders. To this end the Group, through its CSI programme, has convened Social Dialogue Circles throughout the country to include relevant Government representatives, NGOs and community-based organisations.

New business volumes grew by 16%

"Our key strategic focus for 2005 was to improve our distribution capabilities aimed at improving our top-line growth and in particular new life recurring premiums. In general, we have succeeded in achieving this objective and believe that we have established a sound basis to continue growth in 2006."

Lizé Lambrechts
Chief executive

Group profile and shareholding structure

South African operations		
• ***Sanlam Individual Life division***	100%	Life insurance
• ***Safrican***	55%	Life insurance
• ***African Life***[1]	100%	Life insurance
• ***Channel Life***[2]	50%	Life insurance
• ***Sanlam Home Loans***	50%	Home loans joint venture with Absa
• ***Direct Axis***	70%	Personal loans joint venture
• ***Innofin***	100%	Linked product provider
• ***Resolution Health***[2]	50%	Medical services provider
• ***Multi Data***	100%	Money transfer
• ***Sanlam Trust***	100%	Estate and trusts
International		
• ***Consolidated Financial Services***	55%	Financial services in Namibia
• ***Sanlam Life Namibia***	100%	Closed fund business in Namibia
• ***Merchant Investors Assurance***	100%	UK-based insurance company
• ***Shriram***[1]	26%	India-based insurance company

[1] The acquisition of African Life and Shriram was finalised towards the end of 2005, and their activities for 2005 are not included in this review.

[2] Resolution Health and Channel Life were acquired late in 2005, but regulatory approval was only obtained after year-end.

Salient features

- New business volumes increase by 16%
- Net inflow of funds of R2 889 million
- Profit before tax increases by 16%

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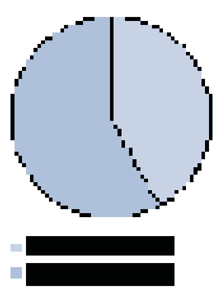

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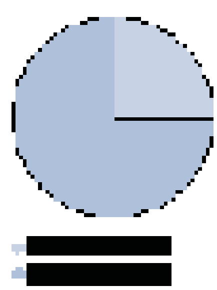

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Key results

R million	***2005***	***2004***	***%∆***
New business	**18 673**	16 069	16
Net inflow of funds	**2 889**	2 959	(2)
Profit before tax and minorities	**1 512**	1 309	16
New business embedded value (VNB)	**245**	280	(13)
VNB margin	**14,3%**	17,5%	—

Vision

Sanlam Personal Finance (SPF) shares the Sanlam group's vision to be the leader in wealth creation and protection, through the provision of credible financial advice, innovative solutions and long-term relationships with clients. We foster a culture of passion for our clients, valuing diversity and innovation. To execute our vision, we need to attract and retain talented and motivated staff and therefore strive to be an employer of choice.

Business environment and operational review

The strong macro-economic conditions experienced during 2004 continued in 2005. Buoyant equity markets, lower interest rates and a strong rand continued to drive positive consumer sentiment and impacted positively on most of our business activities.

In spite of the positive macro-economic environment, the individual life industry continued to face challenges, which had a detrimental impact on business flows during 2005. Chief among these were several unfavourable rulings by the Pension Funds Adjudicator (PFA) relating to the charge structures and client entitlements in respect of retirement annuity products, particularly early termination of these products. This has fuelled negative public sentiment towards life products as an investment and savings medium, while underlining the requirement for more flexible and innovative products. SPF had identified these issues a while ago and embarked on cost-saving initiatives in 2004, and introduced an innovative new product, namely Stratus^{SP}, during 2005 to address the early termination issues in respect of certain savings products. During December 2005, SPF, together with the life insurance industry, further addressed these issues and reached an agreement with the Minister of Finance on a Statement of Intent whereby minimum fund values for certain savings policies would be met by insurers.

The life insurance industry is experiencing lower growth than in previous decades as well as consolidation in the industry, particularly in respect of the smaller life companies. It has resulted in extremely competitive pricing of products. We foresee a continuation of the current low inflationary environment, which will lead to lower nominal investment returns.

The impact that fees – charged by insurers to recoup their costs – will have on these lower investment yields, is increasingly coming under scrutiny. This impact is referred to as the "reduction in yield" (RIY), and increased cost efficiencies are required by insurers to address this. SPF continually monitors its efficiency levels, as evidenced by previous cost-saving initiatives, the last being in 2004 where savings in excess of R270 million were achieved. Further efficiency targets have also been set for 2006.

Regulatory changes over the past few years, such as FICA and FAIS, albeit important components aimed at protecting clients' interests, have also introduced significant administration and cost implications on financial institutions and intermediaries.

Heinie Werth

Chief executive:
Developing Markets

The lower interest rates in recent years have made longer-term life single premium guaranteed products and traditional compulsory annuity products less attractive, with clients favouring equity-linked life annuities and shorter-term non-life discretionary equity-linked products. These conditions, together with the unfavourable sentiment towards life products, have resulted in an increase in sales of non-life discretionary linked products, and have impacted negatively on sales of traditional life single premium products during 2005. These trends support our client-centric strategy to provide solutions to clients rather than to be product driven. As new business embedded value (VNB), which is the value placed on only life new business in terms of South African Actuarial Guidelines, is a key measure of the sales performance of a life company, it has become important to include non-life sales in this measure to reflect the overall sales performance of a financial services group. We are currently refining the VNB calculation of non-life products and plan to disclose these together with the life VNB in future in order to present a more complete picture of our sales performance. The VNB margin on the non-life single premium business is generally lower than that of life products largely due to the shorter term and higher service levels offered by these products. More focus will be placed on maximising margins and efficiencies by introducing the VNB measure to non-life products.

As discussed in last year's review, our key strategic focus for 2005 was to improve our distribution capabilities aimed at improving our top-line growth and in particular new life recurring premiums. In general, we have succeeded in achieving this objective, and believe that we have established a sound basis to continue growth in 2006.

- Our focus in the entry-level market was significantly increased with the acquisition of African Life and a controlling stake in Channel Life towards the end of the year, which will now form the nucleus of our entry-level market strategy. Heinie Werth has been appointed to implement the integration of these activities with Sanlam's current operations in this market segment, namely Sanlam Group Solutions and our interest in Safrican. This initiative will be managed as a separate business from SPF's other activities during the forthcoming year in order to ensure that the focus of both businesses is optimised during the integration phase of these acquired activities.

  Our strategy at the beginning of 2005 to expand our Sanlam Group Solutions channel was completed successfully and sales growth of 30% was achieved. The acquisition of a majority stake in Safrican towards the end of 2004 proved successful and they posted satisfactory results.

- Our middle-market focus during 2005 was based on increasing our distribution footprint. Adviser numbers increased from 1 703 to 1 976 and included an improvement in the demographic profile shift to young black advisers while productivity levels were maintained at 2004 levels. Our strategy to increase our presence in Gauteng included setting up a separate adviser channel in this province early in 2005 to focus on the upper middle class. The set-up process of this initiative was slower than expected, but we believe that a sound basis for growth has been established. One of our key focus areas in 2005 was to increase our share of Absa broker sales and this was successfully achieved with our share of their sales increasing significantly from 14% to 21%. Other smaller initiatives, which included increasing our Broker Services Outsourcing activities and improving the utilisation of our direct marketing channel, also showed satisfactory new business growth. Our middle-market growth strategy for 2006 will be to focus on the basics such as continuing to increase adviser numbers, their productivity and premium size, improve our penetration of brokers and continue to improve our share of Absa broker sales.

- Our affluent-market focus continues to be spearheaded by Innofin, and a separate broker channel was created to build on Innofin's excellent relationship with brokers. They were successful during 2005 with their key objective of increasing their base of supporting brokers, adding 30 previously non-supporting brokers to their base. The objective for 2006 will be to further increase this base by expanding their offering and sales support for other products provided by the Sanlam group such as trust services and short-term insurance, while further developing our Group strategy to penetrate the affluent market. The joint venture with Citadel announced early in 2005 to provide solutions to the affluent market and which operated as Cambium (Pty) Limited, did not achieve the anticipated new business volumes and SPF decided to sell its interest to Citadel late in 2005.

Our strategy to find alternate forms of revenue and to grow existing initiatives to supplement the individual life business, continued during the year under review. Direct Axis and Innofin continued delivering significant growth in profits while Sanlam Home Loans has now laid a solid platform for growth. MIA, our UK life insurance initiative, continues to perform well and is progressing with building its new business capabilities that started in 2005.
The acquisition of a controlling interest in Resolution Health late in 2005 is expected to contribute to alternative revenue sources while complementing our current product range. During the latter part of 2005 we also acquired a 26% interest in Shriram, an insurance company in India, with the purpose of increasing our international presence.

Sanlam Personal Finance

Executive committee

1. **Lizé Lambrechts** – Chief executive
2. **Hennie de Villiers** – Operations
3. **Anton Gildenhuys** – Client solutions
4. **Kobus Vlok** – Distribution
5. **Wally Harris *(Acting)*** – Finance
6. **Joubert Ferreira** – Actuarial
7. **Robert Goff** – Human resources
8. **Anton Raath** – Innofin
9. **Lukas van der Walt** – MIA
10. **Tertius Stears *(Acting)*** – Namibia

Financial review

Summary of results

After a disappointing first quarter of the year, which dampened the first-half results, SPF bolstered its second-half performance significantly resulting in a sound performance for the year. Profit before tax and minorities grew by 16%, new business volumes grew by 16% and a net inflow of funds of R2 889 million was achieved. Although total new business sales showed satisfactory growth, life sales (measured by annual premium equivalent) increased by only 7% and resulted in a 13% decline in the VNB of life business. As mentioned, VNB only measures the life component of SPF's business and does not include non-life sales which showed good growth, reflecting a more negative picture than what was achieved. We plan to address the last-mentioned shortcoming in this measure by including the VNB of non-life sales in future.

New business

The table below analyses the new business volumes achieved in 2005.

Analysis of new business

R million	*2005*	*2004*	%Δ
RSA	**14 246**	13 070	9
Single	**12 714**	11 663	9
Life	**6 478**	6 424	1
Non-life investment business	**6 236**	5 239	19
Recurring – Life	**904**	801	13
Index growth – Life	**628**	606	4
International	**4 427**	2 999	48
Single	**4 366**	2 947	48
Life	**971**	840	16
Non-life	**3 395**	2 107	61
Recurring – Life	**61**	52	17
Total new business reported for 2005	**18 673**	16 069	16
Non-life loan business	**1 448**	545	166
Total new business	**20 121**	16 614	21

The 13% increase in RSA new recurring premiums is the result of the strategic initiatives paying dividends. This growth is also pleasing given the negative impact the rulings of the Pension Funds Adjudicator had on sales of particularly our recurring retirement annuity (RA) products, which showed a 4% decline on last year. The Stratus[SP] product launched in the second half of the year that offers significantly enhanced termination values for RA and endowment products, helped contain the decline in RA sales.

Sales of our Matrix whole-life risk products increased by 44% and were instrumental in the growth in total new recurring premiums. The 9% growth in RSA single premiums was spearheaded by good growth in non-life discretionary linked products and was tempered by a reduction in the sales of guaranteed life products, which continued to be affected by the low interest rates as well as extremely competitive pricing and lower single premium RA sales. Our pricing for guaranteed products is monitored and adjusted on a regular basis to remain competitive. The improved stockmarket conditions, as well as Sanlam Investment Management's improved investment performance, contributed towards better sales in endowment products. RSA index growth premiums, which relate to existing policies where clients have chosen to automatically increase their recurring premiums annually to keep pace with inflation in general, increased by 4% largely in line with the inflation rates prevailing in 2005.

Foreign new business consists of our Namibia (CFS group) and UK operations, Merchant Investors Assurance (MIA). MIA has changed its focus from operating as a closed book to selling new products to a niche market in the UK and posted an 11% growth in life sales. Namibia life single premiums grew by 28% due to good sales of equity-based linked annuities and by sales of a few large institutional life single premium policies. The good growth in the Namibia unit trust sales and non-life discretionary linked products was driven by the buoyant equity markets and by leveraging the synergies offered by the consolidation of our activities with those of our Namibia partners in the CFS group.

Non-life loan business consists of mortgage loans sold by Sanlam Home Loans (SHL), a 50% joint venture with Absa, and personal loans offered by our joint venture with Direct Axis (DA). SHL achieved good growth in sales of home loans in its second year of operation with its primary focus on building its loan book, which amounted to R1 831 million at year-end. The DA joint venture offers personal loans to the Sanlam client database, and loans granted in 2005 once again exceeded expectations, growing by 49%. The personal loan book at year-end amounted to R1 129 million.

Net flow of funds

The net inflow of funds, which is a robust measure of the growth in our underlying business, was maintained at the same levels as last year. This was largely driven by growth in the net inflows into our non-life business while there was a net outflow of around R1 billion in our RSA life business. The latter net outflow is attributable to the marginal growth in life single premium sales and increasing payments in respect of maturity benefits (see table below) due to the higher equity markets. The number of maturity payments has, however, remained at last year's levels. Our retention of maturity payments within the Sanlam group by means of policy continuations and the issue of new life or non-life products remained at 49% in 2005.

The table below analyses the net flow of funds achieved per product line in 2005.

Net flow of funds

R million	*2005*	*2004*	%Δ
RSA net inflow	**1 738**	1 881	(8)
RSA life	**(975)**	(54)	>(100)
• Inflow	**15 640**	15 121	3
Recurring premiums	**9 162**	8 697	5
Single premiums	**6 478**	6 424	1
• Outflow	**(16 615)**	(15 175)	(9)
Death and disability	**(1 792)**	(1 497)	(20)
Maturities	**(8 657)**	(7 343)	(18)
Annuities	**(2 963)**	(3 145)	6
Surrenders	**(3 203)**	(3 190)	0
RSA non-life	**2 713**	1 935	40
• Inflow	**6 236**	5 239	19
• Outflow	**(3 523)**	(3 304)	(7)
International net inflow	**1 151**	1 078	7
• Life	**60**	189	(68)
• Non-life	**1 091**	889	23
Net inflow of funds	**2 889**	2 959	(2)

Operating profit before tax

Profit before tax and minorities grew by 16% and was largely driven by good risk underwriting profits and improved equity markets.

The tables below analyse the components of operating profit achieved in 2005.

Income statement

R million	***2005***	***2004***	**%∆**
Financial services income	**5 766**	5 138	12
Sales remuneration	**(994)**	(827)	(20)
Income after sales remuneration	**4 772**	4 311	11
Underwriting policy benefits	**(1 415)**	(1 304)	(9)
Administration costs	**(1 845)**	(1 698)	(9)
Profit before tax and minorities	**1 512**	1 309	16
Administration cost ratio	**38,7%**	39,4%	
Operating margin	**31,7%**	30,4%	

Analysis of profit per component

R million	***2005***	***2004***	**%∆**
Administration	**201**	264	(24)
Risk	**552**	435	27
Market-related	**759**	610	24
Profit before tax and minorities	**1 512**	1 309	16

Analysis of profit per business

R million	***2005***	***2004***	**%∆**
RSA individual life	**1 296**	1 161	12
RSA non-life	**115**	57	102
International	**101**	91	11
Profit before tax and minorities	**1 512**	1 309	16

The largest component of administration profits is derived from the RSA individual life business and is driven by new business, the number of in-force policies and to a lesser extent the performance of equity markets. The in-force policies are declining steadily and result in lower fee income, which offsets the positive impact that the higher equity markets have on fees and contributed towards the 24% decline in administration profits. Administration costs include Safrican's maiden costs for 2005 and, if excluded, increased by 6%. The costs of the RSA individual life business increased by 4%.

Risk profits grew by 27% compared to the 2004 financial year largely due to improved underwriting experience. Our expectation is that it will be difficult to maintain these high levels of risk profits going forward due to competitive pressure on the pricing of risk products and underwriting.

Market-related profits were 24% up on 2004 mainly due to the positive impact of the strong equity markets.

The 102% growth in the RSA non-life profits is in line with our strategy to supplement our RSA life profits. This growth includes a 115% increase in Innofin's profits to R52 million and was achieved on the back of good top-line growth and the strong equity markets that increased their asset base and fees accordingly. Our personal loans joint venture with Direct Axis continued its exceptional performance, driven by positive consumer sentiment and lower short-term interest rates, and grew their profits before tax by 100%. Our 70% share of these profits amounted to R44 million. SHL, which commenced activities during May 2004, has performed in line with our expectations and is still in a building stage. We expect this venture to more or less break even in 2007. Sanlam Trust grew its profits to R11 million in 2005 and, although relatively small in the context of SPF's total profits, represents a significant improvement from a loss-making business a few years ago.

The international profit growth arose largely from improved risk- and market-related profits from our Namibia operations, while MIA profits remained at 2004 levels largely due to exceptional mortality profits earned during the 2004 financial year which were not repeated in 2005.

New business embedded value (VNB)

The new business embedded value of life business declined by 13% largely due to the low increase in life new business sales, lower margins due to more competitive pricing and investments made to stimulate sales growth in 2006. As mentioned above, the VNB below excludes the sales of non-life business which showed good growth in 2005. Had our estimated VNB of non-life business been included for both 2004 and 2005, the total VNB for 2005 would have been more or less in line with the 2004 figure.

The table below analyses our new business embedded value for 2005.

New business embedded value (VNB)

R million	**2005**	**2004**	**%∆**
RSA			
Annual premium equivalent	**1 565**	1 489	5
VNB	**241**	269	(10)
VNB margin	**15,4%**	18,1%	
International			
Annual premium equivalent	**143**	113	27
VNB	**4**	11	(64)
VNB margin	**2,8%**	9,7%	
Total			
Annual premium equivalent	**1 708**	1 602	7
VNB	**245**	280	(13)
VNB margin	**14,3%**	17,5%	

Prospects

The building blocks for our segmented market approach are in place and the image of the life industry should improve with the steps taken to improve products as well as the agreement reached with National Treasury on mininum termination values.

SPF's primary focus for the next few years will be to grow our RSA new business sales (particularly new recurring premiums) in the middle- and affluent-market segments, increase our South African life market share and grow our VNB to levels comparable with our peers in the South African life industry. Single-digit growth in profits is, however, expected in the short-term as the largest component of our profits is derived from our mature South African life business. We will continue to search for viable alternative sources of revenue, within and outside South Africa, to supplement these profits. The focus on the international activities is to consolidate our position in Namibia, and MIA will continue to build its new business capabilities in the UK.

Our entry-level focus for 2006 will be to integrate Sanlam's current operations in this market with the African Life and Channel Life activities and to deliver on their operational objectives.

Sanlam Life

Board of directors and committee memberships

Non-executive directors

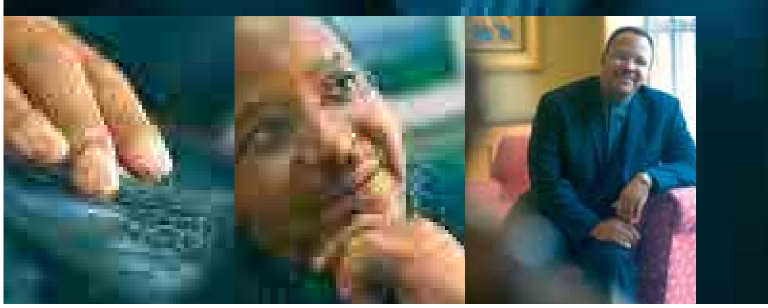
Johan van Zyl – Chairman
George Rudman – Lead director
Audit, Actuarial and Risk
Manana Bakane-Tuoane – Audit, Actuarial and Risk
Fran du Plessis
Wilmot James
Flip Rademeyer – Audit, Actuarial and Risk
Chris Swanepoel – Audit, Actuarial and Risk
Boetie van Zyl

Executive directors

Lizé Lambrechts
Heinie Werth
Themba Gamedze

Retirement fund industry in process of evolution

"We report a 13% growth in new business and an increase of 18% in operating profits for 2005. Improved underwriting practices have substantially contributed to the healthy growth in underwriting profits and consequently to operating profit."



Themba Gamedze
Chief executive

Group profile and shareholding structure

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

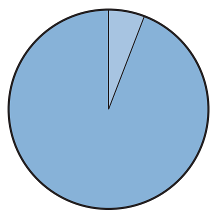
**The name of Total Care Strategy Holdings (TCS) was changed to Sanlam Umbrella Fund Administrators (SUFA) during the financial year.*

SEB previously owned 60% of SUFA, but bought the remaining 40% with effect from 1 January 2005.

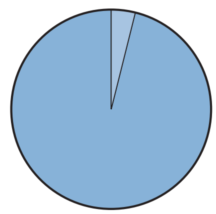
Salient features

- Operating profit before tax increased by 18%
- New premium volumes grew by 13%
- Net outflow of funds is still a concern
- Significant progress with transformation
- First South African employee benefits business to achieve "Investors in People" status
- SUFA established a unique process of member representation via annual trustee-mandated meetings at participating employer level for its umbrella funds

Contribution to result from financial services before tax



Contribution to new business inflows



Key results

R million	***2005***	***2004***	**%∆**
New business	**2 699**	2 394	13
Net inflow of funds	**(2 896)**	(1 773)	(63)
Operating profit before tax	**217**	184	18
New business embedded value (VNB)	**46**	41	12
VNB margin	**10,4%**	11,5%	

Vision

In line with the Group's vision to be the leader in wealth creation and protection, Sanlam Employee Benefits (SEB) is focused on a long-term relationship with retirement funds and retirement fund brokers to provide them with competitively priced, innovative solutions. SEB prides itself in three key pillars that underpin strategic and tactical planning, as well as service provision to clients. This is achieved by encouraging the emergence of "no limit individuals" and by becoming a "results-oriented" organisation, which not only results in growth in shareholder value, but also ensures that the retirement fund members we serve realise their lifelong goal of having adequate savings when they reach retirement, or cover when something unforeseen happens to them.

Nature of business

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

SEB transferred the back-office retirement fund administration (RFA) services to the Independent Financial Services (IFS) cluster with effect from 1 January 2006 to allow RFA to establish itself as a business and to grow structurally. However, SEB will continue to provide administration products to its existing and prospective clients.

SEB is still positioning itself to contribute optimally to the Group's strategic goals, necessitating adjustments in short- and medium-term focus. SEB's strategic focus in the short-term will be on:

- Risk underwriting. This is SEB's core offering and while we need to set competitive rates, we insist on profitability;
- Designing life licence enhanced value-added investment solutions;
- Providing a flexible platform for asset manager selection to address the fund termination challenge;
- Establishing an efficient, cost-effective administration solution to our clients in conjunction with RFA in the IFS cluster. While the profit contribution from administration will be relatively modest, we see this facility as being integral to our aim of providing the whole package to our clients;
- Extracting value from the investments made in the new distribution capacity and penetration of markets where SEB previously had limited success, ie parastatals, unions and SMEs; and
- Implementing a viable but unique process of member representation per participating employer for the SUFA umbrella funds.

Business environment and operational review

The South African retirement fund industry is undergoing a process of evolution and is facing a number of challenges. The government, regulators and the market look forward to increasing demands for transparent, simple and value-for-money products. Many of these demands stem from:

- Changes in retirement legislation;
- The increasing cost of complying with legislation, which has placed pressure on self-administered retirement funds and is forcing smaller clients to consider alternative solutions;
- Greater awareness of trustee duties, member rights and a more determined approach to member activism;
- Increased competition for the life industry from non-life product providers;
- Consultants and trustees who increasingly prefer the non-life multi-manager route, allowing them to avoid the concentration of investment risk in a single asset manager and having more flexibility of movement;
- Strong market growth in equities, which has influenced investment product choice and advice;
- The lifting of the exemption from the preparation and auditing of financial statements for insured funds; this has reduced the benefit for these funds of investing all their assets in insurance policies; and

Sanlam Employee Benefits

Executive committee

1. **Themba Gamedze** – Chief executive
2. **Marius Saayman** – Finance and risk management
3. **Shaun Woodman** – Operations
4. **Miles Mafojane** – Institutional business
5. **Deon Booysen** – Client solutions
6. **Douw Kruger** – Key accounts
7. **Elias Masilela** – Stakeholder strategy
8. **Tamuka Kaseke** – Strategic ventures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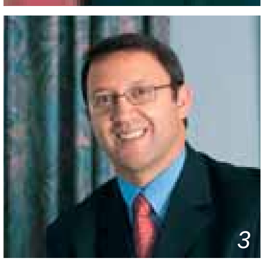
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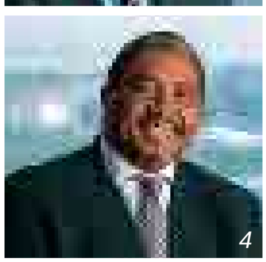
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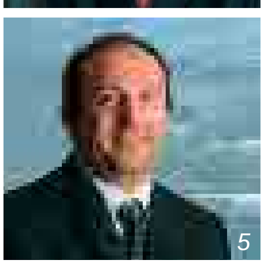
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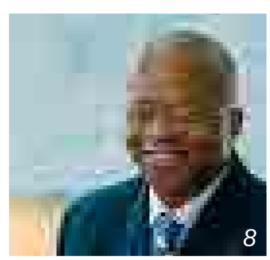
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- The Retirement Fund Reform discussion paper that may impact the industry in various areas, such as the establishment of a National Savings Fund for low-income earners, some of whom will be in existing occupational funds.

Since SEB was re-established as a separate business unit during 2004:

- An executive management team with wide experience has been appointed – with more than 60% of the team being black;
- The Consulting and Actuarial division has been sold to Simeka, an associated BEE company, to allow it to focus on independent advice;
- A new direct distribution channel has been established;
- New business flows have increased;
- Profit growth has been achieved through continued focus on improved underwriting management, cost containment and more accurate measurement of product and client profitability;
- Processes, internal controls and administration systems have improved, but this area still needs a more concerted effort. It was on this basis that the decision to establish RFA as a stand-alone business within IFS was made;
- Three black matriculants have completed the learnership programme with the qualification: National Certificate: Financial Services Administrator NQF Level 3 during 2005. They have all been appointed permanently at SEB. SEB has entered another 13 matriculants for the learnership programme for 2005/2006;
- The relationship between Sanlam and our BEE shareholding partners, Ubuntu-Botho, began to bear discernible fruit in 2005, with the first business written that is directly attributable to that relationship; and
- SEB was the first South African business in the insurance sector to be accredited with the prestigious "Investors in People" award. Investors in People is an international standard that sets a level of good practice for improving performance of organisations through their people and is a milestone in our aim of becoming an employer of choice.

New products

The development of new products is underpinned by SEB's underlying business philosophy, which, in line with that of the Sanlam group, is to be driven by client needs. We focus on meeting the needs of our clients, assisting with primary decision-making regarding employee benefits, as well as the practicalities of managing the operations of a retirement fund, and appropriate communication of relevant information to fund members.

The following new products were introduced during 2005:

- A stand-alone product providing cover for breast cancer only;
- A terminal illness benefit that provides accelerated death benefits if the member is expected not to live longer than a further 12 months;
- A derivatives-based smooth bonus portfolio;
- A multi-manager portfolio that provides trustees with a mechanism for investing in Socially Responsible Investments in line with the Financial Sector Charter;

- A range of bond funds that should track the movement in the average retirement fund liabilities based on the Sanlam Asset Liability Index; and
- An extension of the inflation-linked annuity product, increases guarantees from a maximum of 20 years to a lifelong guarantee.

Financial review

Summary of results

For 2005, SEB reported 13% growth in new business and operating profits increased by 18%. Improved underwriting practices followed over the past few years have contributed to healthy growth in operating profit.

However, lower fee income on investment products, following the large outflow of funds and moderate new inflows, have placed downward pressure on growth.

New business

Total new premiums increased by 13% as illustrated in the table below.

R million	***2005***	***2004***	**%∆**
Recurring	**194**	129	50
Single	**2 505**	2 265	11
Total new business	**2 699**	2 394	13
New business annual premium equivalent (APE)	**445**	356	25

SEB's commitment to designing competitive solutions in line with market requirements, together with the transformation now in evidence within SEB, have both supported the growth we have seen in new business volumes. However, the impact of SEB's increased focus on our non-traditional market segments was not significant on new business APE for 2005, but is expected to become so in 2006.

Net flow of funds

The disappointing net outflow of funds at R2,9 billion was largely attributed to market preferences that are moving away from traditional retirement fund investments. The result is that outflows are relatively high compared to inflows. The net flow of funds is analysed in the table below.

R million	***2005***	***2004***	**%∆**
Inflow	**5 371**	4 949	9
Recurring premiums	**2 866**	2 684	7
Single premiums	**2 505**	2 265	11
Outflow	**(8 267)**	(6 722)	(23)
Insured benefits	**(1 202)**	(1 265)	5
Uninsured contractual benefits	**(3 348)**	(3 739)	10
Fund terminations	**(3 717)**	(1 718)	(116)
Net outflow of funds	**(2 896)**	(1 773)	(63)

The current market trend is to move assets away from balanced portfolios and smoothed bonus products to more specialised portfolios provided by asset managers or multi-managers. Although this has led to high terminations of these products for SEB, the Investment cluster benefited from this market trend. The purpose of these products is to protect members from capital loss when the market value of investments declines. During the most recent period of weak market performance, funds became underfunded, and when the market recovered, trustees withdrew from this investment type. This increased the risk profile of their funds, but also increased the potential for higher growth.

Operating profit

Operating profit grew by 18% compared to 2005.

R million	**2005**	**2004**	**%∆**
Financial services income	**1 743**	1 766	(1)
Sales remuneration	**(40)**	(37)	(8)
Income after sales remuneration	**1 703**	1 729	(2)
Underwriting policy benefits	**(1 203)**	(1 264)	5
Administration costs	**(283)**	(281)	—
Profit before tax	**217**	184	18
Administration cost ratio	**16,6%**	16,3%	
Operating margin	**12,7%**	10,6%	

The fall in financial services income, which consisted mainly of risk underwriting premiums and fees earned, was largely due to a reduction in fees earned on funds under management, given the net outflow of funds, reduced risk premium rates and low growth in average fund membership.

Profitability was influenced positively by favourable claims experience and containment of expenditure at the same level as in 2004.

The contribution of the different products to overhead and project expenditure is analysed in the table below.

Contribution to operating profit per product

R million	**2005**	**2004***	**%∆**
Administration	**(21)**	(10)	(110)
Underwriting	**155**	105	48
Investment	**161**	148	9
Contribution	**295**	243	22
Overhead expenditure	**(63)**	(44)	(43)
Project expenditure	**(15)**	(15)	—
Operating profit	**217**	184	18

**We have improved the cost allocation between our business lines during the year and therefore restated 2004 in line with 2005.*

The healthy growth of 18% in operating profit is largely attributable to improved underwriting practices and exceptional claims experience.

The increased loss from the administration business was incurred despite a marginal increase in fee income, since expenditure increased by more than inflation. A significant portion of this increase in expenditure arose from increases in staffing levels necessitated by the preparation of financial statements for insured funds (which were previously audit exempt) and work on the surplus apportionment project, for which the income will accrue during 2006.

The improved alignment of underwriting premiums to the risk profile of group schemes, as well as good claims experience, resulted in increased underwriting profits despite some reduction in premium income largely due to strict pricing. The experience of claims is cyclical in nature and it is likely that the current high margin levels will not be sustainable.

The net outflow of funds, especially the loss of smoothed bonus, business reduced the basis for fee income. However, the strong increase in the market value of the assets under management countered the effect of the outflow.

The 2005 results include the full impact of the investment we have made in establishing and staffing our new direct institutional distribution channel. We expect the return on that investment to begin to accrue in 2006 as the channel has already begun to write business.

New business embedded value (VNB)

Total VNB increased by R5 million to R46 million. However, the margin decreased from 11,5% to 10,4%, mainly due to the lower interest rate and shorter retention period used compared to 2004.

R million	***2005***	***2004***	**%∆**
Annual premium equivalent	**445**	356	25
VNB	**46**	41	12
VNB margin	**10,4%**	11,5%	

Funding position of participating portfolios

SEB had no participating portfolios with negative bonus stabilisation reserves as at 31 December 2005.

Prospects

SEB delivered strong profit growth in 2005, mainly due to the better managed underwriting risk business. SEB is favourably placed to increase new business volumes. However, it is unlikely that similar profit growth can be achieved in 2006; in fact, given the nature of risk business and low margins in other areas, it will be a challenge to achieve the same level of profit. The recently established cross-selling forum and account managers between all business units operating in the institutional market should stimulate volume growth within the Sanlam group further. RFA will be established as an autonomous retirement fund administrator.

Assets under management surpassed R300 billion

"The cluster reports an operating profit before tax of R699 million for 2005 – the second consecutive year in which operating profit increased by more than 60% year on year. The performance underscores the Group's strategy of becoming a diversified financial services enterprise."

Johan van der Merwe
Chief executive officer

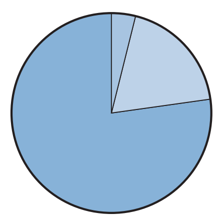
Group profile and shareholding structure

Sanlam Investment Management (SIM)	The second largest investment manager in South Africa as measured by assets under management. It manages financial assets for individual, institutional and corporate clients and offers investment strategies in vehicles ranging from collective investments to institutional portfolios.
Sanlam Investment Management Namibia (SIM Namibia)	One of the largest investment managers based in Windhoek, Namibia, providing traditional and alternative investment products to institutional clients.
Octane Holdings Limited (Octane)	A specialist alternative investment provider, focusing on hedge fund-of-funds, headquartered in Switzerland with a research office based in New York.
Sanlam Collective Investments (SCI)	The third largest manager of collective investment portfolios in South Africa, offering a wide range of retail, multi-managed institutional and third-party collective investment funds.
Sanlam Asset Management (Ireland) (SAMI)	An international investment management business, based in Dublin, managing funds domiciled in Ireland.
Sanlam Multi-Managers International (SMMI)	An investment management advisory business, dedicated to active multi-management. It has been managing multi-manager funds on a global basis since 1999.
Sanlam Properties (SP)	Specialises in strategic property services, including portfolio management, development, sales and listings.
Sanlam Private Equity (SPE)	One of the largest private equity fund managers in South Africa, offering both a direct and fund-of-funds investment programme. SPE also drives the Group's BEE investment programme.
Sanlam Private Investments (SPI)	Private client portfolio management and stockbroking business, serving high net worth individuals, charitable trusts and smaller institutions.
SIM Emerging Markets	A fund and investment management business, focusing on emerging markets, particularly in Africa and Asia.
Retail Investments	The cluster's business offering responsible for asset growth and profit in the retail investment market.
Sanlam Capital Markets	A provider of risk management and structured product solutions.

Salient features

- Substantial growth in operating profit for second consecutive year
- Strong growth in gross fund flows
- Assets under management in excess of R300 billion
- Top performing unit trust funds in South Africa over two and three years
- Successful integration of Sanlam Capital Markets into the Investment cluster
- Strong emphasis on performance-based culture and people development

Contribution to result from financial services before tax



SCM 4%
Investment management business 19%
Rest of Group 77%

Key results

R million	***2005***	***2004***
Investment management businesses		
Operating profit before tax and minorities	**699**	419
Gross inflow of funds	**32 623**	27 720
Net inflow of funds	**3 213**	6 362
Funds under management	**326 779**	285 900
Sanlam Capital Markets		
Operating profit before tax and minorities	**151**	86
Return on equity	**31,5%**	19,8%

Sanlam

Investment management businesses

Nature of business and strategic focus

The Investment cluster encompasses the Sanlam group's investment management-related businesses and offers a range of investment services. The cluster represents a collaborative hub focused on attracting and managing retail and institutional investments across the spectrum of asset classes. Areas of expertise cover conventional asset management, alternative investment solutions, property asset management, private client investment management and stockbroking, as well as multi-management.

In the medium term, the cluster aims to achieve the following goals:

- Continue to improve long-term investment performance;
- Aggressively grow third party assets under management;
- Continuously build a strong investment brand;
- Progressively fulfil the requirements of the Financial Sector Charter (FSC);
- Enhance the international strategy; and
- Propel performance culture.

Business environment and operational review

On the economic front, 2005 proved to be an exceptional year, as subdued inflation resulted in a 0,5% cut in the repo rate in April, further supporting consumer demand and contributing to strong GDP growth despite the relatively strong rand. The stable economic environment provided the perfect backdrop for equities, taking the market to a new record high whilst giving a total return of 47% for the year, compared to the 26% return in 2004. The bond market also performed reasonably well with the yield curve reaching a record low level, driven by stable inflation combined with limited new placement of Government debt.

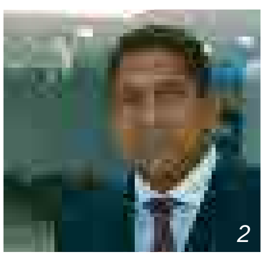
Key achievements include:

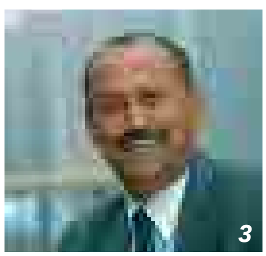
- The Sanlam Value Fund was ranked first over two years and the Sanlam Small Cap Fund first over three years in the entire collective investment industry;
- Launch of "first to market" products such as the Asset Liability Index;
- Assets under management surpassed R300 billion – a first for the business; and
- The successful integration of Sanlam Capital Markets into the cluster.

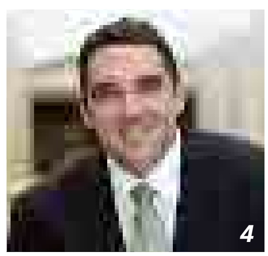
Sanlam Investment cluster

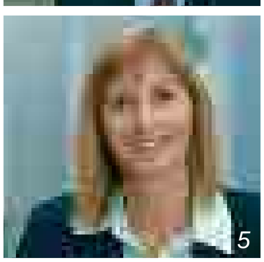
Heads of businesses

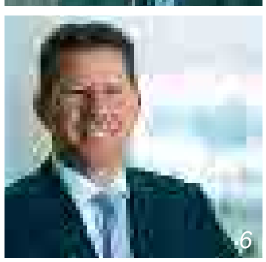
1. **Johan van der Merwe** – Chief executive officer
2. **Armien Tyer** – Managing director: Sanlam Investment Management
3. **Sanjeev Gupta** – Chief executive: Emerging Markets
4. **Hendrik Pfaff** – Managing director: Retail Investments
5. **Anet Ahern** – Chief executive: Sanlam Multi-Manager International
6. **Tienie van der Mescht** – Managing director: Collective Investments
7. **Pieter Kriel** – Chief executive: Private Equity
8. **Daniël Kriel** – Chief executive: Private Investments
9. **John van Helden** – Chief operating officer: Sanlam Asset Management (Ireland)
10. **Banus van der Walt** – Chief executive: Sanlam Properties
11. **Robbie Alexander** – Chief executive: Octane Holdings Limited
12. **Mark Murning** – Chief executive: Sanlam Capital Markets

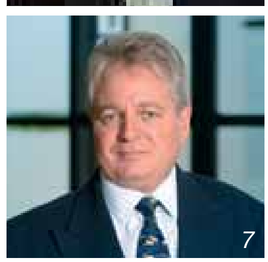


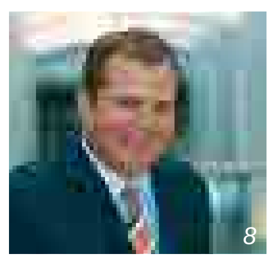


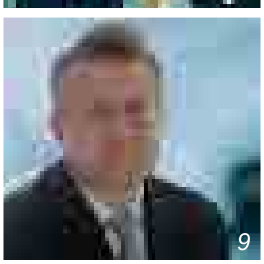


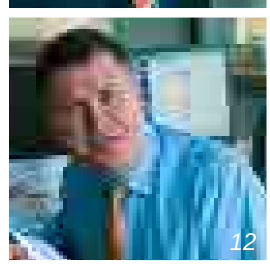












The results achieved by Sanlam Investment Management (SIM) highlighted the exceptional talent SIM has amassed and the robustness of the investment platform underpinning the investment process. Successes such as having the best retail funds in the collective investments market over a two-year and three-year basis, as well as several sector-specific funds at the top of their categories, demonstrate the soundness of our investment philosophy.

Our strategy of developing smaller niche investment boutiques also proved a successful response to a trend of growing specialisation in the market, with the absolute return and active quants teams proving to be leaders in their respective segments. Ongoing and innovative thinking culminated in the launch of “first to market” products such as the Asset Liability Index.

SIM Global, the investment team primarily focused on extracting value from international markets, experienced a respectable increase in funds under management mainly due to the good performance of two of its funds that were ranked in the top quartile in their categories globally.

During the second quarter of 2005, Sanlam Capital Markets (SCM) was incorporated into the Investment cluster. SCM and SIM have completed a joint initiative aimed at optimising synergies between the businesses, and the integration is progressing efficiently. SCM’s detailed report on 2005 follows immediately after this review.

Sanlam Private Investments (SPI) has embarked on a new business strategy, aimed at aggressively growing its business and doubling profits by 2007. Favourable market conditions enabled the business to produce its best profits since its inception in 2000, with assets under management and administration surpassing R27 billion, an increase of 40% compared to the previous year.

Sanlam Properties (SP) has embarked on a restructuring initiative to meet and exceed transformation objectives and to strategically reposition the business. It is envisaged that the company’s property exposure will be optimised by providing opportunities for black property developers, which will not only enhance the value of Sanlam’s BEE credentials, but also the value of the existing portfolio. This will also serve to affirm the relevance and sustainability of SP and the Sanlam property portfolio in the medium to long-term.

Sanlam Private Equity (SPE) has finalised its strategy to simultaneously fulfil Sanlam’s private equity obligations in terms of the Financial Sector Charter and increase third-party assets under management. Respectable progress on transformation has also been achieved with the team comprising 63% black professionals and 38% black women.

The South African operations of Sanlam Multi-Manager International (SMMI) achieved commendable net growth in assets under management in retail products as well as segregated mandates within both discretionary and non-discretionary business. This was due to both market movement and the inflow of funds.

Octane's assets under management increased to more than US$980 million, mainly due to the investments of clients from Continental Europe, the UK, Middle East and Africa. All their solutions outperformed their respective benchmarks.

Financial review

Fund flows

An important barometer of an investment management business remains its fund flows as this has a bearing on the company's ability to provide the appropriate investment solutions and performance for its clients. We are pleased with the support received from our client base during 2005, which resulted in R32,6 billion of inflows, 18% higher than 2004. This is the result of multiple interventions across the business to improve service excellence, to attract and retain the best talent in the industry, and to extract maximum synergies from the collective businesses in the Investment cluster. To fully appreciate the scope of these measures, the R32,6 billion should also be seen in context of R15,2 billion inflows achieved in 2003.

As the result of an internal restructuring, the Public Investment Corporation (PIC) withdrew R6 billion from the cluster. Notwithstanding this, we reported a net inflow of funds of R3,2 billion and view the feat as a credible performance under the circumstances, providing a solid platform to continue growing the business.

Results from operations

The Investment cluster reported operating profit before tax of R699 million for 2005, the second consecutive year in which operating profit increased by more than 60% year on year. This is an exceptional result, reflecting the culmination of several years of diligent work, focused on continuously improving the calibre of our people, while adapting the structures of the businesses to allow exceptional people to thrive and grow different niche businesses.

Although cluster businesses often operate in very diverse market segments and competitive environments, some common successful threads can be identified, which can be attributed to their association with the Investment cluster.

These include the following:

- Investment businesses thrive on increases in scale and this feature can be applied accordingly to the Investment cluster. The continued focus on our clients, by exceeding their service expectations and tailor-making investment solutions, resulted in their continued support through new business inflows. These new inflows and supportive financial markets combined to increase our asset base substantially with the resulting scale benefits;
- The strategic decision, taken two years ago to refocus our international businesses, has paid off handsomely in 2005. Through a combination of acquisitions, development of new businesses, refocusing current businesses and stricter performance management, the profit after tax of the international businesses increased substantially;
- A move towards mandates that incorporate performance fee structures, which serve to align client requirements with our staff's capabilities, resulted in significant performance fee generation for the year under review.

In southern Africa, operating profits after tax increased by 42% to R327 million with the majority of businesses contributing to the profit growth. SIM Wholesale increased profits substantially as a result of higher fee income.

SPI continued to grow strongly through a combination of organic growth of its discretionary asset management portfolios and brokerage income, as well as selected structural growth initiatives. This included the establishment of a branch in Knysna, stemming from the acquisition of QSAM Asset Management.

In 2004, SP benefited from the listing of the Vukile Property Fund, which resulted in high once-off property management fees, listing and sponsoring fees. Reported 2005 profits of R73 million showed a 45% increase compared to 2004, if the effects of the Vukile listing are excluded. Strong growth at SP was partly achieved through selected investments and property developments during 2005. These included the San Ridge Square joint venture and two residential developments, namely San Ridge Village and Houghton Village. The ventures exceeded all expectations and are progressing on schedule.

Investment cluster income statement – Investment management businesses

R million	**2005**	**2004**	**%∆**
Fee income	**1 320**	918	44
Brokerage	**67**	48	40
Net interest income	**36**	26	38
Net equity-accounting	**2**	—	—
Financial services income	**1 425**	992	44
Administration cost	**(726)**	(573)	(27)
Operating profit before tax	**699**	419	67
Tax and minorities	**(171)**	(118)	(45)
Operating profit	**528**	301	75

Operating profit – summary per operation

R million	**2005**	**2004**	**%∆**
South Africa	**327**	231	42
International	**201**	70	187
	528	301	75

Sanlam Collective Investments (SCI) reported strong growth in sales, especially from its very successful Sanlam Dividend Income Fund and the Sanlam Inflation-linked Fund (an absolute return fund). In addition, SCI continued to expand its white label business to leverage its operational capabilities and to enhance efficiencies. SCI also benefited from increased equity valuations and reported a 58% increase in profits for 2005.

SMMI continued to make progress on the level of co-operation between the London and Cape Town offices. The business reported strong sales, especially in its expanded SA fund range. SAMI in conjunction with the SMMI London office focused on integrating the recently secured Merchant Investors Assurance mandates onto its platform.

During 2004, a need was identified to establish a long-only asset management capability for international funds. This business was designed to be supplementary to our multi-management proposition and operate as a niche operation. Kokkie Kooyman accepted the challenge to start the business and SIM Global was established. The business model is based on a small team, with a flat organisational structure and strong performance ethic. While leveraging from the existing Investment cluster infrastructure, it will, crucially, maintain its own unique team culture. In its first full year in operation, SIM Global exceeded all expectations, ending the year with R2 billion of assets under management.

Octane, our international hedge fund-of-funds, continued with very strong asset inflows and investment out-performance.

Prospects

We are of the opinion that investment markets in 2006 will continue to present both challenges and opportunities. Underpinning growth in equity markets during 2006 are strong earnings growth prospects equating to about 11% in the USA and between 15% and 20% in South Africa. Current market valuations seem reasonable and relative to bonds, equity markets are offering good value.

Interest rates are likely to remain flat through 2006. Although we expect consumer spending to taper off slightly, it should continue at a healthy level, thus supporting company profits. The commodity cycle remains strong, supported by a strong global economy. This is also supportive of equity markets.

A major concern is an oil price that remains high and eventually impacts on growth prospects and feeds through into higher inflation. This would be negative for both bond and equity markets.

Our principal strategic focus in the near future is to deliver consistent improvement in medium and long-term investment performance and build further on the previous year's business successes, in line with our vision to create South Africa's leading investment management business.

We aim to fulfil our strategy through:

- Continued investment in training and development of staff, fostering a learning culture;
- Meeting and exceeding the requirements of the FSC;
- Enhancing the cluster's international investment proposition, in particular emerging markets; and
- Investing further in the enhancement of the brand among targeted audiences and stakeholders.

Sanlam Capital Markets

Sanlam Capital Markets (SCM) is a wholly owned subsidiary of Sanlam forming part of the Investment cluster. Its major operating areas are:

- ***Market activity:*** Focuses on the core financial product groups, namely equity, fixed interest and cash.
- ***Debt and equity structuring:*** Provides structured investment products, debt origination, structuring and funding, equity trading, underwriting and broking.

Income statement – Sanlam Capital Markets

R million	***2005***	***2004***
Revenue	**331**	225
Expenses	**(180)**	(139)
Profit before tax	**151**	86
Tax	**(25)**	(7)
Profit after tax	**126**	79
Return on equity (on allocated capital of R400 million)	**31,5%**	19,8%
Cost to revenue ratio	**54%**	62%

The operating areas are supported by:

- ***Risk*** – focuses on the identification, quantification and control of the risks assumed in the SCM business, including market risk, credit risk, legal risk and operational risk;
- ***Finance*** – provides management and statutory financial reporting to the stakeholders of SCM and also performs the financial control function; and
- ***Corporate services*** – provides information technology, human resources, marketing and secretarial support to the business.

Nature of business

SCM provides risk management and structured product solutions to the South African savings industry, public sector enterprises and corporates, and engages in associated capital market activities, including proprietary risk-taking. As such, SCM provides Sanlam with a substantial financial engineering capability.

Vision and strategy

SCM's vision is to be an indispensable high-performance financial engineering business.

To this end, three strategic initiatives were established for 2005, namely:

- Further leverage of synergies from the Sanlam group;
- Deepen and broaden client relationships through innovative product development appropriate to the current marketplace; and
- Attract and retain a high-quality, diverse workforce.

These issues were satisfactorily dealt with, and for 2006, the strategic initiatives have been set as:

- Successful integration of SCM into the Investment cluster;
- Further improvement of economic capital usage; and
- Optimising the use of SCM's human capital.

Business environment and operational review

Following the restructuring of Gensec in 2003 and the attendant requirement of significant internal realignment at SCM, positive growth in the equity market during 2005, bolstered by strong economic conditions, provided the stimuli for a positive performance from operations across SCM, as evidenced by a healthy return on equity of 31,5%.

SCM has built a solid foundation for growth on an established business model and excellent trading and risk management systems. Given a continuation of positive market and economic conditions, the prospects for 2006 are good, although the results of 2005 will not necessarily be emulated during the current financial year.

Financial review

Overall revenue for the year was R331 million, with operational expenses of R180 million, resulting in a profit before tax of R151 million. Profit after tax amounted to R126 million, equating to an ROE of 31,5%.

The revenue was split between the major operating divisions as follows:

- ***Debt and Equity Structuring – R157 million***

  The performance of this unit was in line with expectations, driven by positive deal flow from Sanlam Life and external debt structuring and financing opportunities, as well as the carry-on debt book and the return on SCM's capital. The Equity Arbitrage unit also fared well in favourable market conditions.

- ***Market Activity – R174 million***

  This unit delivered a stronger than expected performance due to good deal flow in the derivative structuring areas.

Prospects

Prospects for 2006 are encouraging. As indicated, SCM will continue to leverage opportunities through the Sanlam group, while building on its human intellectual capital base. In view of positive signals for economic growth in 2006, we are optimistic that returns on equity can be sustained at or near our long-term objective of 25%.

Sanlam Investment Management Board of directors and committee memberships

Non-executive directors

Johan van Zyl – Chairman: Human resources and Nominations
Flip Rademeyer – Audit and Risk
Chris Swanepoel

Independent non-executive directors

Attie du Plessis – Audit and Risk
Fran du Plessis – Audit and Risk
David Ladds – Audit and Risk, Human resources and Nominations, and Credit
Rejoice Simelane

Executive directors

Johan van der Merwe
Armien Tyer

Sanlam Investment Cluster

Executive committee

Johan van der Merwe
Chief executive officer
Robert Roux
Chief operating officer
Armien Tyer
Managing director: Sanlam Investment Management
Sanjeev Gupta
Emerging Markets
Hendrik Pfaff
Retail investments
Anet Ahern
Sanlam Multi-Manager International
Tienie van der Mescht
Sanlam Collective Investments
Pieter Kriel
Sanlam Private Equity
Daniël Kriel
Sanlam Private Investments
Blackie Swartz
Sanlam Investment Management, Namibia
Banus van der Walt
Sanlam Properties
Robbie Alexander
Octane Holdings Limited
Deon Gouws
Sanlam Multi-Managers International, London
Johan Redelinghuys
Product development
Thomas van Heerden
Investment operations
Francois Kellerman
Finance
Raymond Schkolne
Human resources
Danie Scholtz
Marketing and communication *(Acting)*

Sanlam Investment Management

Executive committee

Armien Tyer
Managing director
Johan van der Merwe
Chief executive officer: Sanlam Investment cluster
Robert Roux
Chief operating officer
Omri Thomas
Chief investment officer
Steve Mills
Absolute returns
Qarnita Loxton
Legal and compliance
Louise Hindley
Client services
Raymond Schkolne
Human resources
Haydn Franckeiss
Asset liability solutions

Sanlam Capital Markets Board of directors with committee memberships

Non-executive directors

Johan van der Merwe – Chairman: Human resources
Anton Botha – Human resources
Chris Swanepoel – Credit and Risk
David Ladds – Audit, Credit and Risk and Human resources
Eugene van As
Flip Rademeyer – Human resources
Kobus Moller – Audit
Peter Cook – Audit, Credit and Risk

Executive directors

Mark Murning – Credit and Risk
Anthony Gouveia – Risk

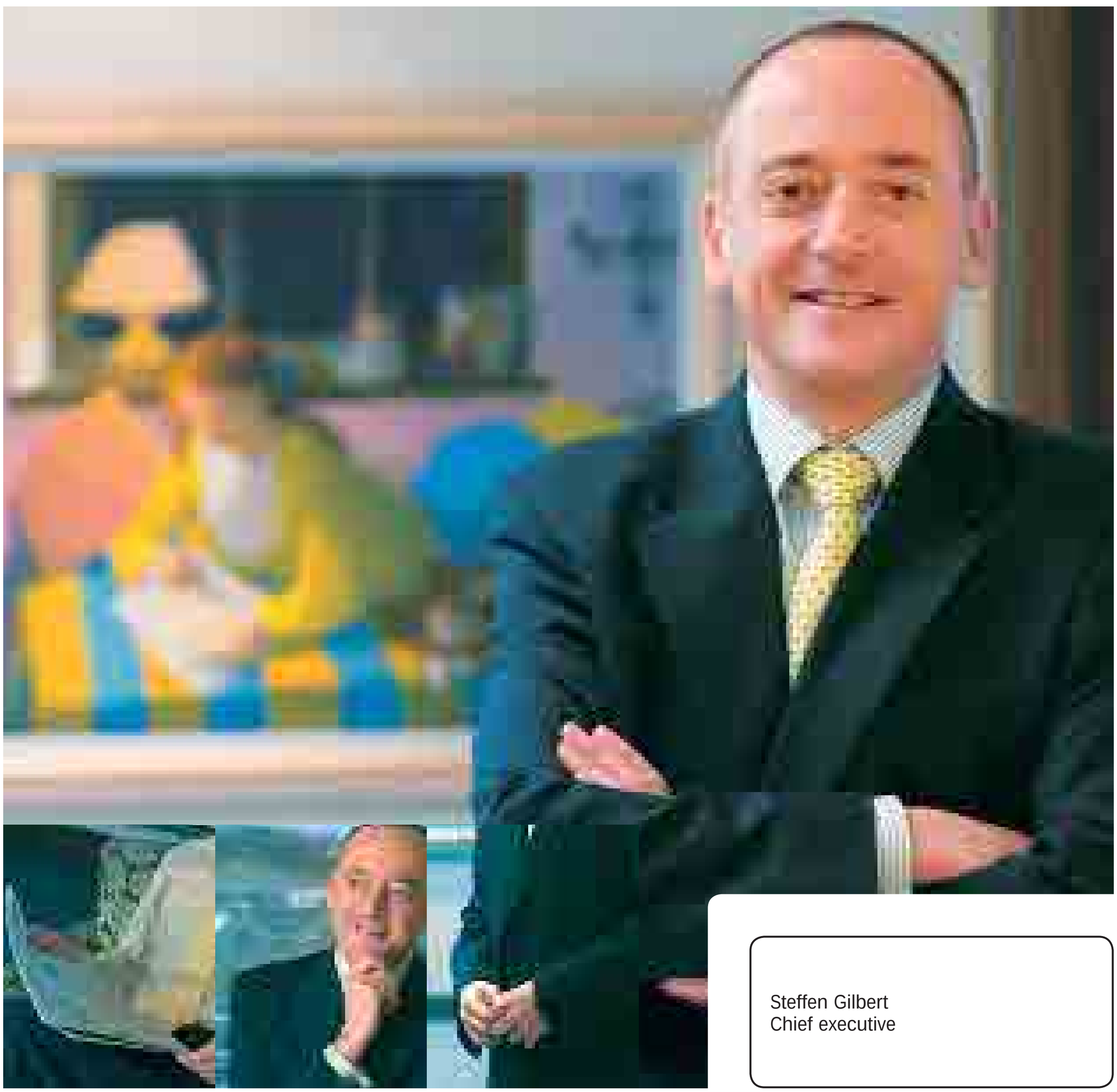
Sanlam Capital Markets

Executive committee

Mark Murning
Chief executive
Anthony Gouveia
Finance
Francois Oosthuizen
Risk
Robert McJannet
Debt unit
Sabir Munshi
Corporate services
Gerhard Erasmus
Equity structuring
Thomas Reilly
Market activity

A very successful year

"Santam set profitable growth of market share across all segments as a target in 2005. The Group exceeded expectations during the year by achieving 17% growth in gross written premium."



Steffen Gilbert
Chief executive

Business lines: Contribution to gross written premiums

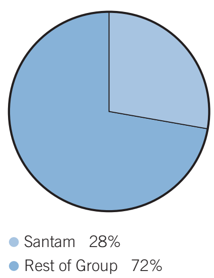
Insurance classes	% contribution to gross written premium
Motor	41
Property	31
Alternative risk	9
Liability	6
Engineering	4
Accident and health	3
Transportation	2
Crop	2
Miscellaneous	1
Guarantee	1

All insurance classes were profitable for the 2005 financial year.

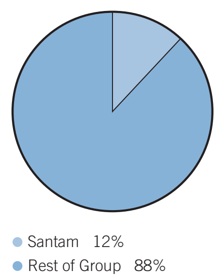
Salient features

- Return on shareholders' funds of 34%
- Net written premium increased by 21%
- R2,4 billion cash generated by operations
- Special dividend of 650 cents per share
- Normal dividend growth of 15,5%

Contribution to result from financial services before tax



Contribution to new business inflows



Key results

R million	2005	2004	%∆
Gross written premium	11 355	9 735	17
Underwriting result	775	1 125	(31)
Investment return on insurance funds	241	203	19
Net insurance result	1 016	1 361	(25)
Net profit before tax	2 321	2 382	(3)
Profit for the year	1 801	1 778	1

Nature of business and strategic focus

Santam Limited has the majority share of the short-term insurance market in South Africa, with a market share nearing 30%. The company offers personal, commercial and corporate insurance solutions, and insures most of the top 100 companies listed on the JSE Limited.

The company's strategic focus is to be recognised as the best in everything it chooses to do. In order to be able to achieve this goal, six strategic thrusts have been identified to take the company to 2010 and beyond. The thrusts are: market expansion, exploiting technology, developing distribution channels, igniting human capital, increasing efficiency and focusing on clients. The ultimate outcomes of this focus are satisfied shareholders, delighted clients, efficient processes and a motivated and prepared workforce.

In striving to be the best, Santam received several prestigious industry awards in 2005. The company first made a clean sweep of the South African Financial Services Intermediaries Association (SAFSIA) awards by being named Personal, Commercial and Corporate Insurer of the Year.

Secondly, it was also named as the highest ranked financial services provider in the *Financial Mail's* Top Listed Companies Review 2005 – the only insurer to make the list. Santam was ranked 14th on the exclusive list of the 20 top companies in South Africa that are considered the "bluest of the blue chips".

Thirdly, Santam was ranked as the best insurance company in South Africa in both the commercial and personal lines categories in a recent study by PricewaterhouseCoopers, one of the world's most respected accounting and audit services firms.

Business environment and operational review

If the next soft market is not already here, the hard market is certainly coming to a close. In 2004, the underwriting cycle reached its peak and 2005 started to witness a reduction in underwriting margins in the first half of the year. As the market softens, short-term insurers will revert to increased competition for market share. Moving forward in the reign of lower profits, insurers should adhere to disciplined underwriting and cost-based pricing, otherwise they will sow seeds of their own destruction.

In pursuit of market share, new entrants in the short-term insurance industry are likely to give the big players a good run for their slice of the pie. However, strong brands with established distribution infrastructure will play a decisive role in the outcome.

The retail sector, motor trade industry and the property market have benefited from the spending power and patterns of black consumers. The past decade was highlighted by increased growth rates in the disposable income of black consumers. As this change is continuing, the challenge facing the short-term insurance industry is to adequately respond to these changes and determine how best to access this market. This challenge is compounded by legislative issues that enforce compliance with service to the lower end of the market, which is predominantly black.

Opportunities do not come in neon colours. Taking the road less travelled requires thorough research, appropriately focused resources and persistence. The emerging market is characterised by sub-segments with varying priority insurance needs. By studying the various segments carefully, marketers will be able to identify and pursue opportunities presented by this fast-growing market.

Technological advances have facilitated the way in which sellers do business with their customers – both rich and poor. It is therefore imperative that insurers continue investing in technology that will have a positive effect in establishing and maintaining strong relationships between potential policyholders and themselves.

Heat waves, droughts, floods, hurricanes and tornadoes are occurring across the world at frequencies and intensities unprecedented in recorded history. South Africa is certainly not insusceptible to the effects of global warming. Primary insurers are likely to see an increase in the number of weather-related claims. The continued climatic changes will certainly impact reinsurance rates and capacity.

Financial review

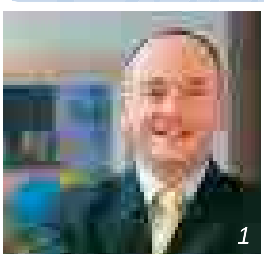
Santam concluded a very successful year in which it generated a 34% return on shareholders' funds (2004: 37%). This was predominantly due to excellent investment income on the back of firmer equity markets, as well as a strong underwriting performance, although the latter has normalised somewhat compared to the high levels achieved in 2004. Headline earnings for the year were on par with those of the previous year at R1,78 billion, equating to headline earnings per share of 1 540 cents against the 1 548 cents for 2004.

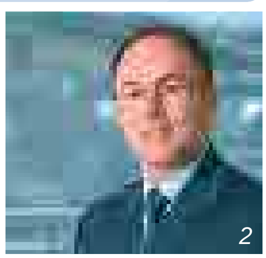
Profitable growth of market share across all segments was set as a target in 2005. The Group exceeded expectations during the year by achieving 17% growth in gross written premium. On the local front, there was growth across most classes of business. New entrants to the crop-insurance market, together with lower levels of insurance due to climatic conditions and lower crop prices,

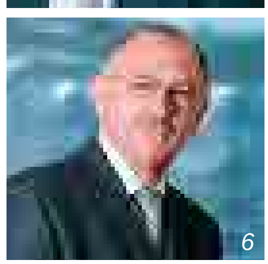
Santam

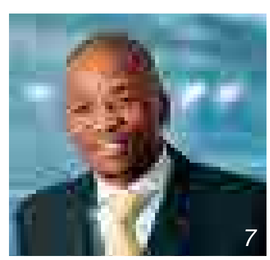
Executive management

1. **Steffen Gilbert** – Chief executive
2. **Edward Gibbens** – Broker distribution
3. **Hendri Nigrini** – Risk services
4. **Pankaj Ranchod** – Insurance services
5. **Machiel Reyneke** – Corporate services
6. **Koos van Tonder** – Santam international
7. **Mpuni Tyikwe** – Corporate, specialist and alternative distribution









hampered growth in that particular area. At Group level, growth in net written premium was even higher at 21%, as the benefits of the refinement of Santam's reinsurance programme continued to have an effect. International premiums rose by 38% with the commencement of the Santam Europe business, while Westminster Motor Insurance Association achieved growth of 24% in GBP terms.

With the normalisation of the short-term insurance environment in South Africa, the company experienced a sharp increase in claims in the personal and commercial lines of business, which placed underwriting margins under pressure. The Group's net claims ratio increased year-on-year by 8,2 percentage points to 65,3%, mainly due to increased motor vehicle accidents, adverse weather conditions, and a sharp increase in fire-related incidents that adversely affected the motor, property and personal lines insurance classes. On the other hand, specialist-underwriting classes experienced more favourable claims ratios. Continued initiatives to improve efficiencies and the increased level of activity contributed towards the reduction in the net acquisition cost ratio from 28,2% to 26%.

In line with the company's ongoing strategy of optimising the retention of more business at an acceptable risk profile, the level of reinsurance premiums declined to 17,7% of gross written premiums against the 20,7% of 2004. If the accounting changes that affected the reporting of insurance cell business are excluded, the 2005 ratio decreases to 14,2% against 18,9% for 2004. The better reinsurance result achieved in 2005 is testimony to the success achieved with this optimising strategy.

On the international front, Westminster Motor Insurance Association remains profitable, but experienced increased competition in its market sector from new entrants, which put pricing under pressure and eroded margins. Santam Europe commenced business at the end of 2004. Although business volumes have increased steadily since then, these are still below expectations due to the slower-than-expected uptake at Bluesure. Santam's participation in the Beazley Syndicate yielded very favourable results that exceeded expectations.

The combined effect of all insurance activities resulted in a net insurance margin of 11,5% against the exceptional 17,3% of 2004.

Investment returns on insurance funds exceeded those of the previous year by 19% due to a 28% higher average float level (funds generated by insurance activities). This was primarily attributable to a continued focus on cash and working capital management and the impact of the refinements made to the reinsurance programme. This, together with the experienced profitability, resulted in a 12,9% year-on-year increase in cash generated from operations to R2,4 billion.

Benefiting significantly from the bullish performance of local equities, Santam increased total investment-related income (excluding the investment return on insurance funds) by 17% year-on-year. What makes this achievement even more noteworthy is the fact that Santam reduced its capital base by returning R1,15 billion to shareholders during April 2005. Earnings from associated companies were also significantly higher than the comparable period, mainly due to the very good results of Credit Guarantee Insurance Corporation of Africa Limited. Santam's alternative risk finance business is the only empowered business of this nature in South Africa, following the acquisition of the Nova group and the subsequent disposal of a third of Santam's risk finance business to Kagiso Trust.

The Group ended the year with a healthy solvency level of 61%. After the return of R1,15 billion of surplus capital to shareholders in April 2005, the solvency level decreased to 53%, compared to 70% at the end of 2004. Similarly, the net asset value per share increased from 4 706 cents to 4 927 cents during the year despite the capital reduction of 1 000 cents per share. As the current solvency margin is in excess of the optimal risk-adjusted capital requirements, the board approved a special dividend of 650 cents per share. This will be paid simultaneously with the final dividend for the year.

Prospects

It is anticipated that underwriting margins will continue to come under pressure due to the softer market, keener pricing and continued normalisation of claims.

In 2006, Santam will continue to concentrate on growing its market share without compromising sustainable profitability and will focus on its objective, which is "to be recognised as the best in everything we choose to do".

The international businesses will remain focused on achieving sufficient growth to ensure that operations yield profitable results and the required return on invested capital. It is expected that Westminster Motor Insurance Association will continue to do well, while Santam Europe should break even.

Anticipated low interest rates in 2006 will continue to dampen returns on cash-related investments. Assuming that equity markets continue to perform well on the strength of a strong economy and relatively low inflation, a reasonable performance is expected in the year ahead. However, it is unlikely that the performance of the past two years will be repeated.

Santam

Board of directors

Non-executive directors

Desmond Smith – Chairman
Jurie Geldenhuys
Jannie le Roux
Namane Magau
Alwyn Martin
Ebrahim Moolla
John Newbury
Flip Rademeyer
George Rudman
Johan van Zyl
Peter Vundla

Executive directors

Steffen Gilbert
Machiel Reyneke

Optimising business flows in the Group

“The IFS portfolio of investments achieved a 15% return on market value in 2005 compared to a 5% negative return in 2004. In addition, it was able to improve business flows to Sanlam product providers.”

Nick Christodoulou
Chief executive

Shareholding structure

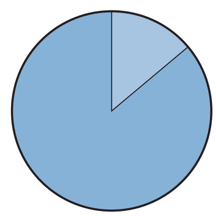
The portfolio of investments consisted of the following as at 31 December 2005:

	Ownership	Nature of business
Sanlam Financial Services	61%	UK-based financial services advisory group
Gensec Property Services	35%	Property management services
Simeka Employee Benefit Holdings	35%	Consultants and Actuaries
Thebe Community Financial Services	30%	Financial services group focusing on emerging market
Intrinsic	32%	UK-based multi-tied financial intermediary
Bull and Bear	30%	Financial intermediary in high net worth market
Break-thru Financial Services	40%	Joint venture with union in Employee benefit market

Salient features

- 15% return on market value
- Acquisition of interests in TCFS and Intrinsic
- New business inflows of R10,6 billion

Contribution to new business inflows



Result from operations

R million	2005	2004
Sanlam Financial Services UK	28	41
Gensec Property Services[1]	6	9
Sanlam Consultants and Actuaries[2]	3	6
Simeka Consultants and Actuaries[3]	(1)	0
Thebe Community Financial Services	2	0
Cluster overheads	(6)	(6)
Total cluster result from operations before tax	32	50
Included in Sanlam Life	—	(6)
Total cluster result from operations as per income statement	32	44

[1]*Consolidated for the first six months in 2004 and equity accounted for the last six months of 2004 and the full year of 2005 at 35%.*

[2]*Consolidated profit for 2004 and first six months of 2005. Sold to Simeka with effect from 1 July 2005.*

[3]*Equity-accounted for last quarter of 2004 and the full year of 2005.*

Nature of business

The focus of the Independent Financial Services (IFS) cluster is to manage the above portfolio of Sanlam investments, generating increased long-term shareholder value while optimising business flows to the Sanlam group.

IFS invests in businesses that attract strong customer loyalty, with well-defined customer bases, are generally non-Sanlam branded and have appropriate black economic empowerment credentials.

While the investment by IFS creates the framework and access to distribution entities, the Sanlam core product providers unlock the opportunities by ensuring that their products are market competitive in terms of pricing, investment performance and service levels, and that the necessary relationship with the decision-makers are in place.

Year under review

The return on market value, taking into account structural activity during the year, as well as market-related risk adjustments, that the IFS portfolio of investments achieved a 15% return on market value compared to a 5% loss in 2004. The improvement relates primarily to the improved valuation of Sanlam Financial Services UK Limited, the growth in Thebe Community Financial Services, as well as the sale of Sanlam Consultants and Actuaries.

IFS acquired a 30% interest in Thebe Community Financial Services and 32% of Intrinsic during the year, while increasing its investment in Simeka Employee Benefit Holdings. The latter acquisition facilitated the purchase of Sanlam Consultants and Actuaries by Simeka.

Having not met our investment objectives, both Octogen and Green Capital were exited during the year.

Business flows to Sanlam group

R million	***2005***	***2004***
Individual life		
Recurring premiums	**26**	13
Single premiums	**105**	60
Value of trusts	**450**	275
Short-term insurance	**12**	5
Employee benefits		
Risk premiums	**602**	635
Investment premiums	**880**	967
International		
Net inflows	**8 868**	5 683
Assets under management	**19 765**	8 436

IFS delivered an operating profit before tax of R32 million in 2005 compared to R44 million in 2004, attributed to lower profits reported in Sanlam Financial Services and changes in reporting due to the reduction of ownership by Sanlam in various entities.

Review of investments

Sanlam Financial Services (SFS)

During the year under review, IFS strategically decided to reduce its stake in SFS, in view of the fact that it was no longer prudent to maintain a controlling position in a company with limited business flows to the Sanlam group. The sale also provided a means to incentivise the new generation of management with equity in the business with the intention of improving shareholder value into the future.

Sanlam's shareholding in SFS was reduced to 45% from 61% shortly after year-end, with further market-related instruments in place aimed at ultimately reducing this holding to 25%. The benefit to Sanlam from the first phase was the return of R156 million of capital to Sanlam and a profit on the sale of the investment in the order of R90 million.

Liezl Myburgh
Operations and finance

While earnings were flat in the actuarial consulting business, an overall improvement in SFS volumes translated into profitability. This was led by the investment consulting and management unit, which had a good year in terms of inflow of new assets under management, which grew to R19,8 billion from R8,4 billion in 2004.

The independent financial intermediary business, restructured during the year to optimise its fixed cost base, also had a positive year in spite of a difficult environment, while the stockbroking business outperformed expectations.

Sanlam

The overall decline in operating profit before tax and minorities from R44 million in 2004 to R32 million in 2005 related primarily to once-off costs of R9 million to implement the above transaction and share scheme and share option costs of R12 million.

Gensec Property Services (GPS)

In its first full year with Sanlam as a minority shareholder, GPS reported excellent results with operating profit before tax and minorities increasing from R12 million in 2004 to R17 million in 2005, as a result of a focus on aggressively acquiring new contracts (and simultaneously reducing the reliance on Sanlam) and increasing the occupancy in the buildings they were already servicing.

Sanlam Consultants and Actuaries (SCA)

The strategic focus for SCA in 2005 was to find a suitable black partner to form an independent, black-empowered actuarial and consulting business that could effectively compete in the employee benefits market. The intention was also that IFS take a minority shareholding in the new business, in support of the sizeble book of Sanlam business that was serviced by this distribution entity, previously part of Sanlam Employee Benefits. SCA was accordingly sold to Simeka with effect from 1 July 2005.

Simeka Consultants and Actuaries (Simeka)

Poor results from the healthcare business acquired in 2004, high integration costs and the amortisation of client contracts following the acquisition of SCA, resulted in Simeka having a disappointing year, reporting a loss before tax of R1 million. Nevertheless, following the disposal of the healthcare business, our outlook on operating profit before amortisation of intangible assets remains positive in light of new revenue streams based on cross-selling opportunities for individual life products, an implemented investment consulting offering to medium and large retirement funds, and the company's ability to now compete on an equal footing with the other big players in the employee benefits market.

Thebe Community Financial Services (TCFS)

TCFS is constituted by four subsidiaries that provide financial services and products focused on the lower income market. Thebe Distribution Services (TDS) seeks to find innovative and more cost-effective ways of distribution and services delivery that extends reach to communities through the use of technology, trade union networks, community retail networks and any other avenues that take financial services closer to the people. Its offerings are designed to address real-life financial services problems of clients in its chosen market and include financial literacy. Thebe Employee Benefits (TEB) is currently strategically positioned to administer funeral plans and credit life policies on behalf of underwriters. Creditworx performs high volume, low value debt management and collections functions on behalf of retailers, the public sector and banks. EMID is a provider of a banking system and is being positioned to serve as the gateway to banking for local and overseas banks entering the market, who cannot afford to or do not wish to set up their own account hosting, clearing and settlement functions.

Pursuant to the acquisition by TCFS of the minority shareholding in Creditworx during the year, the value of the IFS investment has increased to R35 million from R23 million in one year. The strategic focus of this financial services group for the emerging market is to use the cash generated by Creditworx to enhance the distribution of funeral and risk products and to develop a debit card with ancillary financial products.

Intrinsic

IFS acquired a stake in this multi-tied intermediary distribution company in the UK during 2005. We share the view of co-shareholders Halifax Bank of Scotland and Friends Provident that this company has excellent prospects for growth. This investment will provide an additional distribution channel for all our UK service providers.

Bull and Bear Financial Services

The Bull and Bear Financial Services Group has successfully built a short-term insurance broking business as part of a strategy to replace expected loss of revenue due to changes in commission structures. Operating in a high net worth market, the company has achieved a R12 million annualised short-term premium book, of which 90% is placed with Santam, in less than 18 months. The conversion rate of business proposals to its existing life and investment customer base is close to 100%, with the penetration only being 20% at this stage. The focus for 2006 is on growth and improving profitability.

Break-thru Financial Services (BFS)

BFS is a joint venture between Sanlam and Basebenzi, the investment arm of the Food and Allied Workers Union. The potential opportunities of BFS Employee Benefits did not materialise during the year under review. IFS is evaluating a strategic fit between BFS and Simeka.

Strategic focus for 2006

IFS is looking ahead to a challenging year in which it will seek to investigate models to significantly improve business flows to the retail product providers in the Group, to respond to further international distribution opportunities and to address obstacles that inhibit business flows to the Sanlam group. In addition, IFS has assumed the management of the Employee Benefits administration business, and is investigating opportunities to position it as an independent retirement fund administration business, structured for growth of members under administration and positive returns to shareholders.

Sanlam Limited Group Annual Financial Statements

Contents

Directors' Responsibility for Financial Reporting

The board of Sanlam Limited takes responsibility for the integrity, objectivity and reliability of the group and company financial statements of Sanlam Limited in accordance with International Financial Reporting Standards. Adequate accounting records have been maintained. The board endorses the principal of transparency in financial reporting. The responsibility for the preparation and presentation of the financial statements has been delegated to management.

The responsibility of the external auditors, Ernst & Young and PricewaterhouseCoopers Inc, is to express an independent opinion on the fair presentation of the financial statements based on their audit of Sanlam Limited and its subsidiaries.

The audit committees have confirmed that effective systems of internal control and risk management are being maintained. There were no material breakdowns in the functioning of the internal financial control systems during the year. The board is satisfied that the financial statements fairly present the financial position, the results of operations and cash flows in accordance with International Financial Reporting Standards and supported by reasonable and prudent judgements consistently applied.

The board of Sanlam Limited takes responsibility for the integrity, objectivity and reliability of the Report on the Sanlam Group Embedded Value. The responsibility for the preparation and presentation of the Report on the Sanlam Group Embedded Value has been delegated to management.

The responsibility of the appointed external auditors, Ernst & Young, is to express an independent opinion on the fair presentation of the Report on the Sanlam Group Embedded Value.

The board is of the opinion that Sanlam Limited is financially sound and operates as a going concern. The financial statements have accordingly been prepared on this basis.

The financial statements on pages 154 to 261 and the Report on the Sanlam Group Embedded Value on pages 264 to 273 were approved by the board and signed on its behalf by:

Roy Andersen
Chairman

Johan van Zyl
Group Chief Executive

8 March 2006

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 2005, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

Johan Bester
Company Secretary

8 March 2006

Report of the Chief Actuary of Sanlam Limited

Statutory Valuation

The following major life insurance companies have been consolidated in the Sanlam Limited group financial statements set out on pages 154 to 261:

- Sanlam Life Insurance Limited;
- African Life Assurance Company Limited;
- Merchant Investors Assurance Company Limited;
- Sanlam Life Namibia Limited;
- Botswana Life Insurance Limited; and
- Botswana Insurance Fund Management Limited.

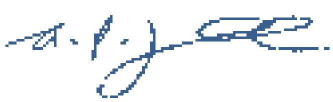
In respect of each of the above companies I have obtained confirmation from the appointed Statutory Actuary that:

- The valuation of the company as at 31 December 2005 has been performed on the bases as set out on pages 167 to 171, as applicable. The valuation has been prepared and the results are presented in accordance with the applicable actuarial and statutory guidelines;
- The company was financially sound on the statutory basis as at the valuation date, and in the opinion of the Statutory Actuary is likely to remain financially sound for the foreseeable future; and
- The management actions assumed for the calculation of the capital adequacy requirements have been approved by the board of directors of the company and the Statutory Actuary expects that these actions would be taken if the corresponding risks were to materialise.

Salient information extracted from the above companies' financial statements is presented on pages 232 to 236.

Embedded Value

The Sanlam group embedded value and the value of new life insurance business have been calculated and presented in accordance with the applicable guidelines (Professional Guidance Note 107) of the Actuarial Society of South Africa.



André Zeeman FIA, FASSA

Chief Actuary

Sanlam Limited

8 March 2006

Report of the Independent Auditors

To the members of Sanlam Limited

We have audited the annual financial statements and the group annual financial statements of Sanlam Limited for the year ended 31 December 2005 as set out on pages 154 to 261. These financial statements are the responsibility of the directors of Sanlam Limited. It is our responsibility to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and Group at 31 December 2005 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

Ernst & Young PricewaterhouseCoopers Inc.

Ernst & Young ***PricewaterhouseCoopers Inc.***

Chartered Accountants (SA)
Registered accountants and auditors

Cape Town
8 March 2006

Sanlam

Directors' Report

for the year ended 31 December 2005

Nature of business

The Sanlam group is one of the largest established financial services groups in South Africa. Its core activities are set out elsewhere in the annual report.

Sanlam Limited is a public company incorporated in terms of the Companies Act, No. 61 of 1973, as amended, in South Africa and listed on the JSE Limited and the Namibian Stock Exchange.

Corporate governance

The board of Sanlam endorses the Code of Corporate Practice and Conduct recommended in the King II Report on Corporate Governance. Disclosures with regard to compliance with the code are provided in the Corporate Governance Report.

Group results

Headline earnings increased from R2 963 million (115,3 cents per share) in 2004 to R5 813 million (229,8 cents per share) in 2005. Further details regarding the Group's results are included in the Financial Review and the business reviews. The information in the Financial Review and Corporate Governance Report, requiring disclosure in the directors' report in terms of the Companies Act, has been audited.

The holding company's interest in the after tax profit of the Group subsidiaries, summarised per cluster, is set out in the Segmental Income Statement on page 246.

Share capital

The change in the issued share capital of the company during the financial year relates to the capital reduction following a scheme of arrangement in terms of section 311 of the Companies Act. Details of the change are provided in note 11 to the annual financial statements on page 188.

Dividend

The board has declared a dividend of 65 cents per share (2004: 50 cents), payable on 10 May 2006, to shareholders registered on 28 April 2006.

Subsidiaries

Details of the company's principal subsidiaries are set out on page 242.

Directors' interest in contracts

No material contracts involving directors' interests were entered into in the year under review.

Interest of directors and officers in share capital

Details of the shareholding by directors at the date of this report are provided in the Corporate Governance Report elsewhere in the annual report.

Directors and secretary

Particulars of the directors and company secretary at the date of this report, as well as changes in directorships, are set out elsewhere in the annual report.

Post-balance sheet events

No material facts or circumstances have arisen between the dates of the balance sheet and this report which affect the financial position of the Sanlam Limited group as reflected in these financial statements.

Basis of presentation

The consolidated financial statements are prepared on the historical cost basis, as modified by the revaluation of investment properties, investment instruments, derivative assets and liabilities and long-term policy liabilities, in accordance with International Financial Reporting Standards (IFRS) and the Companies Act, No. 61 of 1973, as amended, in South Africa. The financial statements are presented in South African rand rounded to the nearest million, unless otherwise stated.

Being a first-time adopter of IFRS for the 2005 financial year, the Group's date of transition to IFRS is 1 January 2004. The Group's opening balance sheet on 1 January 2004 and comparative information for 2004 have been restated to comply with all IFRS effective as at 31 December 2005. The transitional provisions applied by the Group in terms of IFRS 1 *First-time Adoption of International Financial Reporting Standards* and the impact of the restatements on reported earnings and equity is analysed on pages 224 to 231.

The following section provides additional information in respect of the presentation of selected items in the Group financial statements on pages 172 to 231 and the segmental information on pages 243 to 261.

Group financial statements

Insurance contracts

The Group has elected to disclose only five years of claims experience in its claims development tables as permitted in the first year in which it adopts IFRS 4 *Insurance Contracts*. The disclosure will be extended for an additional year in each succeeding year until the full disclosure requirements have been satisfied.

Use of estimates, assumptions and judgements

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates and assumptions affect the reported amounts of assets, liabilities and contingent liabilities at the balance sheet date as well as affecting the reported income and expenses for the year. Although estimates are based on management's best knowledge and judgement of current facts as at the balance sheet date, the actual outcome may differ from these estimates, possibly significantly. For further information on critical estimates and judgements, refer to note 39.

Policyholders' and shareholders' activities

The assets, liabilities and activities of the policyholders and shareholders in respect of the life insurance business 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 demutualisation proposal. The valuation bases in respect of policy liabilities and the profit entitlement of shareholders are set out on pages 167 to 171.

The Group financial statements set out on pages 172 to 231 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 243 to 261. The Statement of Actuarial Values of Assets and Liabilities of the major life insurance businesses of the Group are disclosed on pages 232 to 236.

Cash, deposits and similar securities

Cash, deposits and similar securities include bank account balances, call, term and negotiable deposits, promissory notes and money market collective investment schemes. A distinction is made between cash, deposits and similar securities included in the asset mix of policyholders' and discretionary shareholders' fund investment portfolios, which are disclosed as investments in the Group balance sheet, and working capital balances that are disclosed as working capital assets.

Cash flow statement

The Group cash flow statement includes the activities of both shareholders and policyholders. Cash flows relating to the acquisition or disposal of investments are recognised as cash flow from investing activities.

Early adoption of standards

The following new or revised IFRS have been issued with effective dates applicable to future financial statements of the Group:

- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Amendment to International Accounting Standard 1 Presentation of Financial Statements: Capital Disclosures*

- IAS 19 *Amendment to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures*
- IAS 21 *Amendment to International Accounting Standard 21 – The Effects of Changes in Foreign Exchange Rates: Net Investment in a Foreign Operation*
- IAS 39 *Amendments to IAS 39 Financial Instruments: Recognition and Measurement Cash Flow Hedge Accounting of Forecast Intragroup Transactions*
- IAS 39 *Amendments to IAS 39 Financial Instruments: Recognition and Measurement: The Fair Value Option*
- IAS 39 *Amendments to International Financial Reporting Standards IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts Financial Guarantee Contracts*
- IFRIC Interpretation 4: *Determining whether an arrangement contains a lease*
- IFRIC Interpretation 8: *Scope of IFRS 2*

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

Segmental information

Segmental reporting

The Group income statement includes the consolidated results of both shareholder and certain policyholder activities. It does not distinguish between the shareholders' financial services and investment activities, which are separate areas of management focus and an important distinction in evaluating the Sanlam group's financial performance. The additional segmental information on pages 243 to 261 provides a segmental analysis of the Group income statement and balance sheet. Reconciliations between the Group and segmental income statements and balance sheets are presented on pages 260 to 261.

The Group is organised into a number of business clusters for management purposes, based on the financial services activities of these businesses. The financial position and performance of these business clusters are shown separately in the primary segmental income statement and balance sheet, as they are subject to different risks and returns. The segments are life insurance, investment management, capital market activity, short-term insurance, independent financial services and corporate activities. The life insurance cluster includes Sanlam Personal Finance (including Merchant Investors Assurance), Sanlam Employee Benefits and African Life Assurance. The premiums in respect of the majority of individual underwriting business can be rerated. The individual and employee benefits products are therefore subject to similar risks and are accordingly not disclosed as separate segments.

The secondary segmental information provides an analysis per geographical area. The geographical segments are identified as segments that are subject to risks and returns that differ from those of segments operating in other economic environments.

The decentralised nature of the clusters facilitates the allocation of costs between them, as the costs are directly attributable to the different clusters. Inter-segment transfers are based on arm's length prices.

Funds received from clients

Funds received from clients include single and recurring long- and short-term insurance premium income from insurance and investment policy contracts, which are included in the financial statements. It also includes contributions to collective investment schemes, inflows of assets managed and administered on behalf of clients and non-life insurance linked-product contributions, which are not otherwise included in the financial statements as they are funds held on behalf of and at the risk of clients. Transfers between the various types of businesses, other than those transacted at arm's length, are eliminated.

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

New business

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

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

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

Payments to clients

Payments to clients include policy benefits paid in respect of long- and short-term insurance and investment policy contracts, which are included in the financial statements. It also includes withdrawals from collective investment schemes, outflows of assets managed and administered on behalf of clients and non-life insurance linked-product withdrawals, which are not otherwise included in the financial statements as they relate to funds held on behalf of and at the risk of clients. Transfers between the various types of businesses, other than those transacted at arm's length, are eliminated.

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

Core earnings

A Sanlam core earnings figure is presented to provide an indication of 'normalised' earnings. Core earnings comprise the net result from financial services and net investment income earned on the shareholders' fund, and exclude certain items that may cause volatility in headline earnings, including changes in the market value of the investments in the shareholders' fund, transfers to or from the policyholders' fund in respect of the valuation of group companies and exceptional items of income and expense. To ensure consistency in approach, core earnings no longer account for all the equity-accounted earnings of non-operating companies, but only account for dividends received from these associated companies.

Segregated funds

Sanlam also manages and administers assets for the account of and at the risk of clients. As these are not the assets of the Sanlam group, they are not recognised in the Sanlam group balance sheet in terms of IFRS but are disclosed in a note to the segmental information.

Long-term rate of return

Long-term rate of return (LTRR) earnings are presented as an indicator of total earnings, but with investment returns reflecting the expected yield over the longer term rather than short-term fluctuations experienced in actual investment return. The LTRR is determined at the beginning of the year by the directors and is primarily based on the actuarial assumptions, taking into account historical experience and current market conditions having regard to inflation expectations and consensus economic and investment forecasts. The directors have selected this rate with a view to ensuring that investment returns credited to LTRR adjusted headline earnings are consistent with the actual returns expected to be earned over the long term.

The long-term investment return is calculated on a monthly basis on the fair value of the investments held in the shareholders' fund.

Accounting policies

The Sanlam group has identified the accounting policies that are most significant to its business operations and the understanding of its results. These accounting policies are those that involve the most complex or subjective decisions or assessments, and relate to insurance liabilities, deferred acquisition costs, the ascertainment of fair values of financial assets, financial liabilities and derivative financial instruments and the determination of impairment losses. In each case, the determination of these is fundamental to the financial results and position and requires management to make complex judgements based on information and financial data that may change in future periods. Since these involve the use of assumptions and subjective judgements as to future events and are subject to change, the use of different assumptions or data could produce materially different results.

The significant accounting policies adopted in the preparation of the financial statements are set out below and are in accordance with and comply with IFRS. The accounting policies have been applied consistently for all periods presented, unless otherwise indicated.

Basis of consolidation

Subsidiaries and consolidated funds are entities (including special purpose entities) that are controlled by Sanlam Limited or any of its subsidiaries. The Group has control over an entity where it has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether control exists.

The purchase method of accounting is applied to account for acquisitions of subsidiaries. The cost of an acquisition is measured as the fair value of consideration transferred, equity instruments issued and liabilities assumed at the date of exchange. Costs directly attributable to an acquisition are included in the cost of the acquisition. Identifiable assets and liabilities acquired and contingent liabilities assumed are recognised at fair value at acquisition date. The excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets and contingent liabilities represents goodwill and is accounted for in terms of the accounting policy note for goodwill (refer below). If the cost of an acquisition is less than the fair value of the net identifiable assets and contingent liabilities, the difference is recognised in the income statement.

The results of subsidiaries and consolidated funds are included from the effective dates when control is acquired to the effective dates when the Group loses 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.

A financial liability is recognised, and classified as at fair value through profit or loss in terms of IAS 39 *Financial Instruments: Recognition and Measurement*, for the fair value of external investors' interest in consolidated funds where the issued units of the fund are classified as financial liabilities in terms of IFRS. Changes in the fair value of the external investors' liability are recognised in the income statement. In all other instances, the interests of external investors in consolidated funds are not financial liabilities and are recognised as minority shareholders' interest.

The Group offers cell captive facilities to clients. Cells are classified as special purpose entities and are regarded as being controlled by the cell owner. For this reason these cell captive facilities are not consolidated by the Group. In the case of third party cells, the insurer is still the principal to the insurance transaction, although the business is written on behalf of the cell owner. The insurer, however, in substance reinsures this business to the cell as the cell owner remains responsible for the solvency of the cell.

The cell owner's interest liability represents the cell owner's funds withheld by the insurer, similar to an insurance deposit.

Property and equipment

Property and equipment are reflected at their depreciated cost prices less provisions for impairment in value, where appropriate. Depreciation is provided for on a straight-line basis, taking into account the residual value and estimated useful lives of the assets, which vary from two to twenty years. If the expected residual value is equal to or greater than the carrying value, no depreciation is provided for. The residual value and estimated useful lives of the assets are reviewed at each balance sheet date and adjusted as appropriate. Cost prices include costs directly attributable to the acquisition of property and equipment as well as any subsequent expenditure when it is probable that future economic benefits associated with the item will flow to the Group and the expenditure can be measured reliably. All other expenditure is recognised in the income statement when incurred. Property and equipment is included in the net asset value of cash generating units for impairment testing purposes. Property and equipment are derecognised at disposal date or at the date when it is permanently withdrawn from use without the ability to be disposed of. The difference between the carrying amount at the date of derecognition and any disposal proceeds, as applicable, is recognised in the income statement.

Owner-occupied property

Owner-occupied property is property held for use in the supply of services or for administration purposes. These properties are valued at carrying amount less depreciation and provisions for impairment in value, where appropriate. Depreciation is provided for by taking into account the residual value and estimated useful life of the property. If the expected residual value is equal to or greater than the carrying value, no depreciation is provided for. 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. Owner-occupied property is included in the net asset value of cash generating units for impairment testing purposes.

Goodwill

Goodwill may arise on the acquisition of or change in the shareholding ("adjustment") in a subsidiary company or the acquisition of a business. It represents the excess of the cost of an acquisition or adjustment over the Group's share of the fair value of the net identifiable assets of the subsidiary or business at the date of acquisition or adjustment. Goodwill is not amortised. For impairment purposes the carrying amount of goodwill is allocated to cash generating units, reviewed bi-annually for impairment and written down where this is considered necessary. Impairment losses in respect of goodwill are not reversed. Where a number of related businesses are acquired in the same business combination, these businesses are combined for purposes of determining the recoverable amount of the related goodwill. The gain or loss on the disposal of a subsidiary or business includes the carrying amount of goodwill attributable to the entity or business sold.

Goodwill in respect of associates is included in the carrying value of investments in associates.

Value of insurance and investment business acquired

The value of insurance and investment contract business acquired (VOBA) in a business combination is recognised as an intangible asset. VOBA, at initial recognition, is equal to the discounted value, using a risk-adjusted discount rate, of the projected stream of future after-tax profit that is expected to flow from the book of in-force business acquired, after allowing for the cost of capital supporting the business. The valuation is based on the Group's actuarial principles and assumptions in respect of future premium income, investment return, policy benefits, costs, mortality, morbidity and surrenders.

VOBA is amortised on a straight-line basis over the expected life of the client relationships underlying the book of in-force business acquired. VOBA is tested for impairment on a bi-annual basis and written down for impairment where this is considered necessary.

Other intangible assets

No value is attributed to internally developed trademarks or similar rights. Costs incurred on these items are charged to the income statement in the period in which they are incurred.

Costs associated with software development for internal use are capitalised if the software is technically feasible, the Group has the intent and ability to complete the development and use the asset, the asset can be reliably measured and will generate future economic benefits. The cost is amortised to the income statement over the expected useful life of the asset.

Deferred acquisition costs

Incremental costs directly attributable to the acquisition of investment policy contracts are capitalised to a deferred acquisition cost (DAC) asset if they are separately identifiable, can be measured reliably and it is probable that they will be recovered. Deferred acquisition costs are amortised to the income statement over the term of the contracts as the related services are rendered and revenue recognised. The DAC asset is tested for impairment bi-annually and written down when it is not expected to be fully recovered from future fee income.

Long-term reinsurance contracts

Contracts entered into with reinsurers under which the Group is compensated for losses on one or more long-term policy contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as long-term reinsurance contracts. The expected claims and benefits to which the Group is entitled under these contracts are recognised as assets. The Group assesses its long-term reinsurance assets for impairment bi-annually. If there is objective evidence that the reinsurance asset is impaired, the carrying amount is reduced to a recoverable amount, and the impairment loss is recognised in the income statement.

Financial instruments

Financial instruments carried on the balance sheet include cash, deposits and similar securities, term finance liabilities, liabilities in respect of external investors in consolidated funds, investment policy contracts, investments (excluding investment properties, associates and joint ventures), receivables and trade creditors. 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. 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. All financial instruments are designated as at fair value through profit or loss apart from:

- Trading assets and liabilities that are classified as held for trading;
- 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.

Financial instruments at fair value through profit or loss are initially recognised at fair value. Costs directly attributable to the acquisition of financial assets classified as at fair value through profit or loss are recognised in the income statement as investment surpluses. Other financial instruments are recognised at the fair value of the consideration given or received in exchange for the instrument plus transaction costs that are directly attributable to their acquisition. Regular way investment transactions are recognised by using trade date accounting.

Financial instruments classified as at fair value through profit or loss are carried at fair value after initial recognition, with changes in fair value recognised in the income statement as investment surpluses. The particular valuation methods adopted are disclosed in the individual policy statements associated with each item.

Loans and receivables and other financial liabilities are generally carried at amortised cost using the effective interest rate method. The carrying values of all loans and receivables are reviewed for impairment bi-annually.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Investments

Investment properties

Investment properties comprise properties held to earn rental income and/or for capital appreciation. Investment properties that generate income are carried at fair value based on valuations by experienced valuators internally employed by the Sanlam group, less the cumulative straight-line rental adjustment (refer to the accounting policy for investment income). The valuators have appropriate qualifications and extensive experience in property valuations. Fair value is determined by discounting expected future cash flows at appropriate market interest rates. Valuations are carried out on a monthly basis. Investment property under development is valued at cost less provision for impairment in value, where appropriate. Changes in the fair value of investment properties are recognised in the income statement as investment surpluses.

When investment properties become owner-occupied, the Sanlam group reclassifies it to owner-occupied properties at a deemed cost equal to the fair value of the investment properties on the date of reclassification. The deemed cost is depreciated on a straight-line basis at rates calculated to reduce the carrying value of these assets to estimated residual values over their expected useful lives.

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 on the financial and operating policies. The Group has significant influence where it has the ability to participate in the financial and operating policies of an entity without being able to control those policies by virtue of a majority vote.

Investments in associates, other than those held by investment-linked life insurance funds, are initially recognised at cost. The results of these associated companies after initial recognition are accounted for using the equity method of accounting, whereby the Group's share of associates' post-acquisition profit or loss is recognised in the Group income statement and the Group's share of associates' post-acquisition movement in reserves is recognised in reserves, with a corresponding adjustment to the carrying value of investments in associates. Net losses are only recognised to the extent of the net investment in an associate, unless the Group has incurred obligations or made payments on behalf of the associate. Equity-accounted earnings are based on accounting policies uniform to those of the Group. The carrying value of the investment in an associate includes goodwill, net of accumulated impairment losses, and is reviewed bi-annually for impairment and written down where this is considered necessary.

Investments in associates held by investment-linked life insurance funds are treated as investments at fair value and are not equity-accounted.

Investments in associates for which significant influence is intended to be temporary, because the investments are acquired and held exclusively with a view to their subsequent disposal, are accounted for as non-current assets held for sale.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The results of joint ventures, other than those held by investment-linked life insurance funds, have been accounted for using the equity method of accounting, whereby the Group's share of the joint ventures' profit or loss is recognised in the Group income statement and the Group's share of joint ventures' post-acquisition movement in reserves is recognised in reserves, with a corresponding adjustment to the carrying value of investments in joint ventures. The carrying value of the investment in a joint venture is reviewed bi-annually for impairment and written down where this is considered necessary.

Investments in joint ventures held by investment-linked life insurance funds are treated as investments at fair value and are not equity-accounted.

Other investments

Fair values of other investments are determined on the following bases:

- Listed shares and units in unit trusts are valued at the stock exchange and net asset value prices respectively. The value of unlisted shares is determined by the directors using appropriate valuation bases;
- Interest-bearing investments are valued by discounting expected future cash flows at appropriate market interest rates;
- Listed bonds are valued at the stock exchange prices;
- 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; and
- Loans of investment scrip to and from third parties are not treated as sales and purchases.

Financial instruments included in investments are classified as at fair value through profit or loss in terms of IAS 39 *Financial Instruments: Recognition and Measurement* and are reflected at fair value, with the exception of certain classes of interest-bearing investments that are loans and receivables and consequently valued on an amortised cost basis.

Other financial assets and liabilities

Term finance liabilities and trade and other payables are carried at amortised cost. Trade and other receivables are carried at settlement value less provision for impairment.

Financial liabilities classified as at fair value through profit or loss are carried at fair value. The fair value of investment contract liabilities is determined on the bases as disclosed in the section on Policy Liabilities and Profit Entitlement. Liabilities in respect of external investors in consolidated funds are valued at the attributable net asset value of the respective funds.

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 marked-to-market. The Group does not separate embedded derivatives that meet the definition of an insurance contract or relate to investment contracts recognised at fair value. Fair values are obtained from quoted market prices. In the absence of quoted market prices the Group uses valuation techniques that incorporate all factors that market participants would consider in setting the price and are consistent with accepted economic methodologies for pricing derivatives such as discounted cash flow models and option pricing models, as appropriate. The Group calibrates its valuation techniques against market transactions or any available observable market data. Gains or losses on derivatives measured using these valuation techniques are recognised only 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).

Trading transactions undertaken by Sanlam Capital Markets include transactions undertaken for market making, to service customer needs and for proprietary purposes, as well as any related hedging transactions. These transactions are marked-to-market (fair values) after initial recognition and any profits or losses arising are recognised in the income statement as trading profits or losses. The fair values related to such contracts and commitments are reported on a gross basis in the balance sheet as positive and negative replacement values to the extent that set-off is not required by IAS 32 *Financial Instruments: Disclosure and Presentation*.

Non-trading transactions are those which are held for 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. Derivative financial instruments used for these purposes are marked-to-market and any gains or losses are recognised in the income statement as investment surpluses. The fair values related to these contracts are included in equities and similar securities. The IAS 39 *Financial Instruments: Recognition and Measurement* hedge accounting treatment is not applied and non-trading instruments are therefore classified as held for trading in the balance sheet.

Trading account and money market assets and liabilities

Trading account and money market assets and liabilities include financial instruments similar to those described in the accounting policy note for other investments and are reflected at fair value, which is determined on the bases set out above for other investments. As these instruments are categorised as held for trading by Sanlam Capital Markets, the investment surpluses are taken to the income statement and form part of the financial services income of the Group.

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 provisions

Outstanding claims

Liabilities for outstanding claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions). The Group does not discount its liabilities for unpaid claims.

Unearned premiums

Short-term insurance premiums are recognised as financial services income proportionally over the period of coverage. The portion of premiums received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as an unearned premium liability.

Short-term insurance technical assets

The benefits to which the Group is entitled under its short-term reinsurance contracts are recognised as short-term insurance technical assets. These assets represent longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

In certain cases a reinsurance contract is entered into retrospectively to reinsure a notified claim under the Group's property insurance contracts. Where the premium due to the reinsurer differs from the liability established by the Group for the related claim, the difference is amortised over the estimated remaining settlement period.

Commissions and other incremental acquisition costs related to securing new contracts and renewing existing contracts are capitalised to deferred acquisition cost assets and amortised to the income statement over the period in which the related premiums are earned. All other costs are recognised as expenses when incurred.

The Group assesses its short-term insurance technical assets for impairment on a bi-annual basis. If there is objective evidence that an asset is impaired, the Group reduces the carrying amount of the asset to its recoverable amount and recognises the impairment loss in the income statement.

Salvage 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.

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.

Contingencies

Possible obligations of the Group, the existence of which will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group, and present obligations of the Group where it is not probable that an outflow of economic benefits will be required to settle the obligation or where the amount of the obligation cannot be measured reliably, are not recognised in the Group balance sheet but are disclosed in the notes to the financial statements.

Possible assets of the Group, the existence of which will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group, are not recognised in the Group balance sheet and are only disclosed in the notes to the financial statements where an inflow of economic benefits is probable.

Share capital

Share capital is classified as equity where the Group has no obligation to deliver cash or other assets to shareholders. Preference shares issued by the Group that are redeemable or subject to fixed dividend payment terms are classified as term finance liabilities. Dividends paid in respect of term finance are recognised in the income statement as a term finance expense.

Incremental costs attributable to the issue or cancellation of equity instruments are recognised directly in equity, net of tax.

Shares held in Sanlam Limited by policyholder portfolios and subsidiary companies (treasury shares) are recognised as a deduction from equity on consolidation. The consideration received on the disposal of treasury shares, net of incremental costs attributable to the disposal and tax, are recognised directly in equity.

Foreign currency translation reserve

The exchange differences arising on the translation of foreign operations to the reporting currency are transferred to the foreign currency translation reserve. On disposal of the net investment, the cumulative exchange differences relating to the operations disposed of are released to the income statement.

Consolidation reserve

A consolidation reserve is created for differences in the valuation bases of long-term policy liabilities and investments supporting those liabilities. Certain assets held in policyholder portfolios may not be recognised at fair value in terms of IFRS, whereas the valuation of the related policy liabilities are based on the assets at fair value. This creates a mismatch with a corresponding impact on the shareholders' fund. A separate reserve is created for these valuation differences due to the fact that they represent accounting differences and not economic losses for the shareholders' fund. Valuation differences arise from the following:

- Investments in subsidiaries and consolidated funds, which are valued at net asset value plus goodwill;
- Investments in associates, 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.

Investment return

Investment income

Interest income is accounted for on a time proportionate basis that takes into account the effective yield on the asset and includes the net income earned from interest margin business.

Rental income is recognised on an accrual basis, apart from operating leases that contain fixed escalation clauses, where it is recognised on a straight-line basis over the lease term. The difference between rental income on a straight-line and accrual basis is recognised as part of the carrying amount of properties in the balance sheet.

Dividend income is recognised once the last day for registration has passed. Capitalisation shares received in terms of a capitalisation issue from reserves, other than share premium or a reduction in share capital, are treated as dividend income. Dividend income from subsidiaries is recognised when the dividends are declared by the subsidiary.

Investment surpluses

Investment surpluses consist of net realised gains and losses on the sale of investments and net unrealised fair value gains and losses on the valuation of investments at fair value. These surpluses are recognised in the income statement on the date of sale or upon valuation to fair value.

Premium income – long-term policy contracts

Premium income from long-term insurance and investment policy contracts is recognised as an increase in long-term policy liabilities.

The full annual premiums on individual insurance and investment policy contracts that are receivable in terms of the policy contracts are accounted for on policy anniversary dates, notwithstanding that premiums are payable in instalments. The monthly premiums in respect of certain new products are in terms of their policy contracts accounted for when due.

Group life insurance and investment contract premiums are accounted for when receivable. Where premiums are not determined in advance they are accounted for upon receipt.

The unearned portion of accrued premiums is included within long-term policy liabilities.

Financial services income

Financial services income includes:

- Income earned from long-term insurance activities such as investment and administration fees, risk underwriting charges and asset mismatch profits or losses in respect of non-participating business;
- Income from short-term insurance business such as short-term insurance premiums;
- Income from investment management activities such as fund management fees and collective investment and linked-product administration fees;
- Income from capital market activities such as realised and unrealised gains or losses on trading accounts, unsecured corporate bonds and money market assets and liabilities, other securities related income and fees, and commissions; and
- Income from other financial services such as independent financial advice and trust services.

Fees for investment management services

Fees for investment management services in respect of investment contracts are recognised as services are rendered. Initial fees that relate to the future rendering of services are deferred and recognised as those future services are rendered.

Fee income – long-term policy contracts

Investment and insurance contract policyholders are charged for policy administration, risk underwriting and other services. These fees are recognised as revenue on an accrual basis as the related services are rendered.

Short-term insurance premiums

Short-term insurance premiums are accounted for when receivable, net after a provision for unearned premiums relating to risk periods that extend to the following year. Premiums outstanding for more than 60 days are not included in income. Inward short-term reinsurance agreement premiums are accounted for on an intimated basis.

Consulting fees earned

Consulting fees are earned for advice and other services provided to clients of the Group's financial advisory businesses. Fees are accounted for on an accrual basis as the related services are rendered.

Policy contract benefits

Underwriting benefits

Life insurance policy claims received up to the last day of each financial period and claims incurred but not reported (IBNR) are provided for and included in underwriting policy benefits. Past claims experience is used as the basis for determining the extent of the IBNR claims.

Underwriting policy benefits in respect of long-term insurance business include the change in the corresponding actuarial liabilities.

Provision is made for underwriting losses that may arise from unexpired short-term insurance risks when it is anticipated that unearned premiums will be insufficient to cover future claims.

Income from reinsurance policies are recognised concurrently with the recognition of the related policy benefit.

Other policy benefits

Other policy benefits are not recognised in the Group income statement but reflected as a reduction in long-term policy liabilities.

Maturity and annuity payments are recognised when due. Surrenders are recognised at the earlier of payment date or the date on which the policy ceases to be included in long-term policy liabilities.

Sales remuneration

Sales remuneration consists of commission payable to sales staff on long-term and short-term investment and insurance business and expenses directly related thereto, bonuses payable to sales staff and the Group's contribution to their retirement and medical aid funds. Commission on life business is accounted for on all in-force policies in the financial period during which it is incurred.

The portion of sales remuneration that is directly attributable to the acquisition of long-term recurring premium investment policy contracts is capitalised to the deferred acquisition cost (DAC) asset and recognised over the period in which the related services are rendered and revenue recognised (refer policy statement for DAC asset).

Acquisition cost for short-term insurance business is deferred over the period in which the related premiums are earned.

Sales remuneration recognised in the income statement includes the amortisation of deferred acquisition costs as well as sales remuneration incurred that is not directly attributable to the acquisition of long-term investment policy contracts or short-term insurance business.

Administration costs

Administration costs include, *inter alia,* indirect taxes such as VAT, property and administration expenses relating to owner-occupied property, property and investment expenses related to the management of the policyholders' investments, claims handling costs, product development and training costs.

Leases

Leases of assets, under which the lessor effectively retains all the risks and benefits of ownership, are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Taxation

Current income tax is provided in respect of taxable income based on currently enacted tax legislation.

Deferred income tax is provided for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes using the liability method, except for:

- Temporary differences relating to investments in associates, joint ventures and subsidiaries where the Group controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Temporary differences arising from the initial recognition of assets or liabilities in transactions other than business combinations that at transaction date do not affect either accounting or taxable profit or loss.

The amount of deferred income tax provided is based on the expected realisation or settlement of the deferred tax assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets relating to unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax balances are reflected at current values and have not been discounted.

Foreign currencies

Transactions and balances

Foreign currency transactions are translated to functional currency, i.e. the currency of the primary economic environment in which each of the Group's entities operate, at the exchange rates on transaction date. Monetary assets and liabilities are translated to functional currency at the exchange rates ruling at the financial period end. Non-monetary assets and liabilities carried at fair value are translated to functional currency at the exchange rates ruling at valuation date. Non-monetary assets and liabilities carried at historic cost are translated to functional currency at the exchange rates ruling at the date of initial recognition. Exchange differences arising on the settlement of transactions or the translation of working capital assets and liabilities are recognised in the income statement as financial services income. Exchange differences on non-monetary assets and monetary assets classified as investment assets, such as equities and foreign interest-bearing investments, are included in investment surpluses.

Foreign operations

Income statement items of foreign subsidiaries 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. The closing rate is used for the translation of assets and liabilities, including goodwill and fair value adjustments arising on the acquisition of foreign entities. At acquisition, equity is translated at the rate ruling on the date of acquisition. Post-acquisition equity is translated at the rates prevailing when the change in equity occurred. Exchange differences arising on the translation of foreign operations are transferred to a foreign currency translation reserve until the disposal of the net investment when it is released to the income statement.

Retirement benefits

Retirement benefits for employees are provided by a number of defined benefit and defined contribution pension and provident funds. The assets of these funds, including those relating to any actuarial surpluses, are held separately from those of the Group. The retirement plans are funded by payments from employees and the relevant group companies, taking into account the recommendations of the retirement fund valuator.

The Group's contributions to the defined contribution and defined benefit funds are charged to the income statement in the year in which they are incurred. A valuation in accordance with IAS 19 *Employee Benefits* is performed on the balance sheet date. For the purpose of calculating pensions, medical contributions are deemed to be a part of pensionable salary. Retirement fund contributions are made on the pensionable salary. Therefore, pensioners fund post-retirement medical contributions themselves from their increased pensions. The Group has provided in full for its medical contribution commitments in respect of pensioners and disabled members who are not covered under the current scheme.

Defined benefit plans

The schemes are valued using the valuation basis for past service cost. Any deficits advised by the actuaries are funded either immediately or through increased contributions to ensure the ongoing soundness of the schemes. Contributions are expensed during the year in which they are funded. The net surplus or deficit in the benefit obligation is the difference between the present value of the funded obligation and the fair value of plan assets. The Group recognises the estimated liability using the projected unit credit method. The present value of the overfunded portion of these schemes is recognised as an asset to the extent that there are material benefits available in the form of refunds and reductions in contributions. The amount of actuarial gains and losses recognised in the income statement is equal to the amount that the cumulative actuarial gains and losses at the end of the previous reporting period exceed the greater of 10% of the present value of the defined obligation or 10% of the fair value of the plan assets, amortised over the employees' average working life.

Defined contribution plans

Group contributions to the pension and provident funds are based on a percentage of the payroll and are charged against income as incurred.

Medical aid benefits

Group contributions to medical aid funds are charged to the income statement in the year in which they are incurred.

Post-retirement medical aid benefits

The present value of this post-retirement medical aid obligation is actuarially determined annually and any deficit or surplus is immediately recognised in the income statement. The Group recognises the estimated liability using the projected unit credit method. The Group has no significant exposure to any other post-retirement benefit obligation.

Equity compensation plans

Sanlam operates a staff share incentive scheme through Sanlam Limited Share Incentive Trust. Shares are offered on a combined option and deferred delivery basis, which staff can take up in tranches over a period of up to seven years, provided that they remain in the employment of the Group. The beneficiaries under the scheme are executive directors, management and sales advisors employed on a full-time basis.

The fair value of equity instruments granted is measured on grant date using option-pricing models. The models are consistent with those used for pricing financial instruments and incorporate all factors and assumptions that market participants would consider in determining a willing buyer/ willing seller price. The fair value on grant date is recognised in the income statement on a straight-line basis over the vesting period of the equity instruments (adjusted to reflect actual levels of vesting), with a corresponding increase in equity.

The Sanlam Limited Share Incentive Trust is consolidated in the Group financial statements.

Black economic empowerment transaction

Sanlam's black economic empowerment transaction with Ubuntu-Botho, which was effected in April 2004, included the following components:

- Shares issued in Sanlam Limited at fair value;
- The donation of treasury shares to Ubuntu-Botho to bring about the Sanlam Ubuntu-Botho Community Development Trust; and
- The issue of convertible deferred shares at nominal value.

The nominal value of the shares issued at fair value is recognised as an increase in the nominal value of share capital. The difference between the issue price and nominal value is recognised as an increase in share premium.

The donation of treasury shares is accounted for as a disposal of treasury shares for no consideration.

The nominal value of convertible deferred shares issued is recognised as an increase in the nominal value of share capital. Deferred shares with a conversion entitlement are treated as potential ordinary shares for the calculation of diluted earnings per share, net asset value per share and embedded value per share.

Dividends

Dividends proposed or declared after the balance sheet date are not recognised at the balance sheet date.

Policy liabilities and profit entitlement

Introduction

The valuation bases and methodology used to calculate the policy liabilities of all material lines of long-term insurance business and the corresponding shareholder profit entitlement for Sanlam Life Insurance Limited are set out below. The same valuation methodology is applied for African Life Assurance Company Limited and the Namibian insurance subsidiaries, as well as investment contracts issued by Merchant Investors Assurance Company Limited (MIA) and Safrican Insurance Company Limited (Safrican). The valuation methodology in respect of insurance contracts issued by Safrican and MIA is not presented in view of their relatively small contribution to earnings and the relative size of their insurance contract liabilities.

This basis, which complies with South African actuarial guidelines and requires minimum liabilities to be held based on a prospective calculation of policy liabilities, serves as a liability adequacy test. No adjustment is required to the liabilities as at 31 December 2005 as a result of the aforementioned adequacy test.

The valuation bases and methodology comply with the requirements of IFRS. The 2004 results were restated in line with the 2005 valuation methodology, but financial assumptions appropriate to the relevant dates were used (refer to page 224 for further information on the transition to 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, 1998 are presented at the end of this section.

Where the valuation of long-term policy liabilities are 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. It was not considered necessary to exclude intangible assets, which are inadmissible assets for prudential regulatory purposes, from the value of the assets for the purposes of the Group financial statements.

Classification of contracts

A distinction is made between investment contracts (which fall within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*), investment contracts with discretionary participating features 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 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.

Insurance contracts and investment contracts with discretionary participating features (DPF)

The actuarial value of the policy liabilities is determined using the FSV method as described in the actuarial guidance note PGN 104 of the Actuarial Society of South Africa (ASSA), which is consistent with the valuation method prescribed in the Long-term Insurance Act, 1998 (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 policy liabilities exceeded the minimum requirements in terms of the LTIA and actuarial guidance notes PGN 104 and PGN 110.

The application of the PGN 104 and PGN 110 principles 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-related interest rates on risk-free fixed-interest securities with adjustments for the other asset classes. The appropriate asset composition of the various asset portfolios, investment management expenses, taxes at current tax rates and charges for investment guarantees are taken into account. Refer to note 8 on page 236 for investment return assumptions per asset class.
- Unit expenses are based on the 2005 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 and surrender and lapse rates are consistent with the experience for the five years up to 30 June 2005. 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.

Asset portfolios

Separate asset portfolios are maintained in support of policy liabilities for each of the major lines of business; each portfolio consisting of an asset mix appropriate for the specific product. Bonus rates are declared for each class of participating business in relation to the funding level of each portfolio and the expected future net investment return on the assets of the particular investment portfolio.

Unrecouped expenses

The timing of fees recovered from some individual life policies do not correspond to the timing of the expenses incurred in respect of the policies. For certain of these policies an unrecouped expense account is created and included in the valuation of the policy liabilities. The unrecouped expense account is increased with expenses incurred and reduced by an allocation of policy charges. Policy charges are designed to ensure that on average the unrecouped expense account is redeemed over the lifetime of the related policies.

Bonus stabilisation reserves

The Group and individual stabilised bonus portfolios are valued on a retrospective basis. If the fair value of the assets in such a portfolio is greater than the policyholders' investment accounts (net premiums invested plus declared bonuses), a positive bonus stabilisation reserve is created which will be used to enhance future bonuses. Conversely, if assets are less than the investment accounts, a negative bonus stabilisation reserve is created. A negative bonus stabilisation reserve will be limited to the amount that the Statutory Actuary expects will be recovered through the declaration of lower bonuses during the ensuing three years, if investment returns are in line with long-term assumptions. Negative bonus stabilisation reserves in excess of 7,5% of the investment accounts are specifically disclosed. Bonus stabilisation reserves are included in long-term policy liabilities.

Provision for future bonuses

Provision was made for future bonuses so that each asset portfolio, less charges for expenses (including investment guarantee charges) and profit loadings, for each line of business would be fully utilised for the benefit of the policyholders of that portfolio. As all the portfolios, other than participating annuities, had positive bonus stabilisation reserves, the provision for future bonuses for these portfolios exceeded the expected long-term investment returns less expense recoveries.

Reversionary bonus business

The liability is set equal to the fair value of the underlying assets. This is equivalent to a best estimate prospective liability calculation using the bonus rates as set out above, and allowing for the shareholders' share of one-ninth of the cost of these bonuses.

The present value of the shareholders' entitlement is sufficient to cover the margins prescribed in the LTIA and the ASSA guidelines for the valuation of policy liabilities. The compulsory 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 fee minus expenses basis consistent with the work done and risks borne over the lifetime of the 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 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 government bond yield curve adjusted to allow for investment administration charges. All profits or losses accrue to the shareholders when incurred.

Other non-participating business

Other non-participating business forms less than 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 an explicit interest rate deduction of approximately 3% on average.

For non-participating business other than life annuity business, an asset mismatch provision is maintained. The interest and asset profits arising from the non-participating portfolios 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 to dampen the impact on earnings of short-term fluctuations in fair values of assets underlying these liabilities. The asset mismatch provision represents a second-tier margin. A negative asset mismatch provision will not be created, but such shortfall will accrue to shareholders in the year in which it occurs.

HIV/Aids

A specific provision for HIV/Aids-related claims is maintained and included with the 'Other non-participating business' referred to above. A prospective calculation according to the relevant guidelines is performed for non-participating individual policies and for those with a small savings element. The provision for other individual policies (72% of the 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 re-rate premiums as experience develops.

Premium rates for Group business are reviewed annually. The HIV/Aids provision is based on the expected HIV/Aids claims in a year and the time that may elapse before premium rates and underwriting conditions can be suitably adjusted should actual experience be worse than expected.

Provision for minimum investment return guarantees

In addition to the liabilities described above, a stochastic modelling approach was used to provide for the possible cost of minimum investment return guarantees provided by some participating and market-related policies, consistent with actuarial guidance note PGN 110.

Working capital

To the extent that the management of working capital gives rise to profits, no credit is taken for this in determining the policy liabilities.

Reinsurance

Liabilities are valued gross before taking into account reinsurance. Where material, the difference between the gross and net (after reinsurance) value of liabilities is held as a reinsurance asset.

Investment contracts (other than with DPF)

Policy contracts not classified as insurance contracts in terms of IFRS are classified as investment contracts.

Contracts with investment management services

The liabilities for individual and group contracts are set equal to the retrospectively accumulated fair value of the underlying assets. No deduction is made for unrecouped expenses. The profits or losses that accrue to shareholders are equal to fees received during the period concerned plus the movement in the DAC asset less expenses incurred.

Where these contracts provide for minimum investment return guarantees, provision was made for the fair value of the embedded option.

Non-participating annuity business

Term annuity instalments and expected future expenses in respect of these instalments are discounted at market-related interest rates. All profits or losses accrue to the shareholders when incurred.

Guaranteed plans

Guaranteed maturity values and expected future expenses are discounted at market-related interest rates. All profits or losses accrue to the shareholders when incurred.

Prudential regulatory results

The valuation of assets and policy liabilities for prudential regulatory purposes is generally in line with the methodology for the published results. Some adjustments are however required, as set out below.

Reinsurance

Policy liabilities are valued net of reinsurance and the reinsurance asset is eliminated.

Investment contracts with investment management services

The liabilities are set equal to the retrospectively accumulated fair value of the underlying assets less unrecouped expenses (set equal to the DAC asset) in the case of individual business. These retrospective liabilities are higher than the prospective liabilities calculated as the present value of expected future benefits and expenses less future premiums at the relevant discount rates.

The DAC asset is eliminated.

Group undertakings and inadmissible assets

The value of assets is reduced by taking into account the prescribed valuation bases for Group undertakings and to eliminate inadmissible assets (as defined in the LTIA).

Capital adequacy requirements

The excess of assets over liabilities of life insurance operations on the prudential regulatory basis should be sufficient to cover the capital adequacy requirements in terms of the LTIA, PGN 104 and PGN 110. The capital adequacy requirements provide a buffer against experience worse than that assumed in the valuation of assets and liabilities.

On the valuation date the ordinary capital adequacy requirements were used as they exceeded the termination and minimum capital adequacy requirements, apart from African Life Assurance Company where termination capital adequacy requirements applied.

The largest element of the capital adequacy requirements relates to stabilised bonus business. Consistent with an assumed fall in the fair value of the assets (the "resilience scenario"), which is prescribed in the actuarial guidance notes, the calculation of the capital adequacy requirements takes into account a reduction in non-vesting bonuses and future bonus rates and for the capitalisation of some expected future profits (resulting from discretionary margins in the valuation basis and held as part of the liabilities). The resilience scenario assumes that:

- Equity values decline by 30%;
- Property values decline by 15%;
- Fixed interest yields and inflation-linked real yields increase or decrease by 25% of the nominal or real yields (whichever gives the worst result); and
- Assets denominated in foreign currencies decline by at least 20%.

on the valuation date and do not subsequently recover within the short-term.

Sanlam Group Balance Sheet

at 31 December 2005

	Note	2005 R million	2004 R million
Assets			
Property and equipment	1	**249**	184
Owner-occupied properties	2	**492**	380
Goodwill	3	**2 174**	2 186
Value of business acquired	4	**942**	—
Deferred acquisition costs	5	**1 155**	994
Long-term reinsurance assets	6	**389**	318
Investments	7	**232 851**	187 606
Properties		**12 748**	14 413
Investment properties		**11 646**	13 268
Straight-line rental adjustment		**1 102**	1 145
Equity-accounted investments		**1 037**	5 167
Equities and similar securities		**120 763**	88 084
Public sector stocks and loans		**47 998**	44 434
Debentures, insurance policies, preference shares and other loans		**21 173**	17 141
Cash, deposits and similar securities		**29 132**	18 367
Deferred tax	8	**372**	440
Short-term insurance technical assets	9	**2 372**	1 980
Working capital assets		**35 716**	31 192
Trade and other receivables	10	**27 427**	20 043
Cash, deposits and similar securities		**8 289**	11 149
Total assets		**276 712**	225 280
Equity and liabilities			
Capital and reserves			
Share capital and premium	11	**956**	4 360
Treasury shares		**(639)**	(486)
Other reserves	12	**7 517**	6 438
Retained earnings		**17 186**	9 373
Shareholders' fund		**25 020**	19 685
Minority shareholders' interest	14	**3 443**	3 515
Total equity		**28 463**	23 200
Long-term policy liabilities	15	**198 234**	163 556
Insurance contracts		**109 591**	92 961
Investment contracts		**88 643**	70 595
Term finance	16	**2 879**	6 685
External investors in consolidated funds		**6 030**	3 209
Cell owners' interest		**268**	47
Deferred tax	8	**1 623**	809
Short-term insurance technical provisions	9	**6 702**	5 198
Working capital liabilities		**32 513**	22 576
Trade and other payables	17	**30 057**	20 924
Provisions	18	**860**	465
Taxation		**1 596**	1 187
Total equity and liabilities		**276 712**	225 280

Sanlam Group Income Statement

for the year ended 31 December 2005

	Note	2005 R million	2004 R million
Net income		**63 307**	41 975
Financial services income	19	**20 393**	17 836
Reinsurance premiums paid	20	**(2 339)**	(2 303)
Reinsurance commission received	21	**445**	504
Investment income	22	**10 429**	9 658
Investment surpluses	22	**35 282**	16 659
Change in fair value of external investors liability		**(903)**	(379)
Net insurance and investment contract benefits and claims		**(41 440)**	(30 081)
Long-term insurance contract benefits	23	**(21 070)**	(15 829)
Long-term investment contract benefits	23	**(14 094)**	(9 985)
Enhanced early termination benefits	23	**(620)**	—
Short-term insurance claims		**(6 904)**	(5 014)
Reinsurance claims received	21	**1 248**	747
Expenses		**(7 769)**	(7 026)
Sales remuneration		**(2 632)**	(2 302)
Administration costs	24	**(5 137)**	(4 724)
Impairment of investments and goodwill	3	**(12)**	(263)
Net operating result		**14 086**	4 605
Equity-accounted earnings	25	**944**	1 085
Finance cost		**(136)**	(49)
Discontinued operations	26	**—**	(92)
Profit before tax		**14 894**	5 549
Taxation	27	**(2 803)**	(1 771)
Shareholders' fund		**(1 684)**	(1 013)
Policyholders' fund		**(1 119)**	(758)
Profit for the year		**12 091**	3 778
Attributable to:			
Shareholders' fund		**10 927**	2 758
Minority shareholders' interest		**1 164**	1 020
		12 091	3 778
Earnings attributable to shareholders of the company (cents):			
Profit for the year:			
Basic earnings per share	28	**439,2**	108,7
Diluted earnings per share	28	**432,0**	107,3
Continuing operations:			
Basic earnings per share	28	**439,2**	112,3
Diluted earnings per share	28	**432,0**	110,9

Sanlam

Sanlam Group Statement of Changes in Equity

for the year ended 31 December 2005

R million	*Share capital*	*Share premium*	*Treasury shares*	*Non-distributable reserve*
Balance at 1 January 2004	27	3 487	(403)	9 415
Total recognised income	—	—	—	—
Profit for the year	—	—	—	—
Equity-accounted movement in associated companies' reserves	—	—	—	—
Movement in foreign currency translation reserve	—	—	—	—
Cost of treasury shares donated to the Sanlam Ubuntu-Botho Community Development Trust	—	—	—	—
Net realised investment surpluses on other treasury shares	—	—	—	—
Share-based payments	—	—	—	—
Transfer to/(from) consolidation reserve	—	—	—	—
Dividends paid	—	—	—	—
Acquisitions, disposals and other movements in minority interests	—	—	—	—
New shares issued[1]	2	863	—	—
Costs relating to share issuance	—	(19)	—	—
Cost of treasury shares acquired[2]	—	—	(83)	—
Balance at 31 December 2004	29	4 331	(486)	9 415
Total recognised income	—	—	—	—
Profit for the year	—	—	—	—
Equity-accounted movement in associated companies' reserves	—	—	—	—
Movement in foreign currency translation reserve	—	—	—	—
Net realised investment surpluses on treasury shares	—	—	—	—
Share-based payments	—	—	—	—
Transfer to non-distributable reserve	—	—	—	124
Transfer (from)/to consolidation reserve	—	—	—	—
Dividends paid	—	—	—	—
Acquisitions, disposals and other movements in minority interests	—	—	—	—
Acquired through business combinations	—	—	—	—
Shares cancelled	(4)	(3 400)	—	—
Cost of treasury shares acquired[2]	—	—	(153)	—
Balance at 31 December 2005	25	931	(639)	9 539

[1] *Comprises 113 million new ordinary shares at R7,65 per share, 56,5 million 'A' deferred shares at R0,01 per share and 52 million 'A' preference shares at R0,01 per share.*

[2] *Comprises movement in cost of shares held by subsidiaries and the share incentive trust.*

Foreign currency translation reserve	Retained earnings	Subtotal: equity holders	Consolidation reserve	Total: equity holders	Minority shareholders' interest	Total equity
—	6 914	19 440	(1 818)	17 622	1 944	19 566
(157)	2 716	2 559	—	2 559	1 005	3 564
—	2 758	2 758	—	2 758	1 020	3 778
—	(42)	(42)	—	(42)	—	(42)
(157)	—	(157)	—	(157)	(15)	(172)
—	(314)	(314)	—	(314)	—	(314)
—	(126)	(126)	—	(126)	—	(126)
—	51	51	—	51	4	55
—	1 154	1 154	(1 154)	—	—	—
—	(1 022)	(1 022)	—	(1 022)	(168)	(1 190)
—	—	—	—	—	730	730
—	—	865	—	865	—	865
—	—	(19)	—	(19)	—	(19)
—	—	(83)	152	69	—	69
(157)	9 373	22 505	(2 820)	19 685	3 515	23 200
66	10 942	11 008	—	11 008	1 163	12 171
—	10 927	10 927	—	10 927	1 164	12 091
—	15	15	—	15	—	15
66	—	66	—	66	(1)	65
—	25	25	—	25	—	25
—	64	64	—	64	5	69
—	(124)	—	—	—	—	—
—	(798)	(798)	798	—	—	—
—	(1 295)	(1 295)	—	(1 295)	(788)	(2 083)
—	—	—	—	—	(452)	(452)
—	41	41	(72)	(31)	—	(31)
—	(1 042)	(4 446)	—	(4 446)	—	(4 446)
—	—	(153)	163	10	—	10
(91)	17 186	26 951	(1 931)	25 020	3 443	28 463

Sanlam Group Cash Flow Statement

for the year ended 31 December 2005

	Note	2005 R million	2004 R million
Cash flow from operating activities		**1 938**	(3 774)
Cash utilised in operations	37.1	**(3 526)**	(9 639)
Interest and preference share dividends received		**6 084**	6 262
Interest paid		**(429)**	(527)
Dividends received		**3 317**	2 571
Dividends paid		**(2 059)**	(1 170)
Taxation paid		**(1 449)**	(1 271)
Cash flow from investment activities		**13 069**	1 908
Net disposal of investments		**14 864**	3 145
Acquisition of subsidiaries	37.2	**(2 247)**	(1 305)
Disposal of subsidiaries	37.3	**452**	68
Cash flow from financing activities		**(6 919)**	2 842
Shares (cancelled)/issued		**(4 446)**	846
Movement in treasury shares		**35**	(371)
Term finance (repaid)/raised		**(2 508)**	2 367
Cash flow from discontinued operations		**—**	(92)
Net increase in cash and cash equivalents		**8 088**	884
Cash, deposits and similar securities at beginning of year		**29 320**	28 436
Cash, deposits and similar securities at end of year	37.4	**37 408**	29 320

	2005 R million	2004 R million
1. Property and equipment		
Computer equipment	100	64
Cost	412	325
Accumulated depreciation and impairment	(312)	(261)
Furniture, equipment, vehicles and other	149	120
Cost	370	279
Accumulated depreciation and impairment	(221)	(159)
Total property and equipment	249	184
Reconciliation of carrying amount		
Balance at beginning of year	184	220
Additions and expenditure capitalised	103	57
Disposals	(12)	(14)
Acquired through business combinations	51	3
Disposal of subsidiaries	—	(10)
Depreciation	(77)	(71)
Foreign currency translation differences	—	(1)
Balance at end of year	249	184
2. Owner-occupied properties		
Balance at beginning of year	380	390
Transfer to property and equipment at depreciated value	—	(3)
Additions and expenditure capitalised	27	1
Disposals	—	(8)
Acquired through business combinations	85	—
Balance at end of year	492	380

Register of owner-occupied properties

A register containing details of all owner-occupied properties is available for inspection at the registered office of Sanlam Limited.

	2005 R million	2004 R million
3. Goodwill		
Balance at beginning of year	2 186	1 855
Gross carrying amount	2 270	1 855
Accumulated impairment	(84)	—
Additions during the year	26	421
Net consideration paid	40	408
Fair value of net assets acquired	(19)	(74)
Minority shareholders' interest	5	87
Acquired through business combinations	21	16
Disposals during the year	(47)	(22)
Foreign currency translation differences	(1)	—
Impairments	(11)	(84)
Balance at end of year	2 174	2 186
Gross carrying amount	2 244	2 270
Accumulated impairment	(70)	(84)
Allocation of goodwill to businesses		
Life insurance	408	387
Merchant Investors Assurance	356	356
African Life Assurance	21	—
Other	31	31
Vukile Property Fund	—	16
Other Sanlam businesses	1 766	1 783
Sanlam Investment Management	30	29
International: Sanlam Multi-Manager International and Octane Management	11	11
Innofin	91	91
Sanlam Financial Services UK	345	367
Santam	80	87
Other	11	—
Goodwill held on Group level	1 198	1 198
Balance at end of year	2 174	2 186

The additions to goodwill during 2005 arose primarily from the acquisition of Safrican Insurance Company and Total Care Strategies and during 2004 from Merchant Investors Assurance Company, which was acquired at the end of 2003, and a controlling interest in the Namibian-based Consolidated Financial Services.

	2005 R million	2004 R million
Impairments		
Impairment of investments	1	179
Safair Lease Finance	—	129
Other	1	50
Impairment of goodwill	11	84
Total impairment of investments and goodwill for the year	12	263

Impairment of goodwill

For impairment testing purposes, goodwill is allocated to cash generating units at the lowest level of operational activity (business) to which it relates. The recoverable amount of goodwill has been determined based on the embedded value of life insurance businesses and the fair value of other businesses, as applicable, less the consolidated net asset value of the respective businesses. Refer to page 268 for an analysis of the embedded value of the life insurance businesses and page 256 for the excess of fair value over net asset value of other Group businesses.

The impairment of goodwill in 2004 relates mainly to Sanlam Financial Services UK, the UK stockbroking firm, Hichens Harrison, and the discontinued operations of Gensec Bank, following a reduction in the rand-denominated valuation of these businesses.

	2005 R million	2004 R million
4. Value of business acquired		
Balance at beginning of year	—	—
Additions during the year	942	—
Balance at end of year	942	—
Gross carrying amount	942	—
Accumulated amortisation and impairment	—	—

The additions to value of business acquired relates to the acquisition of African Life Assurance Company during December 2005.

Amortisation and impairment of value of business acquired

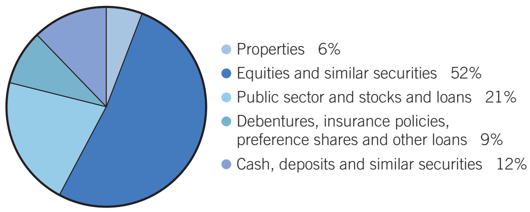
Value of business acquired is amortised to the income statement on a straight-line basis over the expected life of the intangible asset, currently 25 years. For impairment testing purposes, the value of business acquired is allocated to cash generating units at the lowest level of operational activity (business) to which it relates. The recoverable amount has been determined based on the embedded value less the consolidated net asset value of the respective life insurance businesses. Refer to page 268 for an analysis of the embedded value of the life insurance subsidiaries.

	2005 R million	2004 R million
5. Deferred acquisition costs		
Balance at beginning of year	994	839
Credited to income statement	161	155
Acquisition costs capitalised	332	299
Expensed for the year	(171)	(144)
Balance at end of year	1 155	994
6. Long-term reinsurance assets		
Balance at beginning of year	318	232
Movement in reinsurers' share of insurance liabilities	32	21
Acquired through business combinations	39	65
Balance at end of year	389	318
Maturity analysis of long-term reinsurance assets		
Due within one year	10	8
Due within two to five years	40	33
Due after more than five years	339	277
Total long-term reinsurance assets	389	318

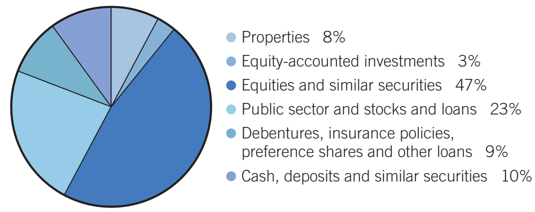
Amounts due from reinsurers in respect of claims incurred by the Group that are reinsured, are included in trade and other receivables (refer to note 10).

7. Investments

Total investment mix
2005



Total investment mix
2004



	2005 R million	2004 R million
Properties comprise the following:		
Office buildings	3 714	3 662
Retail buildings	3 967	4 405
Industrial buildings	473	454
Property developments	—	25
Undeveloped land	277	116
International properties (situated outside South Africa)	2 155	1 416
Listed property companies and funds	1 717	963
Vukile Property Portfolio	—	2 966
Other	445	406
Total properties	12 748	14 413
Less: Straight-line rental adjustment	(1 102)	(1 145)
Total investment properties	11 646	13 268
Reconciliation of carrying amount of properties		
Fixed properties – balance at beginning of year	10 484	10 517
Acquisitions	589	316
Disposals	(1 344)	(2 272)
Acquired through business combinations	513	1 062
Foreign currency translation differences	8	(118)
Investment surpluses	781	979
Fixed properties – balance at end of year	11 031	10 484
Vukile Property Portfolio – balance at beginning of year	2 966	—
Properties contributed by Sanlam group	12	1 135
Acquisitions	—	786
Disposals	(3 321)	—
Disposal of majority interest in fund	(2 764)	—
Remaining interest transferred to listed property companies and funds	(557)	—
Acquired through business combinations	—	942
Investment surpluses	343	103
Vukile Property Portfolio – balance at end of year	—	2 966
Listed property and property collective investment schemes	1 717	963
Total properties	12 748	14 413
Reconciliation of straight-line rental adjustment		
Straight-line rental adjustment – balance at beginning of year	1 145	1 256
Disposals	(56)	(135)
Investment surpluses	13	24
Straight-line rental adjustment – balance at end of year	1 102	1 145

Properties within the Vukile Property Portfolio were encumbered in 2004 as detailed in note 16.

		2005 R million	2004 R million
7. Investments *(continued)*			
Contractual future minimum lease payments receivable under non-cancellable operating leases:			
Within one year		1 032	1 493
Within two to five years		3 164	4 312
After more than five years		4 070	3 599
Future minimum lease payments		8 266	9 404
Equity-accounted investments			
Investments in associated companies		709	5 098
Investments in joint ventures		328	69
Total equity-accounted investments		1 037	5 167
Investments in associated companies			
Absa		—	4 639
Peermont		316	218
Other associated companies		393	241
Total investment in associated companies		709	5 098

Details of material associated companies

Absa

The Group's investment in Absa is accounted for as an associated company up to 30 June 2005, as the Group disposed of the Sanlam shareholders' fund's interest in Absa to Barclays Plc during July 2005. The information disclosed below for 2005 in respect of the Group's average interest, share of earnings and distributions received are for the six months ended 30 June 2005.

		2005	2004
Fair value of interest	R million	—	10 813
Number of shares held	000s	—	142 257
Interest in issued share capital	%		
Shareholders' fund		—	19,1
Policyholders' fund		—	2,6
Average interest in issued share capital	%		
Shareholders' fund		19,1	19,0
Policyholders' fund		2,4	2,4
Share of earnings after tax	R million		
Shareholders' fund		593	888
Policyholders' fund		74	101
Distributions received	R million		
Shareholders' fund		249	253
Policyholders' fund		32	52
Aggregate post-acquisition reserves attributable to shareholders' fund	R million	—	2 389

The financial year-end of Absa was 31 March. The equity-accounted earnings for Absa included in the Sanlam group results for 2005 and 2004 are for the six months ended 31 March 2005 and the twelve months ended 30 September 2004 respectively, and were derived from Absa's published annual financial statements and interim results.

		2005	2004
Absa financial information as at 30 September:			
Revenue	R million	—	19 669
Earnings attributable to shareholders	R million	—	4 786
Total assets	R million	—	313 860
Total liabilities	R million	—	292 569

		2005 R million	2004 R million
7. Investments *(continued)*			
Peermont			
Fair value of interest	R million	784	604
Number of shares held	000s	87 552	85 624
Interest in issued share capital	%		
Shareholders' fund		26,3	26,0
Policyholders' fund		0,3	—
Average interest in issued share capital for the year	%		
Shareholders' fund		26,0	26,0
Policyholders' fund		—	—
Share of earnings after tax	R million		
Shareholders' fund		59	43
Policyholders' fund		—	—
Distributions received	R million		
Shareholders' fund		26	10
Policyholders' fund		—	—
Aggregate post-acquisition reserves attributable to shareholders' fund	R million	303	218
Peermont financial information as at 31 December:			
Revenue	R million	1 121	917
Earnings attributable to shareholders	R million	226	167
Total assets	R million	2 604	1 571
Total liabilities	R million	1 436	507
Investments in joint ventures			
Safair Lease Finance		94	45
Direct Axis		32	12
Sanlam Home Loans		55	8
Shriram		124	—
Other joint ventures		23	4
Total investment in joint ventures		328	69

Details of material joint ventures

The Group holds an interest in the following material jointly controlled entities, which are accounted for on an equity-accounted basis:

Safair Lease Finance – 50% interest

Direct Axis – 70% interest

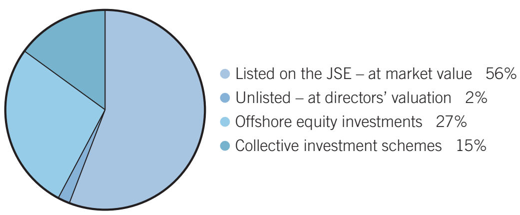
Sanlam Home Loans – 50% interest

The Group acquired an interest of 26% in the newly established Shriram joint venture during the latter part of the 2005 financial year. The Group's interest in the assets and liabilities of the company is not material at year-end.

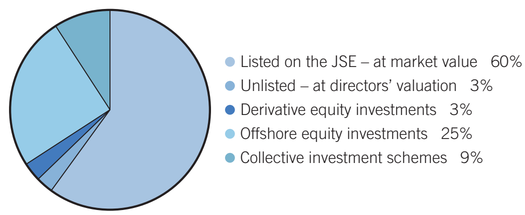
	2005 R million	2004 R million
7. *Investments* *(continued)*		
Safair Lease Finance		
Carrying value of interest	94	45
Fair value of interest	271	270
Share of revenue	211	213
Share of earnings after tax	49	30
Included in equity-accounted earnings	49	(3)
Included in discontinued operations	—	33
Share of assets	1 361	1 434
Non-current	1 239	1 338
Current	122	96
Share of liabilities		
Non-current	1 180	1 090
Interest-bearing	1 180	1 090
Non-interest-bearing	—	—
Current	87	299
Interest-bearing	82	295
Non-interest-bearing	5	4
Direct Axis		
Carrying value of interest	32	12
Fair value of interest	147	163
Share of revenue	62	34
Share of earnings after tax	20	7
Share of assets	806	479
Non-current	547	340
Current	259	139
Share of liabilities		
Non-current	470	292
Interest-bearing	462	286
Non-interest-bearing	8	6
Current	315	193
Interest-bearing	294	177
Non-interest-bearing	21	16
Sanlam Home Loans		
Carrying value of interest	55	8
Fair value of interest	60	11
Share of revenue	8	1
Share of earnings after tax	(7)	(7)
Share of assets	1 040	190
Non-current	1 013	176
Current	27	14
Share of liabilities		
Non-current	1 016	173
Interest-bearing	959	173
Non-interest-bearing	57	—
Current	14	4
Interest-bearing	—	—
Non-interest-bearing	14	4

	2005 R million	2004 R million
7. Investments *(continued)*		
Equities and similar securities		
Listed on the JSE – at market value	68 096	52 603
Unlisted – at directors' valuation	2 198	2 544
Derivative equity investments	21	2 521
Offshore equity investments	32 895	21 720
Equity collective investment schemes	17 553	8 696
Units held by the Group as minority unit holder	9 947	4 728
Equities held by consolidated schemes	7 606	3 968
Total equities and similar securities	120 763	88 084
Classification of equities and similar securities		
Designated as at fair value through profit or loss	120 705	85 563
Held for trading at fair value	58	2 521
Total equities and similar securities	120 763	88 084

Total equity investments mix
2005



Total equity investments mix
2004



	%	%
Spread of investments in equities listed on JSE by sector[1]		
Basic industries	2,3	2,1
Cyclical consumer goods	5,4	3,5
Cyclical services	8,4	11,0
Financials	25,1	29,1
General industrials	7,3	7,9
Information technology	0,6	0,6
Non-cyclical consumer goods	7,2	8,6
Non-cyclical services	9,0	8,5
Resources	20,4	16,5
Other	14,3	12,2
	100	100

[1] *Includes the appropriate underlying investments of listed subsidiaries.*

	2005 R million	2004 R million
7. Investments *(continued)*		
Debentures, insurance policies, preference shares and other loans comprise the following:		
Designated as at fair value through profit or loss	18 859	12 799
Held for trading at fair value	952	1 754
Loans and receivables at amortised cost	1 362	2 588
Total debentures, insurance policies, preference shares and other loans	21 173	17 141

Public sector stocks and loans and cash, deposits and similar securities are designated as at fair value through profit or loss.

	2005 R million	2004 R million
Direct offshore investments		
Equities and collective investment schemes	35 588	21 720
Interest-bearing investments	13 896	10 954
Total offshore investments	49 484	32 674

Maturity analysis of:

Public sector stocks and loans; debentures, insurance policies, preference shares and other loans; cash, deposits and similar securities as at:

R million 31 December 2005	<1 year	1 – 5 years	>5 years	Open ended	Total
Public sector stocks and loans	6 579	10 081	25 497	5 841	47 998
Debentures, insurance policies, preference shares and other loans	2 619	9 434	6 603	2 517	21 173
Cash, deposits and similar securities	26 254	1 061	1 172	645	29 132
Total investments other than equities and similar securities, equity-accounted investments and properties	35 452	20 576	33 272	9 003	98 303
R million					
31 December 2004					
Public sector stocks and loans	7 040	5 447	25 473	6 474	44 434
Debentures, insurance policies, preference shares and other loans	2 277	7 887	5 231	1 746	17 141
Cash, deposits and similar securities	16 242	1 289	152	684	18 367
Total investments other than equities and similar securities, equity-accounted investments and properties	25 559	14 623	30 856	8 904	79 942

Register of investments

A register containing details of all investments, including fixed property investments, is available for inspection at the registered office of Sanlam Limited.

Investments encumbered

Public sector stocks and loans of R363 million (2004: R129 million) and cash deposits of R63 million have been pledged as collateral for the Group's obligations in terms of derivative transactions. Equities of R508 million were also pledged as collateral at the end of the 2004 financial year.

Investment properties of R371 million (2004: R231 million) have been pledged as security for the Group's term finance liabilities.

8. Deferred tax

Reconciliation of the deferred tax balances:

	Income tax Asset R million	Income tax Liability R million	Capital gains tax Asset R million	Capital gains tax Liability R million
Balance at 1 January 2004	273	(58)	79	(416)
Temporary differences credited/(charged) to income statement	81	(8)	(3)	(315)
Accruals and provisions	(34)	74	—	(5)
Tax losses and credits	107	—	—	—
Net unrealised investment surpluses on shareholders' fund	—	(79)	—	(20)
Net unrealised investment surpluses on policyholders' fund	—	—	—	(290)
Other temporary differences	8	(3)	(3)	—
Prior year adjustment by subsidiary	92	—	(76)	—
Acquisition of subsidiaries	—	—	—	(12)
Disposal of subsidiaries	(6)	—	—	—
Balance at 31 December 2004	440	(66)	—	(743)
Temporary differences charged to income statement	(98)	(77)	—	(695)
Accruals and provisions	(84)	18	—	5
Tax losses and credits	(2)	—	—	—
Net unrealised investment surpluses on shareholders' fund	—	(99)	—	(498)
Net unrealised investment surpluses on policyholders' fund	—	—	—	(240)
Change in tax rate	(11)	4	—	36
Other temporary differences	(1)	—	—	2
Acquisition of subsidiaries	30	(35)	—	(7)
Balance at 31 December 2005	**372**	**(178)**	**—**	**(1 445)**
Analysis of the deferred tax balances:				
2005				
Accruals and provisions	93	89	—	—
Tax losses and credits	277	—	—	—
Net unrealised investment surpluses on shareholders' fund	—	(248)	—	(570)
Net unrealised investment surpluses on policyholders' fund	—	—	—	(880)
Other temporary differences	2	(19)	—	5
Deferred tax balances at 31 December 2005	372	(178)	—	(1 445)
2004				
Accruals and provisions	177	74	—	(5)
Tax losses and credits	261	—	—	—
Net unrealised investment surpluses on shareholders' fund	—	(134)	—	(94)
Net unrealised investment surpluses on policyholders' fund	—	—	—	(652)
Other temporary differences	2	(6)	—	8
Deferred tax balances at 31 December 2004	440	(66)	—	(743)

	2005 R million	2004 R million
Total deferred tax asset	**372**	440
Total deferred tax liability	**(1 623)**	(809)
Total net deferred tax	**(1 251)**	(369)

The aggregate amount of temporary differences relating to investments in subsidiaries, associated companies and joint ventures, for which deferred tax liabilities have not been recognised is approximately R4 billion.

Deferred tax in respect of investment properties is provided for at capital gains tax rates, where applicable, as it is expected that capital gains tax will be payable on the recovery of the carrying value of the properties. Refer to note 39 for additional information.

	2005 R million	2004 R million
9. Short-term insurance technical provisions		
Short-term insurance technical provisions	6 702	5 198
Outstanding claims	4 218	3 174
Provision for unearned premiums	2 375	1 909
Deferred reinsurance acquisition revenue	109	115
Less: Short-term insurance technical assets	2 372	1 980
Reinsurers' share of technical provisions		
Outstanding claims	1 609	1 196
Unearned premiums	583	637
Deferred acquisition cost	180	147
Net short-term insurance technical provisions	4 330	3 218

Analysis of movement in short-term insurance technical provisions

	2005			2004		
R million	*Gross*	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
Outstanding claims						
Balance at beginning of year	3 174	(1 196)	1 978	2 989	(1 283)	1 706
Cash paid for claims settled in the year	(5 955)	769	(5 186)	(4 797)	733	(4 064)
Increase in liabilities	6 999	(1 182)	5 817	4 982	(646)	4 336
Balance at end of year	4 218	(1 609)	2 609	3 174	(1 196)	1 978
Unearned premiums						
Balance at beginning of year	1 909	(637)	1 272	2 036	(865)	1 171
Net increase/(release) in the period	466	54	520	(127)	228	101
Balance at end of year	2 375	(583)	1 792	1 909	(637)	1 272

	2005 R million	2004 R million
10. Trade and other receivables		
Premiums receivable	4 506	4 027
Accrued investment income	1 136	1 216
Trading account and money market investments	17 686	12 391
Amounts due from reinsurers	198	92
Accounts receivable	3 901	2 317
Total trade and other receivables	27 427	20 043

Trading account investments of R7 294 million and cash, deposits and similar securities of R1 190 million are pledged as collateral for liabilities of the Group as at 31 December 2005 (2004: R4 988 million). As no transfer of ownership takes place in respect of collateral other than cash, 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.

		2005 R million	2004 R million
11. Share capital and premium			
Authorised share capital			
4 000 million ordinary shares of 1 cent each	R million	40,0	40,0
56,5 million 'A' deferred shares of 1 cent each	R million	0,6	0,6
56,5 million 'B' deferred shares of 1 cent each	R million	0,6	0,6
52 million 'A' preference shares of 1 cent each	R million	0,5	0,5
Balance at end of year	R million	41,7	41,7
Issued share capital: ordinary shares			
Total shares in issue at beginning of year	million	2 767,6	2 654,6
New shares issued during the year	million	—	113,0
Shares cancelled during the year	million	(359,0)	—
Total shares in issue at end of year	million	2 408,6	2 767,6
Shares held by subsidiaries	million	(169,7)	(201,6)
Balance at end of year	million	2 238,9	2 566,0
Issued share capital: 'A' deferred shares			
Total number of 'A' deferred shares in issue	million	56,5	56,5
Issued share capital: 'A' preference shares			
Total number of 'A' preference shares in issue	million	52,0	52,0
Shares held by subsidiaries	million	(5,0)	—
Balance at end of year	million	47,0	52,0
Nominal value and share premium			
Nominal value of 1 cent per share	R million	24,1	28,0
Share premium	R million	931,1	4 331,0
'A' deferred shares	R million	0,6	0,6
'A' preference shares	R million	0,5	0,5
Total nominal value and share premium	R million	956,3	4 360,1

All new authorised and issued shares in 2004 relate to the empowerment transaction with Ubuntu-Botho.

The 'A' deferred shares shall be converted to ordinary shares at nil rand value when the accrued value of R7,65 per share has been achieved, in accordance with the contractual new business volumes formula, within a ten-year period from 1 January 2004. The 'A' deferred shares which are not converted to ordinary shares in December 2013 shall be converted to redeemable preference shares which shall be redeemed at par value within 30 days of such conversion.

The 'B' deferred shares shall be allotted and issued once all the 'A' deferred shares qualify for conversion to ordinary shares. The 'B' deferred shares shall be converted to ordinary shares on the same terms as the 'A' deferred shares.

The 'A' preference shares which have been issued to the Demutualisation Trust, entitle the Demutualisation Trust to convert the 'A' preference shares at R7,65 per share to ordinary shares, if and to the extent that the Demutualisation Trust requires the delivery of such ordinary shares to enable it to comply with its obligations in terms of the Demutualisation Trust Deed. The conversion can be affected through the issuance of new ordinary shares by Sanlam Limited combined with the redemption of an equivalent number of 'A' preference shares, or the transfer of treasury shares to the Demutualisation Trust in exchange for the transfer of an equivalent number of 'A' preference shares. Should such a conversion occur, the Demutualisation Trust is also required to transfer an equivalent number of Ubuntu-Botho 'A' preference shares held by the Demutualisation Trust to Sanlam or its subsidiary. On termination of the Demutualisation Trust, all outstanding 'A' preference shares will be redeemed at par.

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

Sanlam Limited acquired and cancelled 359 million ordinary shares as part of a capital reduction programme during the 2005 financial year. Share capital, share premium and reserves were reduced with the consideration paid for the cancelled shares.

Authorised and unissued shares

Subject to the restrictions imposed by the Companies Act, the authorised and unissued shares, to a maximum of 275 million shares, are under the control of the directors until the forthcoming annual general meeting.

11. Share capital and premium *(continued)*

	Shares 2005 000s	Options 2005 000s	Average option price 2005 R	Shares 2004 000s	Options 2004 000s	Average option price 2004 R
Executive share incentive scheme						
Total number of shares and options at the beginning of the year	1 420	137 581	7,64	3 906	170 084	7,51
Unrestricted shares at the beginning of the year	(520)	(31 232)	7,66	(1 101)	(60 571)	7,62
Restricted shares and share options at the beginning of the year	900	106 349	7,66	2 805	109 513	7,45
New options granted	—	626	8,94	—	35 647	8,26
Unconditional options and shares released, available for release, or taken up	(781)	(24 180)	8,02	(1 811)	(32 632)	7,66
Options forfeited	(38)	(4 373)	7,75	(106)	(5 714)	7,67
Options expired	—	—	—	—	(465)	7,96
Cash dividends received on restricted shares and converted into shares	4	—	—	12	—	—
Restricted shares and share options at the end of the year	85	78 422	7,53	900	106 349	7,66
Unrestricted shares and share options at the end of the year	401	24 936	7,94	520	31 232	7,66
Total number of shares and share options at the end of the year	486	103 358	7,62	1 420	137 581	7,64
Less: Shares issued	(486)	(13 770)		(1 420)	(5 506)	
Outstanding share options	—	89 588		—	132 075	
Outstanding share options as a percentage of total issued ordinary shares		3,7%			4,8%	
Approved maximum level of outstanding share options as a percentage of total issued ordinary shares		7,5%			7,5%	

Details regarding the restricted shares and share options outstanding on 31 December 2005 and the financial years during which they become unconditional, are as follows:

Unconditional during year ending	Number of shares 000s	Number of options 000s	Average option price R
31 December 2006	67	20 094	7,14
31 December 2007	14	27 119	7,64
31 December 2008	3	21 808	7,45
31 December 2009	1	9 401	8,19

	2005	2004

11. *Share capital and premium* (continued)

The fair value of options granted during the period, based on a binomial valuation model, was R2 million (2004: R97 million). The significant inputs used in the model were as follows:

	2005	2004
Weighted average share price	R9,82	R8,95
Weighted average exercise price	R8,94	R8,26
Weighted average expected volatility	22,92%	23,78%
Expected term	6,84 years	6,12 years
Weighted average expected dividend yield	4,37%	4,45%
Weighted average fair value of options at measurement date	R3,01	R2,67

The risk free yield curve used to calculate the fair value of the options granted was determined at grant date.

The expected volatility is based on the historic volatility of the Sanlam Limited share price over the previous 7 years and the expected term of management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

The share incentive scheme has been replaced with long-term incentive bonuses during the 2005 financial year, resulting in the reduction in the number and fair value of options granted during the year.

12. *Other reserves*

	2005 R million	2004 R million
Non-distributable reserves	9 539	9 415
Foreign currency translation reserve	(91)	(157)
Consolidation reserve	(1 931)	(2 820)
Policyholder fund investments in consolidated subsidiaries	(116)	(165)
Policyholder fund investments in associated companies	—	(672)
Policyholder fund investment in Sanlam Limited shares	(1 815)	(1 983)
Total reserves other than retained earnings	7 517	6 438

The purpose of these reserves are as follows:

Non-distributable reserve

The reserve comprises the pre-acquisition reserve of R9 415 million (2004: R9 415 million) arising upon the demutualisation of Sanlam Life Insurance Limited and the regulatory non-distributable reserves of the Group's Botswana operations of R124 million (2004: Rnil).

Foreign currency translation reserve

Foreign currency exchange differences arising on the translation of foreign entities are transferred to the foreign currency translation reserve. The relevant portion of the reserve is recognised in the income statement on realisation of foreign entities.

Consolidation reserve

A consolidation reserve is created for differences in the valuation bases of long-term policy liabilities and the investments supporting those liabilities. The reserve represents the cumulative transfer from the shareholders' fund to compensate for these mismatches. Differences arise from the following:

Investments in subsidiaries and consolidated funds are valued at net asset value plus goodwill;

Investments in associated companies are recognised on an equity-accounted basis; and

Investments in treasury shares are valued at zero;

whereas the fair value of the shares are included in the valuation of the related liabilities.

The reserve represents temporary differences insofar as the mismatches reverse when the affected investments are realised.

13. *Contingency reserves*

Contingency reserves in respect of short-term insurance business of R414 million are included in shareholders' reserves (2004: R337 million) and R16 million (2004: R22 million) in the net assets underlying policy liabilities.

	2005 R million	2004 R million
14. Minority shareholders' interest		
Santam	**2 828**	2 627
African Life Assurance Group	**367**	—
Sanlam Financial Services UK	**82**	67
Consolidated Financial Services	**78**	60
Octane Management	**76**	—
Vukile Property Fund	**—**	728
Other	**12**	33
Total minority shareholders' interest	**3 443**	3 515

	2005			2004		
	Total R million	Insurance contracts R million	Investment contracts R million	Total R million	Insurance contracts R million	Investment contracts R million
15. Long-term policy liabilities						
15.1 Analysis of movement in policy liabilities						
Income	**55 444**	**29 185**	**26 259**	45 372	24 305	21 067
Premium income (note 15.2)	**23 034**	**10 869**	**12 165**	22 256	11 174	11 082
Investment return after tax (note 23)	**32 410**	**18 316**	**14 094**	23 116	13 131	9 985
Outflow	**(32 392)**	**(16 081)**	**(16 311)**	(29 941)	(14 896)	(15 045)
Policy benefits (note 15.3)	**(20 165)**	**(10 285)**	**(9 880)**	(18 929)	(9 369)	(9 560)
Retirement fund terminations	**(4 714)**	**—**	**(4 714)**	(4 020)	—	(4 020)
Transfer to segregated assets	**—**	**—**	**—**	(297)	—	(297)
Fees, risk premiums and other payments to shareholders' fund	**(7 513)**	**(5 796)**	**(1 717)**	(6 695)	(5 527)	(1 168)
Movement in policy loans	**(30)**	**—**	**(30)**	(51)	—	(51)
Enhanced early termination benefits (note 23)	**595**	**595**	**—**	—	—	—
Net movement for the year	**23 617**	**13 699**	**9 918**	15 380	9 409	5 971
Liabilities acquired through business combinations	**11 137**	**2 930**	**8 207**	14 434	3 182	11 252
Foreign currency translation differences	**(76)**	**1**	**(77)**	(1 457)	(292)	(1 165)
Balance at beginning of the year	**163 556**	**92 961**	**70 595**	135 199	80 662	54 537
Balance at end of the year	**198 234**	**109 591**	**88 643**	163 556	92 961	70 595

	2005 R million	2004 R million
15. Long-term policy liabilities *(continued)*		
15.2 Analysis of premium income		
Individual business	**16 945**	16 717
Recurring	**9 501**	9 368
Single	**5 795**	5 783
Continuations	**1 649**	1 566
Employee benefits business	**6 089**	5 539
Recurring	**3 458**	3 110
Single	**2 631**	2 429
Total premium income	**23 034**	22 256
15.3 Analysis of long-term policy benefits		
Individual business	**16 640**	15 213
Maturity benefits	**8 925**	7 583
Surrenders	**4 055**	4 012
Life and term annuities	**3 032**	3 143
Death and disability benefits[1]	**615**	455
Cash bonuses[1]	**13**	20
Employee benefits business	**3 525**	3 716
Withdrawal benefits	**1 602**	1 793
Pensions	**1 176**	1 160
Lump-sum retirement benefits	**555**	556
Taxation paid on behalf of certain retirement funds	**82**	87
Death and disability benefits[1]	**74**	70
Cash bonuses[1]	**36**	50
Total long-term policy benefits	**20 165**	18 929

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

	2005 R million	2004 R million
15.4 Composition of policy liabilities		
Individual business	**157 064**	125 916
Linked and market-related liabilities	**72 613**	51 992
Stable bonus fund	**33 710**	28 827
Reversionary bonus policies	**10 207**	9 040
Non-participating annuities	**19 559**	17 444
Other non-participating liabilities	**20 975**	18 613
Employee benefits business	**41 170**	37 640
Linked and market-related liabilities	**16 893**	13 303
Stable bonus portfolios	**10 171**	11 226
Participating annuities	**8 586**	8 391
Non-participating annuities	**3 442**	2 769
Other non-participating liabilities	**2 078**	1 951
Total policy liabilities	**198 234**	**163 556**

15. Long-term policy liabilities *(continued)*

15.5 Maturity analysis of investment policy contracts

	<1 year	1 – 5 years	>5 years	Open ended	Total
2005: R million					
Linked and market-related	**1 547**	**6 115**	**23 743**	**32 043**	**63 448**
Stable bonus	**7**	**43**	**4**	**10 171**	**10 225**
Non-participating annuities	**120**	**948**	**247**	**279**	**1 594**
Other non-participating liabilities	**2 558**	**6 242**	**4 576**	**—**	**13 376**
Total investment policies	**4 232**	**13 348**	**28 570**	**42 493**	**88 643**
2004: R million					
Linked and market-related	1 320	5 362	17 970	20 055	44 707
Stable bonus	231	34	5	11 225	11 495
Non-participating annuities	113	1 420	230	—	1 763
Other non-participating liabilities	2 830	5 495	4 290	15	12 630
Total investment policies	4 494	12 311	22 495	31 295	70 595

Investment policy contracts are classified as at fair value through profit or loss.

15.6 Maturity analysis of insurance policy contracts

	<1 year	1 – 5 years	>5 years	Open ended	Total
2005: R million					
Linked and market-related	**1 217**	**5 259**	**17 009**	**2 573**	**26 058**
Stable bonus	**1 463**	**6 079**	**23 565**	**2 549**	**33 656**
Reversionary bonus policies	**440**	**2 048**	**6 568**	**1 151**	**10 207**
Non-participating annuities	**1**	**10**	**17**	**21 379**	**21 407**
Participating annuities	**—**	**—**	**—**	**8 586**	**8 586**
Other non-participating liabilities	**504**	**292**	**1 540**	**7 341**	**9 677**
Total insurance policies	**3 625**	**13 688**	**48 699**	**43 579**	**109 591**
2004: R million					
Linked and market-related	970	3 955	13 126	2 537	20 588
Stable bonus	1 239	5 139	19 969	2 211	28 558
Reversionary bonus policies	391	1 816	5 815	1 018	9 040
Non-participating annuities	—	—	—	18 450	18 450
Participating annuities	—	—	—	8 391	8 391
Other non-participating liabilities	377	249	1 519	5 789	7 934
Total insurance policies	2 977	11 159	40 429	38 396	92 961

15.7 Policy liabilities include the following:

	2005 R million	***2004 R million***
HIV/Aids reserve	**2 976**	2 377
Reduction in earnings caused by using a retrospective HIV/Aids valuation basis instead of a prospective valuation basis	**(43)**	(90)
Asset mismatch reserve	**813**	731

	2005 R million	2004 R million
16. Term finance		
Redeemable cumulative non-voting preference shares issued by subsidiary companies, with dividend terms that range between 7,2% and 10,8% (2004: 7,2% and 13,5%) or linked to prime interest rates. The preference shares have different redemption dates up to 2010.	2 261	4 038
Mortgage bonds over properties held in unit-linked policyholder funds. The mortgage over each property is negotiated separately, varies in term from 5 to 20 years, with interest rates linked at a premium to the Bank of England base rate.	305	169
Obligation towards beneficiaries of companies limited by guarantee – matched by assets held in this regard.	238	224
Obligations for promissory notes, zero coupons, interest rate derivatives and fixed interest derivatives.	56	899
Unsecured convertible loan notes and unsecured non-convertible loan notes, with interest rates of 4,47% and 2,77% respectively, in 2004.	—	12
Other	19	31
Term finance excluding Vukile Property Fund	2 879	5 373
Vukile Property Fund		
Variable rate loans secured by mortgage bonds over Vukile investment properties, with interest rates equal to three-month JIBAR plus 2%. Interest is payable monthly in arrears and the capital balances on maturity in June 2007.	—	763
Fixed rate loans secured by mortgage bonds over Vukile investment properties, with interest rates between 11,22% and 11,66%. Interest is payable monthly in arrears and the capital balances on maturity between September 2006 and September 2008.	—	502
Other	—	47
Total term finance	2 879	6 685
Reconciliation of term finance with matching assets		
Term finance liabilities		
Term finance excluding Vukile Property Fund as per above note	2 879	5 373
Add: Preference shares issued to subsidiaries and eliminated on consolidation	364	393
Term finance liabilities matched by assets	3 243	5 766
Assets held to match term finance liabilities		
Investment properties	317	175
Equities and similar securities	557	488
Public sector stocks and loans	44	170
Debentures, insurance policies, preference shares and other loans	1 377	3 146
Cash, deposits and similar securities	902	1 808
Working capital assets and liabilities	2	(40)
Total assets held in respect of term finance liabilities	3 199	5 747
Term finance liabilities not covered by assets	44	19
Term finance liabilities matched by assets	3 243	5 766
Maturity analysis of term finance		
Due within one year	1 361	3 429
Due within two to five years	975	2 659
Due after more than five years	543	597
Total term finance liabilities	2 879	6 685
Classification of term finance liabilities		
Classified as at fair value through profit or loss	306	1 123
At amortised cost	2 573	5 562
Total term finance liabilities	2 879	6 685

	2005 R million	2004 R million
17. Trade and other payables		
Trading account and money market liabilities	19 963	13 737
Accounts payable	6 730	4 354
Policy benefits payable	2 289	1 637
Amounts due to reinsurers	253	233
Bank overdrafts	13	196
Claims incurred but not reported	809	767
Total trade and other payables	**30 057**	20 924

A portion of trade and other payables is secured by trading account and money market investments as detailed in note 10.

18. Provisions

Details of the different classes of provisions are as follows:

	Restructuring R million	Possible claims R million	Post-retirement medical aid R million	Onerous contracts R million	Other R million	Total R million
Balance at 1 January 2004	**112**	**202**	**45**	**58**	**82**	**499**
Charged to income statement	(21)	130	5	—	46	160
Additional provisions	—	130	8	12	46	196
Unused amounts reversed	(21)	—	(3)	(12)	—	(36)
Utilised during the year	(83)	(62)	(6)	(27)	(16)	(194)
Balance at 31 December 2004	**8**	**270**	**44**	**31**	**112**	**465**
Charged to income statement	6	320	—	16	89	431
Additional provisions	9	360	—	17	63	449
Transfer to other provisions	—	(40)	—	—	40	—
Unused amounts reversed	(3)	—	—	(1)	(14)	(18)
Utilised during the year	(14)	(26)	(4)	(22)	(1)	(67)
Acquired through business combinations	—	5	—	—	23	28
Prior year adjustments	—	—	—	—	3	3
Balance at 31 December 2005	**—**	**569**	**40**	**25**	**226**	**860**
Analysis of provisions						
Current	—	169	4	25	49	247
Non-current	—	400	36	—	177	613
Total provisions at 31 December 2005	**—**	**569**	**40**	**25**	**226**	**860**

Restructuring

Provision was made for employee termination costs in terms of an announced restructuring plan for Gensec Bank.

The restructuring was substantially completed during 2004.

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 are uncertain.

Included in debtors is R78 million that is recoverable from counterparties in respect of some of the possible claims.

Estimates are reviewed annually and adjusted as appropriate for new circumstances.

Post-retirement medical aid contribution

The Group provides for the future medical aid contributions for certain pensioners, disabled staff members and disabled advisors.

The provision represents the present value of future contributions, which is actuarially determined on an annual basis.

Refer to note 33: Retirement benefits for employees.

	2005 R million	2004 R million

18. Provisions (continued)

Onerous contracts

Provision is made for the full term of the contractual rental payable in respect of vacated offices where the lease term has not yet expired.

A provision for related costs (eg electricity) is also included.

Other

Includes sundry provisions for possible outflows of resources from the Group arising from past events. None of the items are individually material.

19. Financial services income

	2005 R million	2004 R million
Analysis per revenue source		
Long-term insurance	7 560	7 086
Short-term insurance	10 985	9 837
Other financial services	1 848	913
Total financial services income	20 393	17 836
Analysis per revenue category		
Short-term insurance premiums	10 985	9 837
Premiums receivable	11 357	9 735
Change in unearned premium provision	(372)	102
Long-term insurance fee income	7 560	7 086
Administration services	2 164	1 648
Investment management fees	547	527
Risk benefit charges and other fee income	4 849	4 911
Other financial services fees and income	1 606	1 207
Trading profit/(loss)	242	(291)
Foreign exchange losses	—	(3)
Total financial services income	20 393	17 836

20. Reinsurance premiums paid

	2005 R million	2004 R million
Long-term insurance	225	185
Short-term insurance	2 114	2 118
Premiums payable	2 012	1 892
Change in unearned premium provision	102	226
Total reinsurance premiums paid	2 339	2 303

21. Reinsurance income

	2005 R million	2004 R million
Reinsurance commission received		
Long-term insurance	41	17
Short-term insurance	404	487
Total reinsurance commission received	445	504
Reinsurance claims received		
Long-term insurance	136	130
Short-term insurance	1 112	617
Total reinsurance claims received	1 248	747

	2005 R million	2004 R million
22. Investment return		
Investment income		
Equities and similar securities	3 190	2 414
Interest-bearing, preference shares and similar securities	5 168	4 926
Properties	1 413	1 226
Rental income	1 799	1 573
Rental related expenses	(386)	(347)
Net income from margin business	658	1 092
Dividend income	101	167
Interest received	850	1 403
Interest paid and term finance costs	(293)	(478)
Total investment income	10 429	9 658
The interest income on financial assets not classified as at fair value through profit or loss is R178 million (2004: R213 million).		
Investment surpluses		
Investments classified as at fair value through profit or loss	31 031	17 055
Investments held for trading	(2 526)	(1 560)
Investment properties	1 137	1 106
Profit on disposal of associated companies and subsidiaries	5 640	58
Total investment surpluses	35 282	16 659
Investment return includes foreign exchange gains of R886 million (2004: loss of R2 052 million).		
23. Long-term insurance and investment contract benefits		
Insurance contracts		
Underwriting policy benefits	2 754	2 698
Investment return and tax attributable to insurance contract liabilities (note 15)	18 316	13 131
Total long-term insurance contract benefits	21 070	15 829
Investment contracts		
Investment return and tax attributable to investment contract liabilities (note 15)	14 094	9 985
Total long-term investment contract benefits	14 094	9 985
Analysis of underwriting policy benefits		
Individual insurance	1 264	1 339
Employee benefits	1 490	1 359
Total underwriting policy benefits	2 754	2 698
Enhanced early termination benefits		
Once-off expense relating to enhanced early termination benefits payable to current and former policyholders in terms of an agreement reached between the Life Offices' Association of South Africa and National Treasury:		
Enhanced benefit to policyholders (note 15.1)	595	—
Related administration and other costs	25	—
Enhanced early termination benefits before tax	620	—
Taxation (note 27)	(180)	—
Enhanced early termination benefits after tax	440	—

	2005 R million	2004 R million
24. Administration costs include:		
Directors' remuneration		
Total remuneration paid by Sanlam Limited and its consolidated subsidiaries to present and previous directors of Sanlam Limited:		
Present		
Directors' fees	7,0	6,0
Other services (basic remuneration, pensions and bonuses)	15,0	14,1
Previous		
Directors' fees	0,9	0,3
Other services (basic remuneration, pensions and bonuses)	—	6,7
Total directors' remuneration	22,9	27,1
Analysis of directors' remuneration		
Executive directors	15,1	20,9
Non-executive directors	7,8	6,2
Total directors' remuneration	22,9	27,1
Directors' remuneration paid by subsidiaries	17,0	22,3
Auditors' remuneration(1)		
Audit fees: statutory audit	33	29
Other services provided by:	20	23
Subsidiaries' own auditors	18	8
Other Group auditors	2	15
Total auditors' remuneration	53	52
Depreciation	77	71
Operating leases	263	255
Properties	141	136
Equipment	110	106
Other	12	13
Consultancy fees(1)	143	164
Technical, administrative and secretarial fees(1)	35	31
Restructuring costs	15	—
Litigation settlements	10	37
Employee benefits	2 808	2 679
Salaries and other short-term benefits	2 575	2 468
Pension costs – defined contribution plans	146	136
Pension costs – defined benefit plans	14	12
Post-employment benefits	—	8
Share-based payments	69	55
Other long-term incentive schemes	4	—
Office staff (number of persons)	8 945	8 575

(1) *Consultancy fees of R80 million, technical administrative and secretarial fees of R13 million and auditors' remuneration for other services of R2 million are recognised against the profit on disposal of associates or recognised in the value of business acquired intangible asset.*

	2005 R million	2004 R million
25. Equity-accounted earnings		
Absa	**667**	989
Peermont	**59**	43
Safair Lease Finance	**49**	(3)
Other associated companies	**169**	56
Equity-accounted earnings	**944**	1 085

26. Discontinued operations

The Group embarked on a refocusing of Gensec Bank around the areas that are complementary and value enhancing to Sanlam's other businesses during 2003. The core activities were grouped in a new entity, Sanlam Capital Markets, which leverages its capability to capitalise on the potential of a centralised treasury, structured products and brokerage capability to serve the Group's clients. The balance of the activities are disposed of on a structured basis.

The initial announcement was made in August 2003 and the discontinuance was completed with the return of the Gensec Bank banking licence on 21 June 2004. The assets that comprised discontinued operations were transferred to and are reported as part of Sanlam's capital from 1 July 2004. The return on these assets are included in investment return from this date.

Discontinued operations recognised in the income statement comprise the following:

	2005 R million	2004 R million
Loss from discontinued operations	**—**	(97)
Financial services income	**—**	(42)
Administration costs	**—**	(35)
Employee and other termination costs	**—**	(7)
Onerous contracts	**—**	(13)
Profit on disposal of assets and settlement of liabilities	**—**	13
Income tax	**—**	(8)
Loss from discontinued operations	**—**	(8)
Profit on disposal of assets and settlement of liabilities	**—**	—
Discontinued operations	**—**	(92)

27. Taxation

Shareholders' fund

Refer reconciliation of earnings on page 246 for an analysis of the shareholders' fund's attributable earnings between financial services and investment return.

Analysis of income tax on profit attributable to shareholders' fund

	2005 R million	2004 R million
Result from financial services	**747**	789
Current year	**752**	793
Prior year	**(5)**	(4)
Investment return	**1 117**	224
Investment income – current year	**150**	92
Investment surpluses	**330**	232
Profit on disposal of associated companies	**534**	—
Secondary tax on companies	**103**	(100)
Enhanced early termination benefits	**(180)**	—
Tax expense: shareholders' fund	**1 684**	1 013

	2005 R million	2004 R million
27. Taxation *(continued)*		
Analysis of income tax per category		
Normal income tax	**1 054**	1 058
RSA – current year	**609**	990
RSA – prior year	**(6)**	61
Foreign	**93**	52
Capital gains tax	**241**	(45)
Secondary tax on companies	**117**	—
Deferred tax	**630**	(45)
Normal tax – current year	**187**	76
– prior year	**—**	(58)
– change in tax rate	**7**	—
Foreign	**(5)**	9
Capital gains tax – current year	**491**	28
– change in tax rate	**(36)**	—
Secondary tax on companies	**(14)**	(100)
Tax expense: shareholders' fund	**1 684**	1 013
In addition to income tax the following indirect taxes and levies were paid, which are included in the appropriate items:		
Included in administration costs	**170**	158
Included elsewhere in the income statement	**39**	35
Total indirect taxes and levies	**209**	193

Indirect taxes and levies include value-added tax, revenue stamps paid on policy contracts and statutory levies payable to the Regional Services Councils and the Financial Services Board.

	2005 R million	2004 R million
Reconciliation of tax rate on result from financial services		
Result from financial services before tax (refer page 246)	**3 455**	3 115
Tax on result from financial services (above)	**747**	789

	%	%
Effective tax rate	**21,6**	25,3
Standard rate of taxation	**29,0**	30,0
Adjusted for:		
Non-taxable income	**(5,6)**	(1,2)
Disallowable expenses	**—**	1,1
Share-based payments	**0,5**	0,5
Prior year adjustments	**0,1**	1,2
Foreign tax rate differential	**(1,9)**	(1,2)
Utilisation of assessed losses	**—**	(5,3)
Other	**(0,5)**	0,2
Effective tax rate on result from financial services	**21,6**	25,3

	2005 R million	2004 R million
27. Taxation *(continued)*		
Reconciliation of tax rate on investment return		
Investment return per segmental income statement (refer page 246)		
Investment income	1 269	1 053
Investment surpluses	3 478	33
Profit on disposal of associated companies	5 710	—
Total investment return	10 457	1 086
Tax on investment return (above)	1 117	224
	%	%
Effective tax rate	10,7	20,6
Standard rate of taxation	29,0	30,0
Adjusted for:		
Non-taxable income	(2,5)	(20,4)
Disallowable expenses	0,1	1,0
Foreign tax rate differential	0,1	—
Investment surpluses	(15,1)	(10,4)
Prior year adjustments	—	(4,8)
Secondary tax on companies	1,0	(9,2)
Fund transfers	(2,0)	33,6
Other	0,1	0,8
Effective tax rate on investment return	10,7	20,6
	R million	R million
Policyholders' fund		
Income tax		
Normal income tax	369	335
RSA – current year	328	252
RSA – prior year	—	10
Foreign – current year	41	67
Foreign – prior year	—	6
Capital gains tax	597	295
Normal	357	5
Deferred	240	290
Tax on retirement funds	153	128
Tax expense: policyholders' fund	1 119	758

	2005 cents	2004 cents
28. Earnings per share		

For basic earnings per share the weighted average number of ordinary shares is adjusted for the treasury shares held by subsidiaries. Basic earnings per share is calculated by dividing earnings by the adjusted weighted average number of shares in issue.

For diluted earnings per share the weighted average number of ordinary shares is adjusted for the shares not yet issued under the Sanlam Share Incentive Scheme, treasury shares held by subsidiaries and the conversion of deferred shares. Diluted earnings per share is calculated by dividing earnings by the adjusted diluted weighted average number of shares in issue.

	2005 cents	2004 cents
Basic earnings per share:		
Net result from financial services	92,5	71,4
Core earnings	131,8	104,8
Headline earnings	233,7	116,8
Profit attributable to shareholders' fund	439,2	108,7
Profit from continuing operations attributable to shareholders' fund	439,2	112,3
Discontinued operations attributable to shareholders' fund	—	(3,6)
Diluted earnings per share:		
Net result from financial services	90,9	70,5
Core earnings	129,7	103,4
Headline earnings	229,8	115,3
Profit attributable to shareholders' fund	432,0	107,3
Profit from continuing operations attributable to shareholders' fund	432,0	110,9
Discontinued operations attributable to shareholders' fund	—	(3,6)
	R million	*R million*
Analysis of earnings (refer segmental income statement on page 246):		
Net result from financial services	2 300	1 812
Core earnings	3 280	2 659
Headline earnings	5 813	2 963
Profit attributable to shareholders' fund	10 927	2 758
Profit from continuing operations attributable to shareholders' fund	10 927	2 850
Discontinued operations attributable to shareholders' fund	—	(92)
	million	*million*
Number of shares:		
Number of ordinary shares in issue at beginning of period	2 767,6	2 654,6
Add: Weighted number of shares issued	—	84,8
Less: Weighted number of shares cancelled	(76,4)	—
Less: Weighted Sanlam shares held by subsidiaries (including policyholders)	(203,5)	(201,6)
Adjusted weighted average number of shares for basic earnings per share	2 487,7	2 537,8
Add: Weighted conversion of deferred shares	6,2	3,0
Add: Total number of shares under option (refer note 11)	89,6	132,1
Less: Number of shares (under option) that would have been issued at fair value	(54,1)	(102,1)
Adjusted weighted average number of shares for diluted earnings per share	2 529,4	2 570,8

	2005 R million	2004 R million
29. Funds received from clients		
Analysis per product (refer to page 250 for analysis per cluster)		
Insurance business – Premium income	**31 905**	29 798
Long-term insurance (note 15.2)	**23 034**	22 256
Transfer to segregated funds	**—**	(177)
Short-term insurance	**8 871**	7 719
Other business	**52 749**	40 933
Collective investment schemes	**17 285**	12 255
Linked products	**7 340**	6 068
Segregated funds	**28 124**	22 610
Total funds received from clients	**84 654**	70 731
Funds received from clients are disclosed net of the following reinsurance premiums (note 20):		
Long-term insurance	**225**	185
Short-term insurance	**2 114**	2 118
30. Payments to clients		
Analysis per product (refer to page 252 for analysis per cluster)		
Insurance business – Policy benefits paid	**28 575**	25 894
Long-term insurance – underwriting	**2 618**	2 568
– other (note 15.3)	**20 165**	18 929
Short-term insurance	**5 792**	4 397
Retirement fund terminations (note 15.1)	**4 714**	4 020
Other payments (off-balance sheet activities)	**36 197**	24 226
Collective investment schemes	**13 148**	10 354
Linked products	**4 103**	3 739
Segregated funds	**18 946**	10 133
Total payments to clients	**69 486**	54 140
Payments to clients are disclosed net of the following reinsurance claims (note 21):		
Long-term insurance	**136**	130
Short-term insurance	**1 112**	617

31. Dividends

A dividend of 65 cents per share (2004: 50 cents per share) was declared in March 2006 in respect of the 2005 earnings. The secondary tax on companies (STC) liability in respect of the dividend, as well as future distributions of retained earnings, is dependent on the STC credits that will be available at the end of the dividend cycles and is impracticable to determine.

32. Financial instruments and risk management

32.1 Financial risks

The Group is exposed to various financial risks in connection with its current operating activities, such as foreign currency risk, interest rate risk, credit risk, market risk and liquidity risk. These risks contribute to the key financial risk that the proceeds from the Group's financial assets are not sufficient to fund the obligations arising from insurance and investment policy contracts and the trading activities conducted by Sanlam Capital Markets.

The Group manages these risks through various risk management processes, all forming part of an asset liability management framework. These processes have been developed to ensure that:

- the long-term investment return on assets supporting policy liabilities are sufficient to fund policyholders' reasonable benefit expectations and the shareholders' profit entitlement; and
- the risk exposure from Sanlam Capital Markets' trading book remains within its economic capital parameters.

The Asset, Liability and Risk Management committee within Sanlam Capital Markets is responsible for the implementation and monitoring of risk management processes to ensure that the risks arising from trading positions are effectively managed within the approved risk parameters.

Asset Liability committees are also established within the insurance businesses. The principal aim of these committees is to ensure that insurance and investment contract liabilities are matched with appropriate supporting assets based on the type of benefits payable to the contract holders. Separate asset portfolios are maintained for the different products and categories of long-term policy liabilities.

Additional information on the management of financial risks are provided below.

Derivative financial instruments

For the management of the shareholders' fund's financial risks, the Group uses derivative financial instruments as follows:

- Sanlam Capital Markets, in its trading activities, acts as a dealer in derivative instruments to satisfy the risk management needs of its clients and assume trading positions based on its market expectations, to benefit from price differentials between instruments and markets.
- Sanlam Life and Santam primarily use derivative financial instruments for the preservation of their capital bases.

32. *Financial instruments and risk management* (continued)

32.1 Financial risks (continued)

2005

R million	*Residual term to contractual maturity* *<1 year*	*1 – 5 years*	*>5 years*	*Total notional amounts*	*Analysed by use* *Trading*	*Asset liability manage-ment*	*Total fair value of amounts*
Interest rate products over-the-counter							
Swap contracts	30 507	21 948	21 200	73 655	73 655	—	3
Total interest rate products	30 507	21 948	21 200	73 655	73 655	—	3
Market risk products							
Cliquet structures	7 896	4 239	—	12 135	10 085	2 050	(374)
Collar structures	—	—	—	—	—	—	—
Forward purchase of shares							
Local	—	—	—	—	—	—	—
Fence structures							
Local	1 329	1 569	—	2 898	1 820	1 078	84
International	71	—	—	71	—	71	—
Total market risk products	9 296	5 808	—	15 104	11 905	3 199	(290)
Foreign exchange products over-the-counter							
Spot and forward contracts (purchases)	48	125	—	173	173	—	(53)
Spot and forward contracts (selling)	(42)	(125)	—	(167)	(167)	—	40
Total foreign exchange products	6	—	—	6	6	—	(13)
Other derivative products	830	165	—	995	795	200	18

32. *Financial instruments and risk management (continued)*

32.1 Financial risks *(continued)*

2004

R million	Residual term to contractual maturity <1 year	1 – 5 years	>5 years	Total notional amounts	Analysed by use Trading	Asset liability management	Total fair value of amounts
Interest rate products over-the-counter							
Swap contracts	30 356	17 810	26 031	74 197	74 197	—	5
Total interest rate products	30 356	17 810	26 031	74 197	74 197	—	5
Market risk products							
Cliquet structures	428	723	—	1 151	611	540	(56)
Collar structures	732	—	—	732	—	732	(146)
Forward purchase of shares							
Local	128	—	—	128	—	128	(78)
Fence structures							
Local	1 163	624	—	1 787	624	1 163	(94)
International	—	—	—	—	—	—	—
Total market risk products	2 451	1 347	—	3 798	1 235	2 563	(374)
Foreign exchange products over-the-counter							
Spot and forward contracts (purchases)	49	169	—	218	218	—	(50)
Spot and forward contracts (selling)	(49)	(169)	—	(218)	(218)	—	28
Total foreign exchange products	—	—	—	—	—	—	(22)
Other derivative products	1 592	265	10	1 867	1 567	300	256

Securities lending

The Sanlam group conducts securities lending activities as lender in respect of some of its listed equities and bonds. Collateral security and guarantees of between 105% and 150% of the value of the loaned securities are held.

	2005 R million	2004 R million
Fair value of collateral accepted as security for scrip lending arrangements	**10 840**	3 628

As no transfer of ownership has taken place, any collateral accepted for securities lending arrangements may not be used for any purpose other than being held as security for the arrangements.

32. Financial instruments and risk management *(continued)*

32.1 Financial risks *(continued)*

Market risk – interest and equities

Sanlam's operations are exposed to market risk. Market risk arises from the uncertain movement in the fair value of financial instruments that stems principally from potential changes in sentiment towards the instrument, the variability of future earnings that is reflected in the current perceived value of the instrument and the fluctuations in interest rates and foreign currency exchange rates. Policyholders' and shareholders' investments in equities are valued at fair value and are therefore susceptible to market fluctuations. Investments in listed subsidiaries are reflected at net asset value based on the market value of the underlying investments. Investments subject to equity risk are analysed in the balance sheet and in note 7.

The acquisition of policyholders' assets is based on the contract entered into and the preferences expressed by the policyholder. Within these parameters, investments are managed with the aim of maximising policyholder returns while limiting risk to acceptable levels within the framework of statutory requirements. The focus of risk measurement and management is to ensure that the potential risks inherent in an investment are reasonable for the future potential reward, exposure to investment risk is limited to acceptable levels, premium rates are adequate to compensate for investment risk and an adequate reserving policy is applied for long-term policy liabilities.

Comprehensive measures and limits are in place to control the exposure to market risk of the financial instruments of Sanlam. Continuous monitoring takes place to ensure that appropriate assets are held where the liabilities are dependent upon the performance of specific portfolios of assets and that a suitable match of assets exists for all non-linked liabilities. Limits are applied in respect of the exposure to asset classes and individual counters. Capital intensive products are also subject to new business limits.

Linked and market-related liabilities:

The Group is not exposed to market risk in respect of linked and market-related liabilities, as the benefits under the contracts are linked to the fair value of the supporting assets. Market risk is assumed by the contract holder. The Group is exposed to some market risk where the policy contract provides for guaranteed minimum benefits at death or maturity. The risk is managed by appropriate investment policies and by adjusting the level of guarantees for new policies to prevailing market conditions. The Asset Liability Committee determines appropriate investment policies where investment guarantees are provided. These policies are then reflected in the investment guidelines for the policyholder portfolios. The Group's long-term policy liabilities include a specific provision for investment guarantees. The current provision is sufficient to cover the expected additional benefits within a confidence level of at least 77%.

Stable and reversionary bonus business:

The Group is exposed to market risk to the extent that declared bonuses have vested and other investment guarantees are provided. The risk is managed by appropriate investment policies for supporting investments. Negative bonus stabilisation reserves are allowed for in the valuation of these liabilities to the extent that the shortfall is expected to be recovered by declaring lower bonuses in the subsequent three years. The funding levels of portfolios are bolstered in instances where negative stabilisation reserves will not be eliminated by these management actions. At 31 December 2005 all portfolios had a funding level in excess of 92,5%.

Non-participating annuities:

Interest rate risk is the principal financial risk in respect of non-participating annuities, given the long-term profile of these liabilities. Liabilities are matched with assets, mostly interest-bearing, to ensure that the duration of assets and liabilities are closely matched. The impact of changes in interest rates are continuously tested and for a 1% parallel movement in interest rates the impact on profit will be immaterial. The mean duration of non-participating annuity liabilities is between 2 and 12 years as at 31 December 2005 compared to a mean duration of between 2 and 12 years for the supporting assets, indicating acceptable exposure to interest rate risk.

Guarantee plans:

These policies provide for guaranteed maturity amounts. Market risk is managed by matching the liabilities with assets that have similar maturity profiles as the liabilities.

Within Sanlam Capital Markets risk measurements are calculated through the application of various statistical techniques – Value at Risk (VaR) and position limits are supplemented with stress testing and scenario analysis. Sanlam believes that statistical models alone do not provide a reliable method of monitoring and controlling market risk. While VaR models are relatively sophisticated, the quantitative market risk information generated is limited by the assumptions and parameters established in creating the related models. Therefore, such models are tools and do not substitute for the experience or judgement of senior management but are used as input in the decision making process.

32. ***Financial instruments and risk management*** *(continued)*

32.1 Financial risks *(continued)*

Operational risk

Operational risk is the risk of loss due to factors such as inadequate systems, management failure, inadequate internal controls, fraud or human error. The Group mitigates these risks through its culture and values, a comprehensive system of internal controls, internal audit, forensic and compliance functions and other measures such as back-up facilities, contingency planning and insurance.

The initiation of transactions and their administration is conducted on the basis of the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions. Control is further strengthened through the settlement of transactions through custodians. The custodians are also responsible for the safe custody of the Group's securities. To ensure validity, all transactions are confirmed with counter-parties independently from the initial executors.

Sanlam has a risk-based internal audit approach, in terms of which priority is given to the audit of higher risk areas, as identified in the planning phase of the audit process. The internal control systems and procedures are subject to regular internal audit reviews.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate owing to changes in foreign exchange rates. The Group's exposure to currency risk is in respect of foreign investments made on behalf of policyholders and shareholders for the purpose of seeking international diversification of investments. Exposure to different foreign currencies is benchmarked against the currency composition of the Morgan Stanley Capital International World Equity Index and the JP Morgan Government Bond Index.

Policyholders' fund:

Policyholder portfolios with exposure to foreign currencies are predominately in respect of linked, market-related and participating policy liabilities where the holder of the contract is, in the first instance, exposed to the currency risk. For other policies, the currency exposure is negligible.

Shareholders' fund:

The following shareholders' fund assets and liabilities denominated in foreign currencies are included in the balance sheet:

31 December 2005

R million	*Euro*	*United States Dollar*	*British Pound*	*Botswana Pula*	*Other*	*Total*
Equities and similar securities	—	1 566	325	145	—	2 036
Public sector stocks and loans	—	387	11	5	2	405
Debentures, insurance policies, preference shares and other loans	—	1 106	491	194	12	1 803
Cash, deposits and similar securities	145	368	518	202	6	1 239
Trade and other receivables	8	97	423	12	6	546
Trade and other payables	(5)	(172)	(278)	(46)	(3)	(504)
Other net assets	179	120	(447)	227	—	79
Minorities	(87)	(75)	(250)	(338)	(2)	(752)
Foreign currency exposure	240	3 329	793	401	21	4 852
Exchange rates (rand):						
Closing rate	7,48	6,35	10,89	1,16		
Average rate	7,91	6,36	11,56	—		

32. *Financial instruments and risk management (continued)*

32.1 Financial risks *(continued)*

31 December 2004

R million	Euro	United States Dollar	British Pound	Botswana Pula	Other	Total
Equities and similar securities	—	1 105	97	—	—	1 202
Public sector stocks and loans	—	127	12	—	166	305
Debentures, insurance policies, preference shares and other loans	—	864	658	—	12	1 534
Cash, deposits and similar securities	—	350	233	—	—	583
Trade and other receivables	8	6	271	—	—	285
Trade and other payables	(1)	(17)	(180)	—	—	(198)
Other net assets	199	37	(408)	—	—	(172)
Minorities	(94)	(7)	(221)	—	—	(322)
Foreign currency exposure	112	2 465	462	—	178	3 217
Exchange rates (rand):						
Closing rate	7,67	5,64	10,82	—		
Average rate	7,99	6,42	11,77	—		

Property risk

Property risk is the risk that the value of the investment properties will fluctuate as a result of changes in the environment. Property investments are made on behalf of policyholders, shareholders and other investment clients and are reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

Credit risk

Credit risk arises from the inability or unwillingness of a counter-party to a financial instrument to discharge its contractual obligations. Sanlam determines counter-party credit quality by reference to ratings from independent rating agencies or, where such ratings are not available, by internal analysis. Sanlam seeks to avoid unacceptable concentration of credit risk to groups of counter-parties, business sectors, product types, etc.

The Group's financial instruments do not represent a concentration of credit risk because it deals with a variety of major banks and its accounts receivable and loans are spread among a number of major industries, customers and geographic areas. Amounts receivable in terms of long-term insurance business 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. An appropriate level of provision is maintained. Exposure to outside financial institutions concerning deposits and similar transactions is monitored against approved limits.

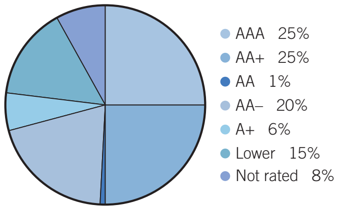
Included in interest-bearing financial instruments are short-term fixed interest stock for which credit risk is very important. The table below provides an analysis of the Group's South African operations' exposure to and credit rating of short-term fixed interest stock:

	2005 R million	2004 R million
Promissory notes	**4 754**	4 212
Deposits	**11 204**	7 591
Call deposits	**3 189**	3 368
Loans	**1 375**	3 248
Other short-term fixed interest stock	**309**	337
	20 831	18 756

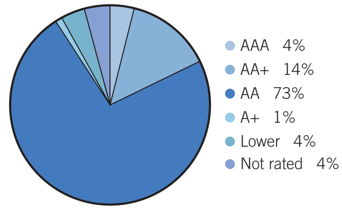
32. *Financial instruments and risk management (continued)*

32.1 Financial risks *(continued)*

Credit exposure of RSA short-term fixed interest stock 2005



Credit exposure of RSA short-term fixed interest stock 2004



Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising cash to meet commitments associated with financial instruments. Liquidity risk arises when there is mismatching between the maturities of liabilities and assets.

Policyholder funds are invested in appropriate assets, taking into account expected cash outflows. Almost 100% of term finance liabilities are backed by appropriate assets with the same maturity profile. Details of term finance liabilities are provided in note 16 and current liabilities in note 17. The Group has significant liquid resources and substantial unutilised banking facilities.

Legal risk

Legal risk is the risk that the Group will be exposed to contractual obligations that have not been provided for, particularly in respect of policy liabilities. The risk also arises from the uncertainty of the enforceability, through legal or juridicial processes, of the obligations of Sanlam's counter-parties, including contractual provisions intended to reduce credit exposure by providing for the netting of mutual obligations.

During the development stage of any new product and for material transactions entered into by the Group, the legal resources of the Group monitor the drafting of the contract documents to ensure that rights and obligations of all parties are clearly set out. Sanlam seeks to minimise uncertainties through continuous consultation with internal and external legal advisers, to understand the nature of risks and to ensure that transactions are appropriately structured and documented.

Capital adequacy risk

Capital adequacy risk is the risk that there are insufficient reserves to provide for variations in actual future experience that is worse than assumed in the financial soundness valuation. The Group must maintain shareholders' funds that will be sufficient to meet obligations in the event of substantial deviations from the main assumptions affecting the Group's business. A stochastic modelling process is used to simulate a number of investment scenarios. This is used to determine required capital levels that will ensure sustained solvency with an acceptable confidence level. Capital adequacy requirements for Sanlam Life Insurance Limited and African Life Assurance Company Limited were covered 3,9 times and 7,6 times respectively by the companies' shareholders' funds as at 31 December 2005 (Sanlam Life 2004: 3,6 times) and are determined according to regulations and the guidelines issued by the Actuarial Society of South Africa.

32.2 Long-term insurance risk

Long-term insurance risk can be classified into four main categories:

Investment risk;

Underwriting risk;

Operational risk; and

Reputational risk.

32. *Financial instruments and risk management (continued)*

32.2 Long-term insurance risk (continued)

Investment risk

Investment risk is the Group's most important insurance risk and is particularly relevant to products providing smoothed bonuses or guaranteed investment amounts. It relates to the relative sensitivity of long-term policy liabilities and the supporting policyholder assets to interest rate, market, credit, liquidity, currency and derivative risks. Refer to note 32.1 for additional information on the management of these risks.

Underwriting risk

Underwriting risk is the risk that the actual mortality, morbidity and medical claims will exceed the expected claims. Insurance events are random and the actual number and amount of claims will vary from estimates. The Group manages these risks through its product development process and underwriting policy to prevent anti-selection and ensure appropriate premium rates (loadings) for substandard risks, adequate reinsurance arrangements to limit exposure per individual and manage concentration of risks, claims handling policy and adequate pricing and reserving.

Quarterly actuarial valuations are also performed to assist in the timely identification of experience variances.

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 cluster's governance process. The statutory actuaries approve the policy conditions and premium rates of new and revised products;
- Specific testing for HIV/Aids is carried out in all cases where the applications for risk cover exceed a set limit. Product pricing and reserving policies also include specific allowance for the risk of HIV/Aids;
- Applications for risk cover are reviewed by experienced underwriters and evaluated against established standards. Retention limits are applied to limit the exposure per individual life;
- Reasonable income replacement levels apply to disability insurance;
- The experience of reinsurers is used where necessary for the rating of substandard risks;
- The right to rerate premiums is retained as far as possible. The risk premiums for Group risk business and most of the in-force individual risk business can be adjusted within 12 months should claims experience deteriorate to the extent that such an adjustment is considered necessary. Most of the individual new business is sold with a guarantee that risk premiums would not be increased for the first 5 to 15 years;
- Risk profits are determined monthly; and
- Regular investigations into mortality and morbidity experience are conducted to ensure that corrective action, for example rerating of premiums, is taken where necessary.

The Group's reinsurance arrangements include proportionate, excess and catastrophe coverage. All risk exposures in excess of specified monetary limits are reinsured. Catastrophe insurance is in place for single-event disasters. Credit risk in respect of reinsurance is managed by limiting the Group's exposure to companies with high international or similar credit ratings.

Claims risk is the risk that Sanlam may pay claims not intended to be incurred. Training of client service staff takes place to ensure that fraudulent claims are identified and investigated timeously. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks. The forensic investigation team also advises on improvements to internal control systems.

Concentration of insurance risk

A well diversified portfolio reduces the risk. The tables below provide analyses of the concentration of insured benefits and annuities per individual life insured, expressed as percentages of the total insured benefits and total annual non-participating annuities respectively:

Benefits insured per individual life

R'000	Number of lives	Before reinsurance 2005 %	Before reinsurance 2004 %	After reinsurance 2005 %	After reinsurance 2004 %
0 – 500	7 586 515	60	57	66	62
500 – 1 000	62 538	17	18	17	17
1 000 – 5 000	27 967	19	21	16	19
5 000 – 8 000	815	2	2	1	1
>8 000	334	2	2	—	1
	7 678 169	100	100	100	100

32. *Financial instruments and risk management* (continued)

32.2 Long-term insurance risk (continued)

Non-participating annuity payable per annum per life insured

R'000	Number of lives	Before reinsurance 2005 %	Before reinsurance 2004 %	After reinsurance 2005 %	After reinsurance 2004 %
0 – 20	217 518	48	48	48	48
20 – 40	18 526	18	20	18	20
40 – 60	5 897	10	10	10	10
60 – 80	2 512	6	6	6	6
80 – 100	1 206	4	4	4	4
>100	1 831	14	12	14	12
	247 490	100	100	100	100

Operational risk

Operational risk can be classified into the following main categories:

- Lapse risk;
- Expense risk;
- Legislation; and
- Taxation.

Lapse risk

Lapse risk relates to the risk of financial loss due to negative lapse experience. Distribution models are used by the Group to identify high risk clients. Client relationship management programmes are aimed at managing client expectations and relationships to reduce lapse rates. The design of insurance products excludes material surrender value guarantees, subject to regulatory constraints, to limit financial loss at surrender. Lapse experience is monitored to ensure that negative experience is timeously identified and corrective action taken. The Group's reserving policy is based on actual experience to ensure that adequate provision is made for lapses.

Expense risk

Expense risk is the risk of loss due to actual expense experience being worse than that assumed in premium rates and policy liabilities. Expenses are continuously monitored and managed through the Group's budgeting process.

Legislation

The Group is exposed to the risk that practices established in the past may not be acceptable in changing legislative and social environments. The risk is managed as far as possible through clear contracting as also described in note 32.1 under Legal risk. The Group monitors and influences events to the extent possible by participation in discussions with legislators, directly and through industry organisations.

Taxation

Changes in tax legislation may result in financial loss due to the fact that the actual tax expense relating to policyholder assets and activities may be worse than that assumed in the determination of premium rates and guaranteed policy benefits. The risk is addressed through clear contracting to ensure that policy contracts entitle policyholders to after tax returns where applicable. The Group's internal tax resources monitor the impact of changes in tax legislation, participate in discussions with the tax legislator to influence changes in legislation and are involved in the development of new products. External tax advice is obtained as required.

Reputational risk

Reputational risk is the risk that the Group is prevented from applying mitigating risk management policies due to the potential reputational impact on the Group. Actions with a potential reputational impact are escalated to the appropriate level of senior management. The Audit committees and boards of directors are involved as required. Events with an industry-wide reputational impact are addressed through industry representative groups.

32. *Financial instruments and risk management (continued)*

32.3 Short-term insurance risk

Through the Strategic Enterprise Risk Management process (SERM) that is implemented in the Group's Short-term insurance cluster, the Cluster's board of directors and executive committee manages the short-term insurance risk to be within the risk appetite of the Group.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. By the very nature of an insurance contract, this risk is random and therefore unpredictable. Changing risk parameters and unforeseen factors may result in unexpectedly large claims. Often the risk of change coincides with the risk of random fluctuations, making it more difficult to identify and quantify the risk potential. 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.

The net claims ratio for the Group, which is important in monitoring insurance risk, has developed as follows over the past eight years:

Loss history	2005	2004	2003	2002	2001	2000	1999	1998
Claims paid and provided %	65,3	57,0	64,8	70,7	70,7	72,0	70,0	72,6

Factors that aggrevate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The insurance risk arising from these contracts is not concentrated in any of the geographical areas in which the Group operates. The Group underwrites insurance contracts in Southern Africa as well as Europe/UK.

The Group has the right to re-price and change the conditions risks on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Only extensive know-how, well-maintained data resources and selective underwriting based on this information can produce risk-adequate prices and conditions. The effects of the risk of change influence both the premium calculations and the reserves.

Through selective underwriting, client focused claims handling and state-of-the-art reserving methods, the Group endeavours to minimise risks resulting from the risk of change. Claims are analysed separately for long tail and short tail claims. The development of large losses/catastrophes is analysed separately. Short tail claims can be estimated with greater reliability, and the Group estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allows the Group to achieve a higher degree of certainty about the estimated cost of claims, and relatively lower levels of IBNR are held at year-end. However, the longer time needed to assess the emergence of a long tail claim makes the estimation process more uncertain for these claims. The uncertain nature of the costs of this type of claim causes greater uncertainty in the estimates, hence the higher level of IBNR. The Group's exposure is however predominantly short tail as illustrated in the claims development table below. At year-end, the Group believes that its liabilities for long tail and short tail claims are adequate.

Development of actual claims paid, based on the actual date of the event that caused the claim:

Reporting year	*Total*	*2005*	*2004*	*2003*	*2002*	*2001*
Conventional short-term insurance claims – gross (R million):						
2005	5 955	4 711	966	107	106	65
2004	4 797	—	3 813	823	99	62
2003	5 076	—	—	3 648	1 083	345
2002	4 832	—	—	—	4 105	727
2001	4 169	—	—	—	—	4 169
Cumulative payments	24 829	4 711	4 779	4 578	5 393	5 368

32. *Financial instruments and risk management* (continued)

32.3 Short-term insurance risk (continued)

Reporting year	*Total*	*2005*	*2004*	*2003*	*2002*	*2001*
Conventional short-term insurance claims – net (R million):						
2005	5 185	4 223	820	33	79	30
2004	4 084	—	3 311	656	82	35
2003	4 194	—	—	3 120	892	182
2002	3 754	—	—	—	3 336	418
2001	3 374	—	—	—	—	3 374
Cumulative payments	20 591	4 223	4 131	3 809	4 389	4 039

An excellent tool for risk prevention, and thus for risk control, is careful reserving to cover future claims and losses, which have been incurred but not yet reported or underreported. Hence the Group generally established provisions for uncertain liabilities using actuarial methods. Claim provisions for all classes of business are regularly checked by means of internal reviews and audits to make sure they are sufficient. These analyses draw on the expertise and experience of a wide range of specialists, such as actuaries, underwriting and accounting experts.

A further risk control measure in the field of underwriting is the cession of a portion of the risk to third parties via external reinsurance. The Group has appropriate external reinsurance cover. This cover is placed on the local and international reinsurance market. The core components comprise of:

– An individual excess-of-loss cover, amongst others property, liability and engineering risks, which provides protection to limit losses to 1% of free assets per any event;

– Catastrophe cover purchased, equates to 1,9% of the accumulated value of the highest accumulation zone; and

– In addition to the above, a net loss ratio protector.

The relevant board approves the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is placed with external reinsurers that have a credit rating of not less than A – from S&P or AM Best.

33. *Retirement benefits for employees*

Retirement provision

The Sanlam group provides for the retirement 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 2005, 92% of employees were covered by defined contribution funds and 8% by defined benefit funds (2004: 93% and 7% respectively).

Defined contribution funds

There are separate defined contribution funds for advisers, full-time and part-time office staff. The Sanlam group contributed R146 million to these funds during 2005 (2004: R136 million).

Defined benefit funds

The Sanlam group has six defined benefit funds. These funds relate to the Sanlam office personnel (that did not elect to transfer to the defined contribution fund), Sanlam Namibia office personnel, Merchant Investors Assurance office personnel, Sanlam Financial Services UK office personnel (BGJ Pension Scheme), Aflife Defined Benefit Fund SA and Aflife Defined Benefit Fund Botswana. All funds, except the Aflife Botswana fund, are closed for new entrants. The Sanlam group contributed R14 million during 2005 to these funds (2004: R12 million). These contributions relate to current service costs and are included in administration costs. The Sanlam Office Personnel Fund and the Aflife Defined Benefit Fund SA are governed by the Pension Funds Act in South Africa.

All of the above funds are valued annually. According to the latest valuation in accordance with IAS 19 all of the above funds were in a materially sound financial position.

Principal actuarial assumptions were as follows:

	Sanlam Office Personnel	*BGJ Pension Scheme*	*Merchant Investors Assurance*	*Sanlam Namibia Office Personnel*
Latest valuation date	31 December 2005	31 December 2005	31 December 2005	31 December 2005
Pre-retirement discount rate	8,25% per annum	5% per annum	4,8% per annum	8,25% per annum
Post-retirement discount rate	4,25% per annum	5% per annum	2,8% per annum	4,25% per annum
Future salary increases	6% per annum	4% per annum	4% per annum	6% per annum
Expected return on assets	8,25% per annum	6% per annum	5,1% per annum	8,25% per annum

33. Retirement benefits for employees *(continued)*

	African Life SA	African Life Botswana
Latest valuation date	1 October 2005	30 November 2005
Pre-retirement discount rate	8,25% per annum	10% per annum
Post-retirement discount rate	3,1% per annum	10% per annum
Future salary increases	5,75% per annum	8% per annum
Expected return on assets	8,25% per annum	10% per annum

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.

Medical aid funds

The actuarially determined present value of medical aid obligations for disabled members and certain pensioners is fully provided for at year-end. The Group has no further unprovided post-retirement medical aid obligations for current or retired employees.

Principal actuarial assumptions at 31 December 2005 were as follows:

Pre-retirement discount rate	8,25%
Returns for All bond index (ALBI)	7,95%
Expected increase in medical aid contributions	8,25%

	Defined benefit plans		Post-employment medical aid benefits	
	2005 R million	2004 R million	2005 R million	2004 R million
Amounts recognised in the balance sheet				
Present value of funded obligations	1 088	680	—	—
Actuarial value of plan assets	(1 251)	(951)	—	—
Net present value of funded obligations	(163)	(271)	—	—
Present value of unfunded obligation	—	—	40	44
Net (assets)/liabilities	(163)	(271)	40	44
Unrecognised actuarial gains	163	271	—	—
Net liability included on balance sheet	—	—	40	44
Movements in the net liability recognised in the balance sheet are as follows:				
Net liability at beginning of year	—	—	44	45
Net expense recognised in the income statement	14	12	—	8
Contributions	(14)	(12)	(4)	(9)
Net liability at end of year	—	—	40	44

33. Retirement benefits for employees (continued)

Defined benefit plans

	2005 R million	2004 R million
Net expense recognised in the income statement		
Current service cost	20	21
Interest cost	75	74
Expected return on plan assets	(171)	(142)
Net actuarial losses recognised during the year	138	40
Past service cost	—	19
Release of reserve	(48)	—
Total included in staff costs	14	12
Actual return on plan assets:		
Sanlam Office Personnel	19,1%	19,3%
BGJ Pension Scheme	11,0%	6,5%
Merchant Investors Assurance	12,9%	6,4%
Sanlam Namibia Office Personnel	29,8%	16,8%
Aflife Defined Benefit Plan SA	24,9%	—
Aflife Defined Benefit Plan Botswana	64,0%	—

The above value of fund assets includes an investment of R13 million (2004: R7 million) in Sanlam shares.

The actuarial surplus is currently not recognised as an asset by the Group, as the extent of the surplus available to the company cannot be determined with certainty.

34. Borrowing powers

In terms of the articles of association of Sanlam Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation.

Material borrowings of the Sanlam group are disclosed in note 16.

35. Commitments and contingencies

	2005 R million	2004 R million
Commitment in respect of private equity investments	38	123
Future operating lease commitments:		
Lease rentals due within one year	111	130
Lease rentals due within two to five years	161	195
Lease rentals due within more than five years	81	128
Total operating lease commitments	353	453

As part of the disposal of Tasc Administration to JP Morgan during 2004, Sanlam agreed to outsource investment administration services to JP Morgan for a period of ten years. The fees payable under the agreement is based on the market value of the investments under administration.

The South African Revenue Service (SARS) had issued revised income tax assessments totalling R240 million in normal income tax in respect of the 1997, 1998 and 1999 tax years of a subsidiary of Genbel Securities Limited (Gensec). In terms of the revised assessments certain surpluses arising from the disposal of certain assets are subjected to full income tax as SARS contends that such surpluses are not of a capital nature. Gensec's objections that these amounts are in fact of a capital nature have been partially allowed. New revised assessments were recently received reducing the normal income tax to R187 million. Penalties and interest were imposed in addition to the normal income tax payable. Gensec has appealled against the disallowance of the remainder of the objection. Discussions with SARS to resolve this matter are ongoing.

35. *Commitments and contingencies* (continued)

Sanlam embarked on a restructuring of the Group of companies during 2002, the result of which being that the capital and reserve funds of Gensec were reduced. Gensec was registered as the controlling company of Gensec Bank Limited (Gensec Bank) in terms of the Banks Act and required a guarantee to maintain its allocated capital and reserve funds in order to conduct and grow the business of Gensec and Gensec Bank (renamed to Sanlam Capital Markets) in a competitive manner. An agreement was entered into, in terms of which the boards of the companies approved that an amount of R2 billion be assigned as capital to Gensec and that Sanlam Limited will provide a capital maintenance guarantee of R5 billion. Gensec has in turn provided an unlimited suretyship in favour of the creditors of Sanlam Capital Markets. The capital maintenance guarantee is currently under review and is expected to be replaced during 2006.

Two medical aid schemes formerly administered by Sanlam Health have sued it, claiming that the Court should issue orders that they are entitled to share in profits accumulated by Sanlam Health during the period May 1975 to December 1997 and accounting, debatement and payment in respect thereof. The claims are defended by Sanlam Health on the basis that the plaintiffs are not entitled to such orders, that accounting has been made in accordance with the obligations of Sanlam Health and that prescription has taken place.

Gensec has subordinated its shareholders' loan in Safair Lease Finance (Proprietary) Limited of R98 million (2004: R98 million) to third parties' liabilities.

Financial claims are lodged against the Group from time to time. Provisions are recognised for these claims based on best estimates of the expected outcome of the claims (refer note 18). Given the high degree of uncertainty involved in determining the expected outcome, it is reasonably possible that outcomes in future financial years will be different to the current estimates. There are no other material commitments or contingencies.

36. *Related parties*

Major shareholders

Sanlam Limited is the ultimate holding company in the Group.

By virtue of its shareholding in Sanlam Limited, Ubuntu-Botho Investments was entitled to appoint three directors to the Sanlam board. 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.

Transactions with post-employment benefit plans

Contributions to the post-employment benefit plans are R160 million in 2005 (2004: R148 million). There are no amounts outstanding at year-end.

Transactions with directors

Remuneration is paid to directors in the form of fees to non-executive directors and remuneration to executive directors of the company. All directors of Sanlam Limited have notified that they did not have a material interest in any contract of significance with the company or any of its subsidiaries, which could have given rise to a conflict of interest during the year. Details relating to directors' emoluments are included in note 24 and their shareholdings and share options granted in the company are disclosed as part of the corporate governance report elsewhere in the annual report.

Transactions with entities in the Group

During the year the company and its subsidiaries in the ordinary course of business entered into various transactions with other Group companies, associated companies, joint ventures and other stakeholders. These transactions occurred at arm's length.

The company advanced, repaid and received loans from two other entities in the Group during the current and previous years. These loans have been eliminated on consolidation.

Details of investments in associated companies and joint ventures are disclosed in note 7 and details of investments in subsidiaries are disclosed on page 242. The Group provides financing for a portion of the loans granted by Sanlam Home Loans and Direct Axis.

Policy administration

Certain companies in the Group carry out third party policy and other administration activities for other related parties in the Group. These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

	2005 R million	2004 R million
36. Related parties *(continued)*		
Key management personnel compensation		
Compensation paid to the Group's key management personnel are as follows:		
Short-term employee benefits	**298**	276
Share-based payments	**23**	23
Other long-term incentive schemes	**1**	—
Termination benefits	**5**	2
Total key management personnel compensation	**327**	301
37. Notes to the cash flow statement		
37.1 Cash utilised in operations		
Profit before tax per income statement	**14 894**	5 549
Net movement in policy liabilities (note 15.1)	**23 617**	15 380
Non cash flow items	**(36 062)**	(17 322)
Depreciation	**77**	71
Bad debts written off	**6**	33
Share-based payments	**69**	55
Loss/(profit) on disposal of subsidiaries	**60**	(58)
Fair value adjustments	**(35 342)**	(16 601)
Impairment of investments and goodwill	**12**	263
Equity-accounted earnings	**(944)**	(1 085)
Items disclosed separately	**(8 880)**	(8 291)
Interest and preference share dividends received	**(6 018)**	(6 329)
Interest paid	**429**	527
Dividends received	**(3 291)**	(2 581)
Discontinued operations	**—**	92
Net purchase of fixed assets	**(91)**	(41)
Net (purchase)/disposal of owner-occupied properties	**(27)**	7
Decrease/(increase) in net working capital assets and liabilities	**3 023**	(4 921)
Cash utilised in operations	**(3 526)**	(9 639)
37.2 Acquisition of subsidiaries		
During the year, various subsidiaries were acquired within the Group. The fair value of assets acquired is as follows:		
Net assets acquired (note 38)	**2 589**	2 080
Goodwill (note 38)	**26**	421
Total purchase consideration	**2 615**	2 501
Less: Net asset value contributed	**—**	(1 139)
Cash, deposits and similar securities acquired	**(368)**	(57)
Cash component of acquisition of subsidiaries	**2 247**	1 305

	2005 R million	2004 R million

37. Notes to the cash flow statement *(continued)*

37.3 Disposal of subsidiaries

	2005 R million	2004 R million
The fair value of assets disposed of was as follows:		
Property and equipment	—	10
Investments	2 764	(12)
Deferred tax asset	—	5
Trade and other receivables	242	22
Cash, deposits and similar securities	34	21
Goodwill	47	22
Term finance	(1 342)	—
Current liabilities	(367)	(31)
Deferred tax liability	(82)	—
Foreign currency translation balance	—	(1)
Minorities	(750)	—
(Loss)/profit on disposal of subsidiaries	(60)	58
Total disposal price	486	94
Less: Net asset value received	—	(5)
Cash, deposits and similar securities disposed of	(34)	(21)
Cash component of disposal of subsidiaries	452	68

37.4 Cash, deposits and similar securities

	2005 R million	2004 R million
Working capital: Cash, deposits and similar securities	8 289	11 149
Investment cash	29 132	18 367
Bank overdrafts	(13)	(196)
Total cash, deposits and similar securities	37 408	29 320

38. Business combinations

The material acquisitions of the Group consolidated in the 2005 financial year are as follows:

African Life Assurance Company (African Life)

The Group acquired 100% of the issued share capital of African Life during 2005. An interest of approximately 21% was acquired during March 2005 and the remainder was acquired during December 2005. Due to the fact that the acquisition date of the controlling interest is at the end of the Sanlam group's financial year, African Life did not contribute to revenues and net profit, apart from equity-accounted earnings of R45 million since March 2005. If the acquisition had occured on 1 April 2005, the beginning of African Life's financial year, it would have contributed R219 million to profit for the year.

Other

Other business combinations relate to the acquisition of Safrican Insurance Company, Nova Group Holdings, Total Care Strategies and increases in the shareholding of other subsidiaries. These companies' contribution to profit is not material.

	African Life R million	Other R million
Details of the purchase consideration and goodwill acquired are as follows:		
Purchase consideration	2 575	40
Cash consideration	2 557	40
Costs directly attributable to acquisition	18	—
Fair value of net assets acquired	2 575	14
Goodwill	—	26

38. *Business combinations* (continued)

The goodwill on acquisition of the other businesses relates to anticipated synergies.

	African Life		Other	
	Fair value R million	Carrying value[1] R million	Fair value R million	Carrying value[1] R million
Details of the assets and liabilities acquired are as follows:				
Property and equipment	48	48	3	3
Owner-occupied properties	85	85	—	—
Goodwill	21	21	—	—
Value of business acquired	942	—	—	—
Long-term reinsurance assets	34	34	5	5
Investments	12 616	12 616	304	304
Deferred tax assets	30	30	6	6
Short-term insurance technical assets	—	—	102	102
Trade and other receivables	452	452	110	110
Cash, deposits and similar securities	64	64	304	304
Term finance	(26)	(26)	—	—
Cell owners' interest	—	—	(132)	(132)
Long-term policy liabilities	(10 787)	(10 787)	(350)	(350)
Deferred tax liabilities	(55)	(55)	—	—
Short-term insurance technical provisions	—	—	(207)	(207)
Working capital liabilities	(482)	(482)	(126)	(126)
Net assets	2 942	2 000	19	19
Minority shareholders' interest	(367)		(5)	
Net assets acquired	2 575		14	

[1] *Carrying value of assets and liabilities in acquiree's own financial statements on acquisition date.*

Material acquisitions of the Group consolidated in the 2004 financial year are as follows:

Merchant Investors Assurance Company Limited (MIA)

The Group acquired 100% of the issued share capital of MIA during 2003. The regulatory requirements for the acquisition were only satisfied late in December 2003 and the results of the company are accordingly only consolidated from the Group's 2004 financial year. MIA contributed R63 million to profit for the 2004 financial year.

Other

Other business combinations relate to the acquisition of Consolidated Financial Services, Vukile Property Fund, MICC Property Fund and increases in the shareholding of other subsidiaries. Vukile contributed R71 million to revenue and R6 million to profit for the 2004 financial year. The profit contribution of the other acquisitions were not material.

	MIA R million	Other R million
Details of the purchase consideration and goodwill acquired are as follows:		
Purchase consideration	383	2 118
Cash consideration	377	979
Net assets contributed	—	1 139
Costs directly attributable to acquisition	6	—
Fair value of net assets acquired	27	2 053
Goodwill	356	65

38. Business combinations *(continued)*

The goodwill relates mainly to the value of insurance business acquired and anticipated synergies.

	MIA		Other	
	Fair value R million	Carrying value[1] R million	Fair value R million	Carrying value[1] R million
Details of the assets and liabilities acquired are as follows:				
Property and equipment	1	1	3	3
Goodwill	—	—	16	16
Long-term reinsurance assets	65	65	—	—
Investments	14 403	14 403	2 335	2 335
Trade and other receivables	49	49	24	24
Cash, deposits and similar securities	—	—	57	57
Long-term policy liabilities	(14 271)	(14 271)	(258)	(258)
Term finance	(93)	(93)	—	—
Working capital liabilities	(127)	(68)	(36)	(36)
Net assets	27	86	2 141	2 141
Minority shareholders' interest	—		(88)	
Net assets acquired	27		2 053	

[1]*Carrying value of assets and liabilities in acquiree's own financial statements on acquisition date.*

39. Critical accounting estimates and judgements

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the amounts reported for the Group's assets and liabilities. Management applies judgement in determining best estimates of future experience. These judgements are based on historical experience and reasonable expectations of future events and changes in experience. Estimates and assumptions are regularly updated to reflect actual experience. It is reasonably possible that outcomes in future financial years will be different to the current assumptions and judgements, which could require a material adjustment to the carrying amounts of the affected assets and liabilities. The critical estimates and judgements made in applying the Group's accounting policies are summarised below. Given the correlation between assumptions, it is not possible to demonstrate the effect of changes in key assumptions whilst other assumptions remain unchanged. Further, in some instances the sensitivities are non-linear. Interdependencies between certain assumptions cannot be quantified and are accordingly not included in the sensitivity analyses; the primary example being the relationship between economic conditions and lapse risk.

An important indicator of the accuracy of assumptions used by a life insurance company is the experience variations reflected in the embedded value earnings during a period. The experience variations reported by the Group to date have been reasonable compared to the Group embedded value, confirming the accuracy of assumptions used by the Group. Refer to the Report on the Sanlam Group Embedded Value on page 270 for additional information.

Impairment of goodwill and value of business acquired

The recoverable amount of goodwill and value of business acquired for impairment testing purposes has been determined based on the embedded value of life insurance businesses and the fair value of other businesses, as applicable, less the consolidated net asset value of the respective businesses. The embedded value or fair value of a business therefore has a significant impact on whether an impairment of goodwill and/or value of business acquired is required. Refer to pages 273 and 257 respectively for the main assumptions applied in determining the embedded value of life insurance subsidiaries and the fair value of other Group businesses. Embedded value and fair value sensitivity analyses are provided on pages 272 and 257 respectively.

39. Critical accounting estimates and judgements (continued)

Properties

The valuation of properties is based on estimates and assumptions that have a direct impact on the fair value of properties included in the Sanlam group balance sheet. The majority of the Group's properties are held by Sanlam Life Insurance Limited for which the main valuation assumptions used as at 31 December 2005 and the sensitivity of the valuations to changes in the assumptions are summarised below:

			Change in fair value of properties	
Assumption	***Base assumption***	***Change in assumption***	***Decrease in assumption R million***	***Increase in assumption R million***
Base discount rate	7,75% – 10,00%	1%	281	(280)
Capitalisation rate	9,50% – 12,25%	1%	456	(388)

Deferred tax on properties

In terms of the Group's accounting policies, deferred tax is recognised in respect of temporary differences between the carrying value and tax base of properties. IAS 12 *Income Taxes* requires that deferred tax be measured to reflect the tax consequences that would follow from the manner in which the entity expects, at the balance sheet date, to recover the carrying value of its assets.

Based on historic experience, the Group's investment strategy and the expected future growth in the fair value of properties, it is expected that mainly capital gains tax will be payable on the realisation of the carrying value of the properties. Deferred tax has accordingly been provided for at capital gains tax rates. Should income tax rates be applied, the deferred tax liability would have increased by R331 million on 31 December 2005 (2004: R382 million).

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 167 to 171.

The following process is followed to determine the valuation assumptions:

- Determine the best estimate for a particular assumption;
- Prescribed margins are then applied as required by the Long-term Insurance Act in South Africa and Board Notice 72 issued in terms of the Act; and
- Discretionary margins may be applied as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

The best estimate of future experience is determined as follows:

Investment return

Future investment return assumptions are derived from market-related interest rates on fixed-interest securities with adjustments for the other asset classes. The appropriate asset composition of the various asset portfolios, investment management expenses, taxes at current tax rates and charges for investment guarantees are taken into account. Investment return information for the most important products are provided on page 236.

Future bonus rates for participating business

Assumed future bonus rates are determined to be consistent with the valuation implicit rate assumptions. Refer to page 236 for additional information.

Decrements

Assumptions with regard to future mortality, disability and disability payment termination rates and surrender and lapse rates are consistent with the experience for the five years up to 30 June 2005. 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 2005 actual figures and escalated at estimated expense inflation rates per annum.

Sensitivity to changes in the valuation assumptions

The sensitivity of the policy liabilities to changes in the valuation assumptions are set out below, assuming a worsening of experience. For changes in the valuation rates of contracts, it was assumed that:

- For non-participating business where the policy liabilities are closely matched by appropriate fixed interest securities, the change in the value of liabilities is offset by a commensurate movement in the value of assets. This assumption is confirmed by sensitivity analyses on the non-participating annuity portfolio where a parallel 1% increase in interest rates will have an immaterial impact on profit; and
- Bonus rates or investment return credited to market-related and smoothed bonus contracts will be adjusted in line with the change in assumed future investment return, with accordingly no impact on profit.

39. Critical accounting estimates and judgements (continued)

R million	Base value	Assumption changes: Investment returns -1%	Expenses +10%	Expense inflation +1%	Lapse and surrender rates +10%	Mortality and morbidity rates +10%/-10%*
Non-participating annuities						
Individual business	19 559	20 335	19 599	19 614	19 560	19 916
Employee benefits business	3 442	3 909	3 446	3 450	3 442	3 533
Non-participating annuities policy liability	23 001	24 244	23 045	23 064	23 002	23 449
Non-participating life business						
Individual business	20 975	21 487	21 016	21 034	20 655	21 538
Employee benefits business	2 078	2 159	2 078	2 078	2 078	2 078
Non-participating life business policy liability	23 053	23 646	23 094	23 112	22 733	23 616

**An assumption of +10% was used for insurance business and -10% for annuity business.*

The above sensitivities are after taking into account the rerating of premiums but before the impact of reinsurance. The impact of reinsurance is not material for the disclosed sensitivities.

Policy liabilities for investment contracts with investment management services

The valuation of these contracts is linked to the fair value of the supporting assets and deviations from future investment return assumptions will therefore not have a material impact. The recoverability of the DAC asset is not significantly impacted by changes in lapse experience; if future lapse experience was to differ by 10% from management's estimates, no impairment of the DAC asset would be required.

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 unexpectly owing to a wide range of events or influences. The Group is constantly refining its short-term insurance risk monitoring and management tools to enable the Group to assess risks appropriately, despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which the Group operates means that there are however natural limits. There will never be absolute certainty in respect of identifying risks at an early stage, measuring them sufficiently or correctly estimating their real hazard potential.

Refer to note 32 for further information on the estimation of the claims liability.

Sanlam Group
Transition to International Financial Reporting Standards

Introduction

The Sanlam group adopted International Financial Reporting Standards (IFRS) with effect from the 2005 financial year. The Group's date of transition to IFRS is 1 January 2004. The Group's opening balance sheet on 1 January 2004 and comparative information for 2004 have been restated to comply with all IFRS effective as at 31 December 2005, except for the exemptions applied in terms of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The impact of the transition to IFRS on reported earnings for 2004 and the Group balance sheets on 31 December 2004 and 1 January 2004 is presented below.

Transitional provisions

IFRS 1 *First-time Adoption of International Financial Reporting Standards* requires retrospective compliance with all IFRS effective at the reporting date. However, it contains a number of exemptions to this full retrospective application of IFRS. The Group has applied the following exemptions:

Business combinations

The Group has elected not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred prior to 1 January 2004. No adjustments have been required to be made to the accounting treatment of these business combinations.

Property and equipment

The Group has elected to use the previous SA GAAP revaluation of selected property and equipment as deemed cost on the date of transition to IFRS.

Cumulative translation differences

The cumulative translation differences in respect of the Group's foreign operations have been deemed to be zero on the date of transition to IFRS.

Designation of financial instruments

The majority of the Group's financial instruments were designated as 'available for sale' in terms of SA GAAP. The Group has elected to redesignate these financial instruments to the 'at fair value through profit or loss' category in IAS 39 *Financial Instruments: Recognition and Measurement.*

Share-based payments

The Group has elected not to apply IFRS 2 *Share-based Payment* to equity instruments granted on or before 7 November 2002 or granted after 7 November 2002 but which had vested prior to 1 January 2005.

Comparatives

In terms of IFRS 1 an entity need not disclose comparative information that complies with IAS 32 *Financial Instruments: Disclosure and Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts* in its first set of IFRS annual financial statements. In the interest of comparable disclosure, the Group has not applied this exemption.

Compound financial instruments

The Group has elected not to separate compound financial instruments into equity and liability components where the liability component is no longer outstanding on the date of transition.

Reconciliation of reported earnings

	Note	**2004 R million**
Attributable earnings reported under SA GAAP		3 283
Withdrawal of AC121:		
Difference between fair value-based earnings and equity-accounted earnings for the shareholders' fund's investment in:		
Absa	1	(2 942)
Peermont	1	(246)
Safair Lease Finance	1	67
Change in value shortfall of the policyholders' fund's investment in:		
Absa	1	(384)
Santam	2	46
Vukile	2	(71)
Satrix	2	(113)
Sanlam	3	(632)
Elimination of dividend paid to policyholders	3	(60)
Adoption of IFRS:		
New business strain from investment contracts	4	(13)
Share-based payments	5	(51)
Goodwill amortisation	6	328
Goodwill impairment	6	(42)
Reclassification of available for sale investments	7	3 588
Profit attributable to shareholders' fund under IFRS		2 758

Reconciliation of equity – fair value

	Note	**Net assets R million**	**Minority shareholders' interest R million**	**Shareholders' fund R million**
31 December 2004				
Reported under SA GAAP		30 045	63	29 982
Change in carrying value of investment contracts	4	(196)	(2)	(194)
Revaluation of trading account assets and liabilities	12	(42)	—	(42)
Goodwill amortisation reversed – Merchant Investors Assurance	6	36	—	36
Reported under IFRS		29 843	61	29 782
1 January 2004				
Reported under SA GAAP		22 819	—	22 819
Change in carrying value of investment contracts	4	(181)	—	(181)
Revaluation of trading account assets and liabilities	12	(42)	—	(42)
Reported under IFRS		22 596	—	22 596

Reconciliation of equity – net asset value

Sanlam Group Balance Sheet
at 31 December 2004

		Assets						
	Note	***Investments***	***Deferred acquisition costs***	***Long-term reinsurance assets***	***Deferred tax***	***Working capital assets***	***Other assets***	***Total assets***
Reported under SA GAAP		191 913	—	—	342	31 360	4 409	**228 024**
Withdrawal of AC121:								
Reduction in carrying value of shareholders' fund's investment in:								
Absa	1	(5 456)	—	—	—	—	—	**(5 456)**
Peermont	1	(386)	—	—	—	—	—	**(386)**
Safair Lease Finance	1	(225)	—	—	—	—	—	**(225)**
Reduction in carrying value of policyholders' fund's investment in:								
Absa	1	(613)	—	—	—	—	—	**(613)**
Santam	2	(90)	—	—	—	—	—	**(90)**
Vukile	2	2 090	—	—	—	34	16	**2 140**
Satrix	2	483	—	—	—	—	—	**483**
Sanlam	3	(1 824)	—	—	—	—	—	**(1 824)**
Consolidation of investment vehicles	8	2 395	—	—	—	144	—	**2 539**
Elimination of inter-company transactions	9	(611)	—	—	—	(286)	—	**(897)**
Reclassification of policy loans	10	(258)	—	—	—	—	—	**(258)**
Adoption of IFRS:								
Change in carrying value of investment contracts	4	—	—	—	—	—	—	**—**
Recognition of deferred acquisition costs asset	4	—	994	—	—	—	—	**994**
Tax effect of change in investment contract valuation basis	4	—	—	—	80	—	—	**80**
Goodwill amortisation	6	5	—	—	—	—	353	**358**
Goodwill impairment	6	—	—	—	—	—	(48)	**(48)**
Reclassification of long-term reinsurance assets	11	—	—	318	—	—	—	**318**
Revaluation of trading account assets and liabilities	12	—	—	—	18	(60)	—	**(42)**
Change in carrying value of other associated companies	13	14	—	—	—	—	—	**14**
Reclassification of cell owners' interest	14	—	—	—	—	—	—	**—**
Reclassification of term finance	15	169	—	—	—	—	—	**169**
Reported under IFRS		187 606	994	318	440	31 192	4 730	**225 280**

Liabilities									
Long-term policy liabilities	Term finance	External investors in funds	Cell owners' interest	Deferred tax	Working capital liabilities	Other liabilities	Total liabilities	Minority share-holders' interest	Share-holders' fund
162 226	4 791	—	—	1 678	23 693	5 198	**197 586**	2 796	**27 642**
—	—	—	—	(783)	—	—	**(783)**	(23)	**(4 650)**
—	—	—	—	(67)	—	—	**(67)**	—	**(319)**
—	—	—	—	—	—	—	**—**	—	**(225)**
—	—	—	—	(34)	—	—	**(34)**	—	**(579)**
—	—	—	—	—	—	—	**—**	—	**(90)**
—	1 312	—	—	15	156	—	**1 483**	728	**(71)**
—	—	739	—	—	—	—	**739**	—	**(256)**
—	—	—	—	—	—	—	**—**	—	**(1 824)**
—	—	2 470	—	—	37	—	**2 507**	32	**—**
—	—	—	—	—	(897)	—	**(897)**	—	**—**
(258)	—	—	—	—	—	—	**(258)**	—	**—**
1 270	—	—	—	—	—	—	**1 270**	(2)	**(1 268)**
—	—	—	—	—	—	—	**—**	—	**994**
—	—	—	—	—	—	—	**—**	—	**80**
—	—	—	—	—	—	—	**—**	30	**328**
—	—	—	—	—	—	—	**—**	(6)	**(42)**
318	—	—	—	—	—	—	**318**	—	**—**
—	—	—	—	—	—	—	**—**	—	**(42)**
—	—	—	—	—	—	—	**—**	7	**7**
—	—	—	47	—	—	—	**47**	(47)	**—**
—	582	—	—	—	(413)	—	**169**	—	**—**
163 556	6 685	3 209	47	809	22 576	5 198	**202 080**	3 515	**19 685**

Reconciliation of equity – net asset value

Sanlam Group Balance Sheet
at 1 Janaury 2004

		Assets						
	Note	*Investments*	*Deferred acquisition costs*	*Long-term reinsurance assets*	*Deferred tax*	*Working capital assets*	*Other assets*	*Total assets*
Reported under SA GAAP		156 622	—	—	257	34 410	4 767	**196 056**
Withdrawal of AC121:								
Reduction in carrying value of shareholders' fund's investment in:								
Absa	1	(1 822)	—	—	—	—	—	**(1 822)**
Peermont	1	(91)	—	—	—	—	—	**(91)**
Safair Lease Finance	1	(292)	—	—	—	—	—	**(292)**
Reduction in carrying value of policyholders' fund's investment in:								
Absa	1	(206)	—	—	—	—	—	**(206)**
Santam	2	(136)	—	—	—	—	—	**(136)**
Vukile	2	—	—	—	—	—	—	**—**
Satrix	2	547	—	—	—	—	—	**547**
Sanlam	3	(1 344)	—	—	—	—	—	**(1 344)**
Consolidation of investment vehicles	8	1 296	—	—	—	122	—	**1 418**
Elimination of inter-company transactions	9	—	—	—	—	(375)	—	**(375)**
Reclassification of policy loans	10	(207)	—	—	—	—	—	**(207)**
Adoption of IFRS:								
Change in carrying value of investment contracts	4	—	—	—	—	—	—	**—**
Recognition of deferred acquisition costs asset	4	—	836	—	—	—	—	**836**
Tax effect of change in investment contract valuation basis	4	—	—	—	75	—	—	**75**
Goodwill amortisation	6	—	—	—	—	—	—	**—**
Goodwill impairment	6	—	—	—	—	—	—	**—**
Reclassification of long-term reinsurance assets	11	—	—	232	—	—	—	**232**
Revaluation of trading account assets and liabilities	12	—	—	—	18	(60)	—	**(42)**
Change in carrying value of other associated companies	13	14	—	—	—	—	—	**14**
Reclassification of cell owners' interest	14	—	—	—	—	—	—	**—**
Reclassification of term finance	15	—	—	—	—	—	—	**—**
Reported under IFRS		154 381	836	232	350	34 097	4 767	**194 663**

Liabilities									
Long-term policy liabilities	Term finance	External investors in funds	Cell owners' interest	Deferred tax	Working capital liabilities	Other liabilities	Total liabilities	Minority share-holders' interest	Share-holders' fund
134 079	4 200	—	—	651	28 352	5 156	172 438	1 931	21 687
—	—	—	—	(148)	—	—	(148)	(8)	(1 666)
—	—	—	—	(18)	—	—	(18)	—	(73)
—	—	—	—	—	—	—	—	—	(292)
—	—	—	—	(11)	—	—	(11)	—	(195)
—	—	—	—	—	—	—	—	—	(136)
—	—	—	—	—	—	—	—	—	—
—	—	690	—	—	—	—	690	—	(143)
—	—	—	—	—	—	—	—	—	(1 344)
—	—	1 387	—	—	17	—	1 404	14	—
—	—	—	—	—	(375)	—	(375)	—	—
(207)	—	—	—	—	—	—	(207)	—	—
1 092	—	—	—	—	—	—	1 092	—	(1 092)
—	—	—	—	—	—	—	—	—	836
—	—	—	—	—	—	—	—	—	75
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
232	—	—	—	—	—	—	232	—	—
—	—	—	—	—	—	—	—	—	(42)
—	—	—	—	—	—	—	—	7	7
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
135 196	4 200	2 077	—	474	27 994	5 156	175 097	1 944	17 622

Notes on the Transition to International Financial Reporting Standards

1. *Investments in associated companies and joint ventures*

The Group's investments in Absa, Peermont and the Safair Lease Finance joint venture were recognised at fair value in terms of SA GAAP. IFRS does not allow the continued use of a fair value basis for these investments, resulting in a reduction in the carrying value from fair value to an equity-accounted valuation.

Reported earnings are adjusted with the difference between the fair value-based investment return and equity-accounted earnings.

2. *Policyholders' fund's investment in subsidiaries*

In terms of SA GAAP the policyholders' fund's investments in Santam and Vukile, subsidiaries of the Sanlam group, and Satrix, now a consolidated fund, were accounted for as equity investments at fair value. In terms of IFRS the policyholders' interest must be consolidated and measured at net asset value.

Reported earnings are adjusted with the difference between the fair value-based investment return and the consolidated earnings.

3. *Policyholders' fund's investment in Sanlam shares*

In terms of SA GAAP the policyholders' fund's investment in Sanlam Limited shares was accounted for as an equity investment at fair value. In terms of IFRS the policyholders' interest must be treated as treasury shares and recognised as a deduction from equity on consolidation.

Reported earnings are adjusted with the investment return earned on the Sanlam shares held by policyholder portfolios.

4. *Measurement of investment policy contracts*

Investment contracts issued by Sanlam Life Insurance Limited were measured under SA GAAP using bases similar to the Financial Soundness Valuation (FSV) method. These contracts are valued at fair value in terms of IFRS, requiring an adjustment to their carrying value. The FSV valuation includes specific allowance for commission and other issuing costs. In a fair value environment, the FSV cost allowance is replaced by a deferred acquisition costs (DAC) asset in terms of IAS 18 *Revenue*. The new business strain, as well as the increase in the total net liability recognised in respect of investment contracts, result primarily from the difference between the incremental cost that can be capitalised to DAC in terms of IFRS and the level of cost allowance inherent to the FSV method.

5. *Share-based payments*

IFRS 2 *Share-based Payment* requires the recognition of an income statement expense in respect of equity instruments granted to participants of the Group's share incentive schemes. No income statement effect was recognised in terms of SA GAAP, except for administration costs incurred in respect of the schemes.

6. *Goodwill amortisation and impairment*

Goodwill in respect of business combinations with an agreement date prior to 31 March 2004 was amortised under SA GAAP and subject to an impairment review. Goodwill is not amortised under IFRS but subject to at least an annual impairment review. Goodwill amortised under SA GAAP during the 2004 financial year has been reversed in terms of IFRS 1. All goodwill has been tested for impairment as at 1 January 2004 and 31 December 2004. An additional impairment was required on 31 December 2004, mainly in respect of the Group's international operations.

7. *Reclassification of available for sale investments*

In terms of SA GAAP (AC133) the Group classified the majority of its investments as 'available for sale' and elected to transfer unrealised investment surpluses directly to equity. In terms of IFRS 1 the Group has reclassified these financial instruments as 'at fair value through profit or loss'. Unrealised investment surpluses formerly reported directly in equity have been transferred to the income statement.

8. *Consolidation of investment vehicles*

IFRS requires the consolidation of certain investment vehicles controlled by the Group, e.g. collective investment schemes, which were previously recognised at fair value in the Group balance sheet.

9. *Elimination of inter-company transactions*

Inter-company transactions at arm's length, which do not influence the Group's net earnings, were previously not eliminated from the results to fairly present the activities of the various businesses. In the absence of AC121 inter-company transactions are eliminated with no net impact on the shareholders' fund.

10. *Reclassification of policy loans*

Loans granted to policyholders were disclosed as separate assets under AC121. Loans with a legal right of set-off and where the intention is to settle the policy loan and policy liability on a net basis, must be offset in terms of IFRS. The affected loans have been reclassified from investment assets to long-term policy liabilities.

11. *Reclassification of long-term reinsurance assets*

Contracts entered into with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts were previously offset against long-term insurance contract liabilities. These reinsurance assets have been reclassified from long-term policy liabilities to a separate asset class in terms of the disclosure requirements of IFRS 4 *Insurance Contracts*.

12. *Revaluation of trading assets and liabilities*

The valuation of certain unquoted trading assets and liabilities was adjusted to comply with the requirements of the revised IAS 39 *Financial Instruments: Recognition and Measurement*, among others in respect of the treatment of day one profits.

13. *Change in carrying value of other associated companies*

The post acquisition equity-accounted earnings of certain associated companies have been changed as a result of the transition to IFRS.

14. *Reclassification of cell owners' interest*

Santam's interest in cell insurance companies are not consolidated under IFRS, resulting in a reclassification of the cell owners' interest from minority shareholders' interest to a cell owners' liability.

15. *Reclassification of term finance*

The short-term portion of term finance formerly relating to the discontinued activities of Gensec Bank has been reallocated from working capital liabilities to term finance. In addition, term finance liabilities over properties held in unit-linked policy-holder portfolios have been reallocated and disclosed separately from policyholder assets.

Statement of Actuarial Values of Assets and Liabilities

at 31 December 2005

R million	Notes	Sanlam Life Insurance 2005	Sanlam Life Insurance 2004
Assets			
Fair value of assets	2	**201 233**	178 717
Less: Liabilities		**173 919**	152 409
Actuarial value of policy liabilities	3	**164 758**	144 923
Investment contracts		**64 556**	58 064
Insurance contracts		**100 202**	86 859
Long-term and current liabilities		**9 161**	7 486
Excess of assets over liabilities for financial reporting		**27 314**	26 308
Adjustment for prudential regulatory purposes	4	**(6 440)**	(2 689)
Excess of assets over liabilities for prudential regulatory purposes		**20 874**	23 619
Analysis of movement in excess of assets over liabilities			
Result from financial services before tax		**1 529**	1 338
Investment return on excess of assets over liabilities		**6 156**	7 374
Investment income		**1 166**	829
Realised and unrealised investment surpluses		**4 990**	6 545
Donation of Sanlam Limited shares to Ubuntu-Botho Community Development Trust		**—**	(432)
Agreement on early termination values		**(440)**	—
Cost incurred		**(620)**	—
Income tax		**180**	—
Other		**(150)**	—
Taxation		**(834)**	(962)
Income tax		**(420)**	(227)
Capital gains tax		**(305)**	(835)
Secondary tax on companies		**(109)**	100
Attributable earnings before dividends paid	5	**6 261**	7 318
Share capital raised		**—**	—
Repayment of shareholders' loan		**—**	—
Share-based payments		**45**	—
Dividends paid		**(5 300)**	(1 071)
Movement in excess of assets over liabilities for financial reporting		**1 006**	6 247
Capital adequacy requirements			
Capital adequacy requirements (CAR) before management actions		**8 350**	11 150
Management actions assumed	6	**(2 975)**	(4 600)
CAR after management actions assumed	6	**5 375**	6 550
Times CAR covered by excess of assets over liabilities for prudential regulatory purposes		**3,9**	3,6

Merchant Investors Assurance Company 2005	Merchant Investors Assurance Company 2004	Sanlam Life Namibia 2005	Sanlam Life Namibia 2004	African Life Assurance Company 2005	Botswana Life Insurance 2005	Botswana Insurance Fund Management 2005
17 576	14 476	5 176	4 632	5 900	2 536	5 461
17 393	14 375	4 787	4 170	3 989	2 011	5 250
17 156	14 296	4 663	4 036	3 590	1 896	5 236
13 951	11 403	1 569	1 279	2 665	—	5 236
3 205	2 893	3 094	2 757	925	1 896	—
237	79	124	134	399	115	14
183	101	389	462	1 911	525	211
(7)	—	—	—	(321)	—	(18)
176	101	389	462	1 590	525	193
(19)	5	30	31	—	—	—
4	3	73	53	—	—	—
4	3	18	21	—	—	—
—	—	55	32	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	70	—	—	—
(1)	(1)	(1)	(1)	—	—	—
(1)	(1)	(1)	(1)	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
(16)	7	102	153	—	—	—
98	16	—	—	—	—	—
—	—	(125)	(3)	—	—	—
—	—	—	—	—	—	—
—	—	(50)	(120)	—	—	—
82	23	(73)	30	—	—	—
74	70	200	140	209	106	5
—	—	(70)	(30)	—	—	—
74	70	130	110	209	106	5
2,4	1,4	3,0	4,2	7,6	5,0	38,6

Notes to the Statement of Actuarial Values of Assets and Liabilities

at 31 December 2005

	2005 R million	2004 R million
1. Introduction		
The African Life group was acquired at the end of 2005. Consequently the earnings information exclude the African Life group.		
2. Fair value of assets		
Assets have been valued on the bases as set out before, apart from equity investments in treasury shares and Group subsidiaries, associated companies and joint ventures, which are valued at fair value.		
3. Actuarial value of policy liabilities		
The actuarial value of policy liabilities reconciles as follows with the long-term policy liabilities in the Group balance sheet:		
Long-term policy liabilities of the Sanlam group	198 234	163 556
Actuarial value of policy liabilities per Statement of Actuarial Values of Assets and Liabilities		
Sanlam Life Insurance	164 758	144 923
African Life Assurance Company[1]	3 590	—
Botswana Life Insurance[1]	1 896	—
Botswana Insurance Fund Management[1]	5 236	—
Merchant Investors Assurance Company	17 156	14 296
Sanlam Life Namibia	4 663	4 036
Other	935	301

[1] *African Life Assurance group only consolidated from 2005 financial year.*

4. Adjustment for prudential regulatory purposes

R million	Sanlam Life Insurance 2005	Sanlam Life Insurance 2004	Merchant Investors Assurance Company 2005	Sanlam Life Namibia 2005	African Life Assurance Company 2005	Botswana Life Insurance 2005	Botswana Insurance Fund Management 2005
Total adjustment	(6 440)	(2 689)	(7)	—	(321)	—	(18)
Adjustment for group undertakings							
Sanlam Investment Management	(1 853)	(1 299)	—	—	—	—	—
Santam	(2 143)	(502)	—	—	—	—	—
African Life	(1 503)	—	—	—	—	—	—
Other	(362)	(299)	—	—	—	—	—
Capital requirements of life insurance subsidiaries, adjusted for minority interests	(500)	(409)	—	—	(305)	—	(18)
Inadmissible asset	(79)	(180)	(16)	—	(16)	—	—
Other	—	—	9	—	—	—	—

	2005 R million	2004 R million
5. Attributable earnings		
Attributable earnings reconcile as follows with the Life insurance cluster segmental attributable earnings:		
Life insurance cluster segmental attributable earnings	6 348	7 430
Attributable earnings per Statement of Actuarial Values of Assets and Liabilities:		
Sanlam Life Insurance	6 261	7 318
African Life Assurance Company[1]	—	—
Botswana Life Insurance[1]	—	—
Botswana Insurance Fund Management[1]	—	—
Merchant Investors Assurance Company	(16)	7
Sanlam Life Namibia	102	153
Attributable earnings reported in other business clusters	38	60
Attributable earnings of other Group subsidiairies included in Life Insurance Cluster segmental attributable earnings	106	81
Consolidation adjustments	(143)	(189)

[1] *African Life Assurance group has been acquired at the end of the Sanlam Limited group's 2005 financial year and is therefore not consolidated in the Sanlam group income statement.*

6. Management actions

R million	Sanlam Life Insurance 2005	Sanlam Life Insurance 2004	Merchant Investors Assurance Company 2005	Merchant Investors Assurance Company 2004	Sanlam Life Namibia 2005	Sanlam Life Namibia 2004	African Life Assurance Company 2005	Botswana Life Insurance 2005	Botswana Insurance Fund Management 2005
The following management actions were assumed in the calculation of the capital adequacy requirements:									
Reduction in non-vested bonuses	—	346	—	—	—	—	—	—	—
Reduction in future bonus rates	2 097	2 644	—	—	57	32	—	—	—
Capitalisation of proportion of expected future profits held as second-tier margins	—	321	—	—	—	—	—	—	—
Reduction in grossing up of the assets covering CAR	892	1 374	—	—	12	—	—	—	—
Independence credits	(14)	(85)	—	—	1	(2)	—	—	—
Total management actions	2 975	4 600	—	—	70	30	—	—	—
	%	%	%	%	%	%	%	%	%
The average change in non-vested bonuses for Reversionary Bonus type business	—	(3)	—	—	—	—	—	—	—
The average change in future bonus rates below expected long-term rates, for three years	(2)	(2)	—	—	(2)	(2)	—	—	—

7. Asset composition

R million	Sanlam Life Insurance 2005	Sanlam Life Insurance 2004	Merchant Investors Assurance Company 2005	Merchant Investors Assurance Company 2004	Sanlam Life Namibia 2005	Sanlam Life Namibia 2004	African Life Assurance Company 2005	Botswana Life Insurance 2005	Botswana Insurance Fund Management 2005
The assets backing the capital adequacy requirements after management actions were invested as follows:									
Cash	15	15	100	100	75	100	25	—	—
Fixed-interest securities	20	20	—	—	25	—	25	31	—
Hedged equities	35	40	—	—	—	—	—	—	—
Properties	5	8	—	—	—	—	—	4	100
Equities	25	17	—	—	—	—	50	65	—
	100	100	100	100	100	100	100	100	100

%	Sanlam Life Insurance 2005	Sanlam Life Insurance 2004	Merchant Investors Assurance Company 2005	Merchant Investors Assurance Company 2004	Sanlam Life Namibia 2005	Sanlam Life Namibia 2004	African Life Assurance Company 2005	Botswana Life Insurance 2005	Botswana Insurance Fund Management 2005
8. Future investment return and inflation assumptions									
Pre-tax investment returns by major asset categories and inflation assumptions were as follows:									
Fixed-interest securities	7,5	8,3	4,1	4,6	7,5	8,3	7,4	10,0	10,0
Equities and offshore investments	9,5	10,3	6,6	7,0	9,5	10,3	9,4	12,0	12,0
Hedged equities	7,5	8,3	6,6	7,0	7,5	8,3	n/a	n/a	n/a
Properties	8,5	9,3	6,6	7,0	8,5	9,3	8,4	11,0	11,0
Cash	5,5	6,3	4,1	4,6	5,5	6,3	5,4	8,0	8,0
Future expense inflation (excluding margin)	4,0	4,3	3,0	3,0	4,0	4,3	4,4	7,0	7,0
Consumer price index inflation for premium indexation	3,0	3,3	3,0	3,0	3,0	3,3	n/a	n/a	n/a
9. Discount rates used in calculating prospective policy liabilities									
Reversionary bonus business									
Retirement annuity business	7,8	8,5	n/a	n/a	8,3	9,1	n/a	n/a	n/a
Individual policyholder business	7,2	7,8	n/a	n/a	8,0	8,7	n/a	10,6	10,6
Individual stable bonus business									
Retirement annuity business	7,5	8,4	n/a	n/a	8,0	9,0	n/a	n/a	n/a
Individual policyholder business	6,9	7,7	n/a	n/a	7,7	8,6	n/a	n/a	n/a
Non-taxable business	8,0	9,0	n/a	n/a	8,0	9,0	n/a	n/a	n/a
Corporate policyholder business	6,7	7,4	n/a	n/a	7,7	8,6	n/a	n/a	n/a
Individual market-related business									
Retirement annuity business	7,8	8,5	3,9	4,1	8,2	9,1	8,8	n/a	n/a
Individual policyholder business	7,2	7,8	3,1	3,2	7,9	8,7	8,3	10,6	10,6
Non-taxable business	8,2	9,1	3,1	3,2	8,2	9,1	n/a	n/a	n/a
Corporate policyholder business	6,9	7,5	n/a	n/a	7,9	8,7	n/a	n/a	n/a
Participating annuity business	6,6	7,4	n/a	n/a	6,6	7,4	n/a	n/a	n/a
Non-participating annuity business*	7,1	7,6	4,4	4,7	7,1	7,6	8,0	9,7	9,7
Guarantee plans*	6,8	7,4	n/a	n/a	n/a	n/a	7,2	n/a	n/a

**The calculation of policy liabilities is based on discount rates derived from the zero-coupon yield curve. This is the average rate that produces the same result.*

10. Bonus stabilisation reserves

No portfolio had a negative bonus stabilisation reserve which exceeded 7,5% of the relevant investment accounts at 31 December 2005.

11. Result from financial services

R million	Sanlam Life Insurance 2005	Sanlam Life Insurance 2004	Merchant Investors Assurance Company 2005	Merchant Investors Assurance Company 2004	Sanlam Life Namibia 2005	Sanlam Life Namibia 2004
A number of changes were made to the valuation methodology and assumptions, with the following effect on the result from operations.	(43)	(103)	1	13	(13)	(2)

Balance Sheet at 31 December 2005

	Note	2005 R million	2004 R million
Assets			
Investments in Group companies	2	13 763	13 128
Associates		3	3
Subsidiaries		13 760	13 125
Deferred tax – STC		4	—
Working capital assets		921	1 796
Accounts receivable		6	6
Loans to Group companies	2	915	1 790
Total assets		14 688	14 924
Equity and liabilities			
Capital and reserves			
Share capital and premium	3	956	4 360
Non-distributable reserve		9 342	9 342
Retained earnings		3 905	382
Total equity		14 203	14 084
Working capital liabilities		485	840
Accounts payable		172	99
Loans from Group companies	2	313	741
Total equity and liabilities		14 688	14 924

Income Statement for the year ended 31 December 2005

	Note	2005 R million	2004 R million
Net income		5 469	1 340
Dividend income		5 464	1 280
Investment surpluses	4	—	60
Other income		5	—
Expenses			
Administration costs	5	(9)	(7)
Net impairment of loans	2	(147)	(146)
Net impairment of investments	2	635	(325)
Profit before tax		5 948	862
Taxation		4	(2)
Normal income tax		—	(2)
STC		4	—
Profit for the year		5 952	860

Statement of Changes in Equity for the year ended 31 December 2005

R million	Share capital	Share premium	Non-distributable reserve[1]	Retained earnings	Total equity
Balance at 1 January 2004	**27**	**3 487**	**9 342**	**629**	**13 485**
Profit for the year	—	—	—	860	860
Dividends paid	—	—	—	(1 107)	(1 107)
New shares issued[2]	2	863	—	—	865
Costs relating to share issuance	—	(19)	—	—	(19)
Balance at 31 December 2004	**29**	**4 331**	**9 342**	**382**	**14 084**
Profit for the year	—	—	—	5 952	5 952
Dividends paid	—	—	—-	(1 387)	(1 387)
Shares cancelled	(4)	(3 400)	—	(1 042)	(4 446)
Balance at 31 December 2005	**25**	**931**	**9 342**	**3 905**	**14 203**

[1]*Pre-acquisition reserve arising from demutualisation of Sanlam Life Insurance Limited in 1998.*

[2]*The shares issued relate to the empowerment transaction with Ubuntu-Botho.*

Cash Flow Statement for the year ended 31 December 2005

	Note	2005 R million	2004 R million
Cash flow from operating activities		**3 999**	98
Cash utilised in operations	10	**(78)**	(73)
Dividends received		**5 464**	1 280
Dividends paid		**(1 387)**	(1 107)
Taxation paid		**—**	(2)
Cash flow from investment activities			
Disposal of subsidiaries		**—**	70
Cash flow from financing activities			
Shares (cancelled)/issued		**(4 446)**	846
Net (decrease)/increase in loans to Group companies		**(447)**	1 014
Net loans to Group companies at beginning of year		**1 049**	35
Net loans to Group companies at end of year		**602**	1 049

	2005 R million	2004 R million

Notes to the Financial Statements

for the year ended 31 December 2005

1. Accounting policies

The accounting policies of the Sanlam Limited group as set out on pages 155 to 167 are also applicable to Sanlam Limited except for investments in Group companies which are reflected at the lower of cost fair value and is tested for impairment bi-annually.

For purposes of the cash flow statement, cash, deposits and similar securities are equivalent to intergroup loans.

2. Group companies

	2005 R million	2004 R million
Investments in Group companies – shares at lower of cost or market value	**13 763**	13 128
Current loans with Group companies	**602**	1 049
Loans to Group companies	**915**	1 790
Loans from Group companies	**(313)**	(741)
Book value of interest in Group companies	**14 365**	14 177
Net impairment of investments in Group companies		
Genbel Securities Limited	**305**	(377)
Sanlam Netherlands Holding BV	**330**	52
Net impairments of investments for the year	**635**	(325)

Fair value of Group companies is determined on the following bases:

– Listed Group companies at stock exchange prices

– Unlisted Group companies at directors' valuation

	2005 R million	2004 R million
Fair value of net investment in Group companies		
Investments in subsidiaries	**31 963**	30 671
Investment in associated company	**13**	12
Total fair value of net investment in Group companies	**31 976**	30 683

Loans to Group companies

The loans to Group companies are unsecured and not subject to any fixed terms of repayment. No interest is charged but these arrangements are subject to revision from time to time. Details regarding the principal subsidiaries of Sanlam Limited are set out on page 242.

	2005 R million	2004 R million
Loans to Group companies		
Sanlam Spec (Pty) Limited	**915**	1 790
Loans from Group companies		
Sanlam Life Insurance Limited	**(313)**	(741)
Impairments of loans		
Sanlam Spec (Pty) Limited	**(147)**	(146)
Impairments of loans for the year	**(147)**	(146)

	2005 R million	2004 R million

Notes to the Financial Statements continued

for the year ended 31 December 2005

3. *Share capital and premium*

Details of share capital and premium are reflected in note 11 on page 188 of the Sanlam Limited group financial statements.

4. *Investment surpluses*

Investment surpluses relate to the profit on sale of 100% of Tasc Administration (Pty) Limited and the sale of 65% of Gensec Property Services (Pty) Limited in 2004.

5. *Administration costs include:*

Directors' remuneration

Details of the directors' remuneration are reflected in note 24 on page 198 of the Sanlam Limited group financial statements.

Auditors' remuneration

	2005 R million	2004 R million
Audit fees: statutory audit	3,4	1,6
Total auditors' remuneration	**3,4**	1,6

6. *Dividends*

A dividend of 65 cents per share (2004: 50 cents per share) was declared in March 2006 in respect of the 2005 earnings. The secondary tax on companies (STC) liability in respect of the dividend, as well as future distributions of retained earnings, is dependent on the STC credits that will be available at the end of the dividend cycles and is impracticable to determine.

7. *Borrowing powers*

In terms of the articles of association of Sanlam Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation.

8. *Commitments and contingencies*

Details of commitments and contingencies are reflected in note 35 on page 216 of the Sanlam Limited group financial statements.

9. *Related parties*

Details of related parties are reflected in note 36 on page 217 of the Sanlam Limited group financial statements.

10. *Notes to the cash flow statement*

Cash utilised in operations

	2005 R million	2004 R million
Profit before tax	5 948	862
Non-cash flow items	(635)	265
Profit on disposal of subsidiaries	—	(60)
Impairment of investments in Group companies	(635)	325
Items disclosed separately		
Dividends received	(5 464)	(1 280)
Increase in net working capital liabilities	73	80
Cash utilised in operations	**(78)**	(73)

Transition to International Financial Reporting Standards

Introduction

Sanlam Limited adopted International Financial Reporting Standards (IFRS) with effect from the 2005 financial year. The company's date of transition to IFRS is 1 January 2004. The company's opening balance sheet on 1 January 2004 and comparative information for 2004 have been restated to comply with all IFRS effective as at 31 December 2005, except for the exemptions applied in terms of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The impact of the transition to IFRS on the company's balance sheets on 1 January 2004 and 31 December 2004 is presented below. The transition to IFRS had no impact on the company's reported earnings in 2004.

Details of the transitional provisions are reflected in the Transition to International Financial Reporting Standards on pages 224 to 231 of the Sanlam Limited group financial statements.

	R million
Reconciliation of equity	
As at 31 December 2004	
Reported under SA GAAP	14 126
Revaluation of investment in subsidiary	(42)
Reported under IFRS	14 084
As at 1 January 2004	
Reported under SA GAAP	13 527
Revaluation of investment in subsidiary	(42)
Reported under IFRS	13 485

Principal Subsidiaries

as at 31 December 2005

	% interest	Issued ordinary capital 2005 R million	Fair value of interest in subsidiaries: Shares 2005 R million	Shares 2004 R million	Loans 2005 R million	Loans 2004 R million
Long-term insurance						
Sanlam Life Insurance Limited	100	**5 000**	**27 318**	26 308	**(313)**	(741)
Investment and capital markets						
Genbel Securities Limited	100	**253**	**1 780**	1 475	**—**	—
Investment management and consulting						
Sanlam Investment Management (Pty) Limited	100	(1)	(1)	(1)	**—**	—
Sanlam Independent Financial Services (Pty) Limited	100	(2)	(2)	(2)	**—**	—
Sanlam Investment Holdings Limited	100	(2)	**44**	10	**—**	—
Sanlam Netherlands Holding BV[3]	100	**2 309**	**1 671**	1 341	**—**	—
Short-term insurance						
Santam Limited (listed)	5	**42**	**471**	415	**—**	—
Investment companies						
Sanlam Spec (Pty) Limited	100	(2)	**58**	55	**915**	1 790
Sanlam Investments (Pty) Limited	100	(2)	**19**	18	**—**	—
Sanlam Share Incentive Trust	100	(2)	(2)	(2)	**—**	—
Total		**7 604**	**31 361**	29 622	**602**	1 049

[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.*

A register of all subsidiary companies is available for inspection at the registered office of Sanlam Limited. All investments above are unlisted and incorporated in South Africa unless otherwise indicated.

Analysis of the Group's holding in Santam	2005 %	2004 %
Shareholders' funds		
• Sanlam Life Insurance Limited	**45,71**	44,18
• Sanlam Limited	**5,03**	5,07
Policyholders' funds		
• Sanlam Life Insurance Limited	**1,93**	3,24
Total	**52,67**	52,49

Sanlam Limited Financial Information for the Shareholders' Fund

for the year ended 31 December 2005

Contents

Sanlam Limited Group Segmental Balance Sheet

at 31 December 2005

R million	Life Insurance Cluster[1] 2005	Life Insurance Cluster[1] 2004	Santam 2005	Santam 2004	Sanlam Investments[2] 2005	Sanlam Investments[2] 2004
Assets						
Property and equipment	**139**	109	**45**	45	**52**	14
Owner-occupied properties	**480**	329	**12**	10	**—**	—
Goodwill	**498**	478	**80**	87	**49**	40
Value of business acquired	**942**	—	**—**	—	**—**	—
Deferred acquisition costs	**625**	—	**—**	—	**—**	—
Investments	**30 350**	29 695	**7 447**	5 621	**303**	115
Properties	**636**	619	**—**	—	**101**	63
Associated companies	**385**	9 647	**239**	338	**18**	—
Joint ventures	**256**	20	**—**	—	**23**	4
Equities and similar securities	**20 194**	12 051	**4 301**	3 149	**34**	16
Public sector stocks and loans	**1 842**	1 245	**663**	1 632	**5**	—
Debentures, preference shares and other loans	**2 958**	3 416	**582**	308	**23**	12
Cash, deposits and similar securities	**4 079**	2 697	**1 662**	194	**99**	20
Deferred tax	**80**	180	**22**	9	**10**	9
Short-term insurance technical assets	**—**	—	**2 372**	1 980	**—**	—
Consolidation reserve	**(41)**	(71)	**—**	—	**—**	—
Working capital assets	**4 921**	6 504	**4 609**	4 815	**1 428**	741
Total assets	**37 994**	37 224	**14 587**	12 567	**1 842**	919
Equity and liabilities						
Shareholders' fund	**27 731**	26 010	**2 903**	2 682	**924**	514
Minority shareholders' interest	**432**	60	**2 942**	2 826	**100**	1
Term finance	**2 877**	4 668	**—**	—	**66**	62
External investors in consolidated funds	**75**	128	**—**	—	**—**	—
Cell owners' interest	**—**	—	**268**	47	**—**	—
Deferred tax	**884**	1 016	**256**	160	**8**	9
Short-term insurance technical provisions	**—**	—	**6 702**	5 198	**—**	—
Working capital liabilities	**5 995**	5 342	**1 516**	1 654	**744**	333
Total equity and liabilities	**37 994**	37 224	**14 587**	12 567	**1 842**	919

Notes:

(1) *Included in the Life Insurance cluster balance sheet, as part of equity investments, are the investments in Sanlam Investment Management, Santam and Sanlam, at fair values of R2 481 million (2004: R1 616 million), R4 278 million (2004: R3 613 million) and R504 million (2004: R110 million) respectively. The balance sheet also includes the consolidated information for Innofin, Merchant Investors Assurance and African Life Assurance (for 2005), as these businesses form part of the Life Insurance cluster although Innofin and Merchant Investors Assurance are not part of the Sanlam Life Insurance group (statutory).*

(2) *Included in Sanlam Investments is Sanlam Investment Management, Sanlam Collective Investments, Sanlam Private Investments, Sanlam Properties, Sanlam Asset Management Ireland, Octane Group and Botswana Insurance Fund Management.*

(3) *Independent Financial Services includes Sanlam Financial Services UK consolidated, as well as investments in Gensec Property Services, Bull and Bear Financial Services, Break-thru Financial Services, Simeka Employee Benefits, Green Capital, SA Quantum and Thebe Community Financial Services.*

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

(5) *Within the consolidation column the investment in subsidiaries (Santam and Sanlam Investment Management), treasury stock and capital gains tax on Santam, which are included in the Life Insurance cluster, are reversed. The investment in Absa, which is included at fair value in the Life Insurance cluster, was adjusted to an equity-accounted value for 2004 and intercompany balances, other investments and term finance between companies within the Group are also consolidated.*

(6) *Refer to page 261 for a reconciliation between the segmental and Group balance sheets.*

Sanlam Capital Markets 2005	Sanlam Capital Markets 2004	Independent Financial Services[3] 2005	Independent Financial Services[3] 2004	Corporate and Other[4] 2005	Corporate and Other[4] 2004	Consolidation Entries[5] 2005	Consolidation Entries[5] 2004	Total 2005	Total 2004
3	4	9	12	1	—	—	—	249	184
—	—	—	—	—	41	—	—	492	380
—	—	345	367	1 202	1 198	—	—	2 174	2 170
—	—	—	—	—	—	—	—	942	—
—	—	—	—	—	—	—	—	625	—
42	116	130	51	3 066	3 091	(8 791)	(12 107)	32 547	26 582
—	—	—	—	—	—	—	—	737	682
—	—	61	15	—	—	—	(5 456)	703	4 544
—	—	—	1	94	44	(45)	—	328	69
6	3	—	20	380	601	(8 317)	(5 906)	16 598	9 934
—	—	—	—	174	305	—	—	2 684	3 182
36	113	58	10	1 411	1 407	(429)	(745)	4 639	4 521
—	—	11	5	1 007	734	—	—	6 858	3 650
93	105	2	3	136	134	—	—	343	440
—	—	—	—	—	—	—	—	2 372	1 980
—	—	—	—	—	—	(1 890)	(2 749)	(1 931)	(2 820)
21 525	15 190	210	516	2 225	3 164	(4 092)	(4 346)	30 826	26 584
21 663	15 415	696	949	6 630	7 628	(14 773)	(19 202)	68 639	55 500
552	441	446	375	2 747	2 623	(10 283)	(12 960)	25 020	19 685
—	—	82	66	1	—	—	(21)	3 557	2 932
—	—	7	20	61	899	(437)	(445)	2 574	5 204
—	—	—	—	—	—	(26)	(77)	49	51
—	—	—	—	—	—	—	—	268	47
—	—	—	—	5	25	(408)	(1 053)	745	157
—	—	—	—	—	—	—	—	6 702	5 198
21 111	14 974	161	488	3 816	4 081	(3 619)	(4 646)	29 724	22 226
21 663	15 415	696	949	6 630	7 628	(14 773)	(19 202)	68 639	55 500

Sanlam Limited Group Segmental Income Statement

for the year ended 31 December 2005

R million	Note	Sanlam Life 2005	Sanlam Life 2004	Santam 2005	Santam 2004	Sanlam Investments 2005	Sanlam Investments 2004
Financial services income		7 509	6 904	9 112	7 922	1 425	992
External clients		7 509	6 873	9 112	7 922	919	527
Inter-group		—	31	—	—	506	465
Sales remuneration		(1 034)	(864)	(1 183)	(942)	—	—
Income after sales remuneration		6 475	6 040	7 929	6 980	1 425	992
Underwriting policy benefits		(2 618)	(2 568)	(5 792)	(4 397)	—	—
Administration costs		(2 128)	(1 979)	(1 121)	(1 222)	(726)	(573)
Discontinued operations		—	—	—	—	—	—
Result from financial services before tax		1 729	1 493	1 016	1 361	699	419
Tax on financial services income		(309)	(230)	(299)	(445)	(148)	(117)
Result from financial services after tax		1 420	1 263	717	916	551	302
Minority shareholders' interest		(7)	(1)	(368)	(497)	(23)	(1)
Net result from financial services		1 413	1 262	349	419	528	301
Net investment income		1 021	768	140	92	—	1
Investment income	12	1 153	835	281	225	—	1
Tax on investment income		(132)	(67)	(2)	(19)	—	—
Minority shareholders' interest		—	—	(139)	(114)	—	—
Core earnings		2 434	2 030	489	511	528	302
Net enhanced early termination benefits		(440)	—	—	—	—	—
Enhanced early termination benefits		(620)	—	—	—	—	—
Tax on enhanced early termination benefits		180	—	—	—	—	—
Provision for financial claims		(150)	—	—	—	—	—
Net equity-accounted headline earnings		33	33	12	27	—	—
Equity-accounted headline earnings		33	33	23	56	—	—
Minority shareholders' interest		—	—	(11)	(29)	—	—
Net investment surpluses		4 580	5 367	396	309	12	3
Investment surpluses	12	4 870	6 081	978	791	14	3
Tax on investment surpluses		(281)	(714)	(177)	(152)	(2)	—
Minority shareholders' interest		(9)	—	(405)	(330)	—	—
Secondary tax on companies – after minorities		(109)	—	(15)	—	—	—
Headline earnings		6 348	7 430	882	847	540	305
Other equity-accounted earnings		—	—	—	—	—	—
Profit/(loss) on disposal of subsidiaries		—	—	—	—	(51)	50
Net profit on disposal of associated companies		—	—	—	—	—	—
Profit on disposal of associated companies		—	—	—	—	—	—
Tax on profit on disposal of associated companies		—	—	—	—	—	—
Impairment of investments and goodwill		—	—	(2)	(10)	6	(6)
Attributable earnings		6 348	7 430	880	837	495	349
Ratios							
Admin ratio(1)		32,9%	32,8%	14,1%	17,5%	50,9%	57,8%
Operating margin(2)		26,7%	24,7%	12,8%	19,5%	49,1%	42,2%
Earnings per share							
Adjusted weighted average number of shares (million)							
Net result from financial services (cents)		55,8	49,1	13,8	16,3	20,9	11,7
Core earnings (cents)							
Adjusted headline earnings based on the long-term rate of return (cents)	13						

Notes:

(1) *Administration costs (excluding Sanlam Life restructuring cost) as a percentage of income earned by the shareholders' fund less sales remuneration.*

(2) *Result from financial services before tax (excluding Sanlam Life restructuring cost) as a percentage of income earned by the shareholders' fund less sales remuneration.*

(3) *Refer to page 260 for a reconciliation between the segmental and Group income statements.*

Sanlam Capital Markets		Independent Financial Services		Corporate and Other		Total	
2005	2004	2005	2004	2005	2004	2005	2004
331	225	569	585	1	5	18 947	16 633
251	187	569	585	1	5	18 361	16 099
80	38	—	—	—	—	586	534
—	—	—	—	—	—	(2 217)	(1 806)
331	225	569	585	1	5	16 730	14 827
—	—	—	—	—	—	(8 410)	(6 965)
(180)	(139)	(537)	(541)	(173)	(199)	(4 865)	(4 653)
—	—	—	—	—	(94)	—	(94)
151	86	32	44	(172)	(288)	3 455	3 115
(25)	(7)	(5)	(10)	34	20	(752)	(789)
126	79	27	34	(138)	(268)	2 703	2 326
—	—	(5)	(15)	—	—	(403)	(514)
126	79	22	19	(138)	(268)	2 300	1 812
—	—	4	1	(185)	(15)	980	847
—	—	4	1	(169)	(9)	1 269	1 053
—	—	—	—	(16)	(6)	(150)	(92)
—	—	—	—	—	—	(139)	(114)
126	79	26	20	(323)	(283)	3 280	2 659
—	—	—	—	—	—	(440)	—
—	—	—	—	—	—	(620)	—
—	—	—	—	—	—	180	—
—	—	—	—	—	—	(150)	—
—	—	—	—	433	660	478	720
—	—	—	—	433	660	489	749
—	—	—	—	—	—	(11)	(29)
—	—	(2)	—	(2 253)	(6 195)	2 733	(516)
—	—	(1)	—	(2 383)	(6 842)	3 478	33
—	—	—	—	130	634	(330)	(232)
—	—	(1)	—	—	13	(415)	(317)
22	—	—	—	14	100	(88)	100
148	79	24	20	(2 129)	(5 718)	5 813	2 963
—	—	—	—	(8)	—	(8)	—
—	—	—	8	—	—	(51)	58
—	—	—	—	5 176	—	5 176	—
—	—	—	—	5 710	—	5 710	—
—	—	—	—	(534)	—	(534)	—
—	—	(7)	(61)	—	(186)	(3)	(263)
148	79	17	(33)	3 039	(5 904)	10 927	2 758
54,4%	61,8%	94,4%	92,5%	—	—	29,1%	31,4%
45,6%	38,2%	5,6%	7,5%	—	—	20,7%	21,6%
						2 529,4	2 570,8
5,0	3,1	0,9	0,7	(5,5)	(10,4)	90,9	70,5
						129,7	103,4
						161,1	158,3

Shareholders' Fund Balance Sheet

at 31 December 2005

(All businesses consolidated at net asset value)

	Note	2005 R million	2004 R million
Assets			
Property and equipment		249	184
Owner-occupied properties		492	380
Goodwill		2 174	2 170
Value of business acquired		942	—
Deferred acquisition costs		625	—
Investments	5	32 547	26 582
Properties		737	682
Associated companies		703	4 544
Joint ventures		328	69
Equities and similar securities		16 598	9 934
Public sector stocks and loans		2 684	3 182
Debentures, preference shares and other loans		4 639	4 521
Cash, deposits and similar securities		6 858	3 650
Deferred tax		343	440
Short-term insurance technical assets	6	2 372	1 980
Consolidation reserve		(1 931)	(2 820)
Working capital assets		30 826	26 584
Trade and other receivables	7	22 537	15 435
Cash, deposits and similar securities		8 289	11 149
Total assets		68 639	55 500
Equity and liabilities			
Capital and reserves			
Share capital and premium	8	956	4 360
Treasury shares		(639)	(486)
Non-distributable reserves		9 539	9 415
Foreign currency translation reserve		(91)	(157)
Consolidation reserve		(1 931)	(2 820)
Retained earnings		17 186	9 373
Shareholders' fund		25 020	19 685
Minority shareholders' interest		3 557	2 932
Outside shareholders		3 443	2 755
Sanlam policyholders		114	177
Term finance		2 574	5 204
External investors in consolidated funds		49	51
Cell owners' interest		268	47
Deferred tax		745	157
Short-term insurance technical provisions	6	6 702	5 198
Working capital liabilities	9	29 724	22 226
Total equity and liabilities		68 639	55 500

Shareholders' Fund Balance Sheet at Fair Value

at 31 December 2005

	Note	2005 R million	2004 R million
Assets			
Property and equipment		177	106
Owner-occupied properties		480	370
Goodwill[2]		419	387
Value of business acquired[2]		942	—
Deferred acquisition costs		582	—
Investments		35 307	34 794
Sanlam businesses	10	9 702	7 743
Investment Management businesses		3 228	2 384
SIM Wholesale		2 481	1 616
International (SMMI and Octane)		522	398
Sanlam Collective Investments		225	370
Life Cluster businesses		668	496
Innofin		341	187
Direct Axis[3]		71	163
Multi-Data		82	59
Sanlam Trust		84	76
Sanlam Home Loans		60	11
Other[4]		30	—
Independent Financial Services Cluster businesses		505	394
Sanlam Financial Services UK		382	349
Gensec Properties		13	12
Other[5]		110	33
Sanlam Capital Markets		552	441
Santam		4 749	4 028
Associated companies		871	10 033
Absa		—	9 429
Peermont		779	604
Other		92	—
Joint ventures		395	270
Safair Lease Finance		271	270
Shriram		124	—
Other investments		24 339	16 748
Other equities and similar securities		12 267	6 739
Public sector stocks and loans		2 019	1 550
Investment properties		671	619
Other interest-bearing and preference share investments		9 382	7 840
Deferred tax		216	313
Working capital assets		4 486	6 657
Total assets		42 609	42 627
Equity and liabilities			
Shareholders' fund		30 592	29 782
Minority shareholders' interest		439	61
Term finance		2 834	5 477
External investors in consolidated funds		49	51
Deferred tax		1 031	1 143
Working capital liabilities		7 664	6 113
Total equity and liabilities		42 609	42 627
Net asset value per share (cents)	11	1 293	1 093

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

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

[3] *The life insurance component of Direct Axis' operations is included in the value of in-force business and therefore excluded from the Direct Axis fair value.*

[4] *Other Life Cluster businesses comprise the non-life businesses in Namibia.*

[5] *Other Independent Financial Services businesses include Thebe Community Financial Services, SA Quantum, Break-Thru Financial Services, Simeka Employee Benefits and Bull and Bear Financial Services.*

Notes to the segmental information

for the year ended 31 December 2005

1. Basis of presentation and accounting policies

The basis of presentation and accounting policies in respect of the segmental information of the Sanlam Limited group are the same as those set out on pages 155 to 167.

Basis of consolidation

Sanlam group companies are consolidated in the Sanlam Limited group shareholders' financial statements at net asset value. The policyholders' and outside shareholders' interests in these companies are treated as minority shareholders' interest on consolidation. A separate balance sheet reflecting the investment in these companies, other than Sanlam Life, Merchant Investors Assurance and African Life at fair value is presented for information purposes. The embedded value of Sanlam Life, Merchant Investors Assurance and African Life (including the value of in-force life business) is not reflected in this balance sheet, but shown separately in the Embedded Value Report on pages 264 to 273.

2. Analysis of new business and total funds received

Analysed per cluster, reflecting the split between Life and other business

	Total		Life Insurance[1]		Life Licence[1]		Other	
R million	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Sanlam Life	**21 372**	18 463	**11 738**	11 117	**3**	—	**9 631**	7 346
Sanlam Personal Finance	**6 280**	6 432	**6 280**	6 432	**—**	—	**—**	—
Recurring	**1 482**	1 407	**1 482**	1 407	**—**	—	**—**	—
Single	**3 156**	3 466	**3 156**	3 466	**—**	—	**—**	—
Continuations	**1 642**	1 559	**1 642**	1 559	**—**	—	**—**	—
Sanlam Employee Benefits	**2 699**	2 394	**2 699**	2 394	**—**	—	**—**	—
Recurring	**194**	129	**194**	129	**—**	—	**—**	—
Single	**2 505**	2 265	**2 505**	2 265	**—**	—	**—**	—
Innofin	**7 836**	6 638	**1 597**	1 399	**3**	—	**6 236**	5 239
Safrican	**108**	—	**108**	—	**—**	—	**—**	—
Direct Axis Credit Life	**22**	—	**22**	—	**—**	—	**—**	—
Sanlam Namibia	**3 756**	2 393	**361**	286	**—**	—	**3 395**	2 107
Life	**361**	286	**361**	286	**—**	—	**—**	—
Non-life	**3 395**	2 107	**—**	—	**—**	—	**3 395**	2 107
Merchant Investors Assurance	**671**	606	**671**	606	**—**	—	**—**	—
Sanlam Investment Management	**32 623**	27 720	**—**	—	**121**	83	**32 502**	27 637
Employee benefits	**121**	83	**—**	—	**121**	83	**—**	—
Recurring	**—**	—	**—**	—	**—**	—	**—**	—
Single	**121**	159	**—**	—	**121**	159	**—**	—
Less: Intergroup switches	**—**	(76)	**—**	—	**—**	(76)	**—**	—
Collective investment schemes	**14 994**	10 977	**—**	—	**—**	—	**14 994**	10 977
Cash funds	**5 089**	4 305	**—**	—	**—**	—	**5 089**	4 305
Equity funds	**1 557**	1 196	**—**	—	**—**	—	**1 557**	1 196
Wholesale business	**2 510**	2 145	**—**	—	**—**	—	**2 510**	2 145
White label	**5 838**	3 331	**—**	—	**—**	—	**5 838**	3 331
Segregated funds	**15 696**	15 041	**—**	—	**—**	—	**15 696**	15 041
Total inflow	**15 696**	15 338	**—**	—	**—**	—	**15 696**	15 338
Less: Intergroup switches	**—**	(297)	**—**	—	**—**	—	**—**	(297)
International	**1 812**	1 619	**—**	—	**—**	—	**1 812**	1 619
Sanlam Financial Services UK	**10 615**	5 950	**—**	—	**—**	—	**10 615**	5 950
Santam	**8 871**	7 719	**—**	—	**—**	—	**8 871**	7 719
Total new business	**73 481**	59 852	**11 738**	11 117	**124**	83	**61 619**	48 652

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

R million	Total 2005	Total 2004	Life Insurance[1] 2005	Life Insurance[1] 2004	Life Licence[1] 2005	Life Licence[1] 2004	Other 2005	Other 2004
Recurring premiums on existing funds:								
Sanlam Life	**10 998**	10 677	**10 998**	10 677	**—**	—	**—**	—
Sanlam Investment Management	**175**	202	**—**	—	**175**	202	**—**	—
Gross	**175**	303	**—**	—	**175**	303	**—**	—
Less: Intergroup switches	**—**	(101)	**—**	—	**—**	(101)	**—**	—
Total funds received	**84 654**	70 731	**22 736**	21 794	**299**	285	**61 619**	48 652

[1]*Life licence business relates to investment products provided by Sanlam Investment Management and Innofin by means of a life insurance policy where there is very little or no insurance risk.*

	2005 R million	2004 R million
Analysed per type of business or licence		
Life business	**11 862**	11 200
Investments	**52 748**	40 933
Short-term insurance	**8 871**	7 719
Total new business	**73 481**	59 852
Premiums on existing business	**11 173**	10 879
Total funds received	**84 654**	70 731
The new business premiums used in the calculation of Annual Premium Equivalent (APE) is detailed below:		
Recurring premiums	**1 158**	1 005
Individual business	**1 482**	1 407
Less: Index growth	**(642)**	(619)
Add: Optional reductions	**13**	36
Employee benefits	**194**	129
Safrican	**28**	—
Direct Axis Credit Life	**22**	—
Merchant Investors Assurance	**7**	6
Sanlam Namibia	**54**	46
Single premiums	**9 951**	9 529
Individual business	**4 798**	5 025
Employee benefits	**2 505**	2 265
Innofin (Illa's)	**1 597**	1 399
Safrican	**80**	—
Merchant Investors Assurance	**664**	600
Sanlam Namibia	**307**	240
Total premiums used to calculate APE	**11 109**	10 534
APE	**2 153**	1 958

Notes to the segmental information continued

for the year ended 31 December 2005

3. *Analysis of payments to clients*

R million	Total 2005	Total 2004	Life Insurance[1] 2005	Life Insurance[1] 2004	Life Licence[1] 2005	Life Licence[1] 2004	Other 2005	Other 2004
Sanlam Life	**32 377**	27 954	**26 536**	23 423	**14**	9	**5 827**	4 522
Sanlam Personal Finance	**15 694**	14 424	**15 694**	14 424	—	—	—	—
Surrenders	**3 203**	3 190	**3 203**	3 190	—	—	—	—
Other	**12 491**	11 234	**12 491**	11 234	—	—	—	—
Sanlam Employee Benefits	**8 267**	6 722	**8 267**	6 722	—	—	—	—
Terminations[2]	**4 018**	1 736	**4 018**	1 736	—	—	—	—
Other benefits	**4 249**	5 004	**4 249**	5 004	—	—	—	—
Less: Intergroup switches[3]	—	(18)	—	(18)	—	—	—	—
Innofin	**4 247**	4 055	**710**	742	**14**	9	**3 523**	3 304
Safrican	**197**	—	**197**	—	—	—	—	—
Direct Axis Credit Life	—	—	—	—	—	—	—	—
Sanlam Namibia	**3 010**	1 815	**706**	597	—	—	**2 304**	1 218
Life	**706**	597	**706**	597	—	—	—	—
Non-life	**2 304**	1 218	—	—	—	—	**2 304**	1 218
Merchant Investors Assurance	**962**	938	**962**	938	—	—	—	—
Sanlam Investment Management	**29 585**	21 560	—	—	**964**	2 123	**28 621**	19 437
Employee benefits	**964**	2 123	—	—	**964**	2 123	—	—
Terminations[2]	**656**	1 819	—	—	**656**	1 819	—	—
Other benefits	**308**	583	—	—	**308**	583	—	—
Less: Intergroup switches[3]	—	(279)	—	—	—	(279)	—	—
Collective investment schemes	**11 422**	9 571	—	—	—	—	**11 422**	9 571
Cash funds	**5 117**	3 808	—	—	—	—	**5 117**	3 808
Equity funds	**1 103**	1 582	—	—	—	—	**1 103**	1 582
Wholesale business	**1 936**	1 859	—	—	—	—	**1 936**	1 859
White label	**3 266**	2 322	—	—	—	—	**3 266**	2 322
Segregated funds	**16 880**	9 069	—	—	—	—	**16 880**	9 069
Total outflow	**16 880**	9 246	—	—	—	—	**16 880**	9 246
Less: Intergroup switches	—	(177)	—	—	—	—	—	(177)
International	**319**	797	—	—	—	—	**319**	797
Sanlam Financial Services UK	**1 747**	267	—	—	—	—	**1 747**	267
Santam	**5 792**	4 397	—	—	—	—	**5 792**	4 397
Consolidation	**(15)**	(38)	**(15)**	(38)	—	—	—	—
Total payments to clients	**69 486**	54 140	**26 521**	23 385	**978**	2 132	**41 987**	28 623

[1] *Life licence business relates to investment products provided by Sanlam Investment Management and Innofin by means of a life insurance policy where there is very little or no insurance risk.*

[2] *Includes taxation paid on behalf of certain retirement funds.*

[3] *Included in terminations.*

	2005 R million	2004 R million
Analysed per type of business or licence		
Life business	**27 499**	25 517
Investments	**36 195**	24 226
Short-term insurance	**5 792**	4 397
Total payments to clients	**69 486**	54 140

4. *Analysis of net inflow/(outflow) of funds*

R million	Total 2005	Total 2004	Life Insurance[1] 2005	Life Insurance[1] 2004	Life Licence[1] 2005	Life Licence[1] 2004	Other 2005	Other 2004
Sanlam Life	**(7)**	1 186	**(3 800)**	(1 629)	**(11)**	(9)	**3 804**	2 824
Sanlam Personal Finance	**(2 017)**	(702)	**(2 017)**	(702)	**—**	—	**—**	—
Sanlam Employee Benefits	**(2 896)**	(1 773)	**(2 896)**	(1 773)	**—**	—	**—**	—
Innofin	**3 589**	2 583	**887**	657	**(11)**	(9)	**2 713**	1 935
Safrican	**166**	—	**166**	—	**—**	—	**—**	—
Direct Axis Credit Life	**—**	—	**—**	—	**—**	—	**—**	—
Sanlam Namibia	**1 095**	904	**4**	15	**—**	—	**1 091**	889
Merchant Investors Assurance	**56**	174	**56**	174	**—**	—	**—**	—
Sanlam Investment Management	**3 213**	6 362	**—**	—	**(668)**	(1 838)	**3 881**	8 200
Employee benefits	**(668)**	(1 838)	**—**	—	**(668)**	(1 838)	**—**	—
Total	**(668)**	(1 940)	**—**	—	**(668)**	(1 940)	**—**	—
Less: Intergroup switches	**—**	102	**—**	—	**—**	102	**—**	—
Collective investment schemes	**3 572**	1 406	**—**	—	**—**	—	**3 572**	1 406
Cash funds	**(28)**	497	**—**	—	**—**	—	**(28)**	497
Equity funds	**454**	(386)	**—**	—	**—**	—	**454**	(386)
Wholesale business	**574**	286	**—**	—	**—**	—	**574**	286
White label	**2 572**	1 009	**—**	—	**—**	—	**2 572**	1 009
Segregated funds	**(1 184)**	5 972	**—**	—	**—**	—	**(1 184)**	5 972
Total	**(1 184)**	6 092	**—**	—	**—**	—	**(1 184)**	6 092
Less: Intergroup switches	**—**	(120)	**—**	—	**—**	—	**—**	(120)
International	**1 493**	822	**—**	—	**—**	—	**1 493**	822
Sanlam Financial Services UK	**8 868**	5 683	**—**	—	**—**	—	**8 868**	5 683
Santam	**3 079**	3 322	**—**	—	**—**	—	**3 079**	3 322
Consolidation	**15**	38	**15**	38	**—**	—	**—**	—
Total net inflow/(outflow)	**15 168**	16 591	**(3 785)**	(1 591)	**(679)**	(1 847)	**19 632**	20 029

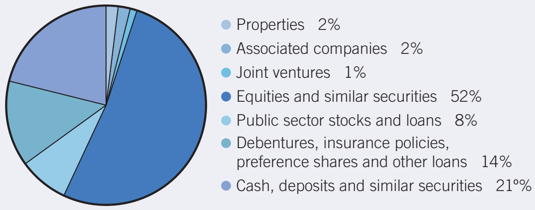
[1] *Life licence business relates to investment products provided by Sanlam Investment Management and Innofin by means of a life insurance policy where there is very little or no insurance risk.*

	2005 R million	2004 R million
Analysed per type of business or licence		
Life business	**(4 464)**	(3 438)
Investments	**16 553**	16 707
Short-term insurance	**3 079**	3 322
Total net inflow	**15 168**	16 591

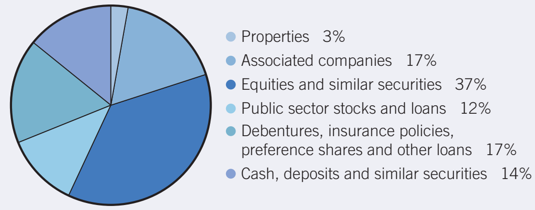
	2005 R million	2004 R million

5. Investments

Total shareholders' fund investment mix 2005



Total shareholders' fund investment mix 2004



	2005 R million	2004 R million
Investment in associated companies		
Absa	—	4 085
Peermont	310	218
Other associated companies	393	241
Total investment in associated companies	**703**	4 544

Details of the investments in the material associated companies, Absa and Peermont, are reflected in note 7 on page 181 of the Sanlam Limited group financial statements.

	2005 R million	2004 R million
Investment in joint ventures		
Safair Lease Finance	94	45
Direct Axis	32	12
Sanlam Home Loans	55	8
Shriram	124	—
Other joint ventures	23	4
Total investment in joint ventures	**328**	69

Details of the investments in the material joint ventures, Safair Lease Finance, Direct Axis and Sanlam Home Loans, are reflected in note 7 on page 182 of the Sanlam Limited group financial statements.

	2005 R million	2004 R million
Equities and similar securities		
Listed on the JSE – at market value	13 354	7 823
Unlisted – at directors' valuation	766	807
Derivative equity investments	4	1
Offshore equity investments	2 036	1 202
Collective investment schemes	438	101
Total equity investments	**16 598**	9 934

Total shareholders' fund equity investments mix 2005

Total shareholders' fund equity investments mix 2004

	2005 %	2004 %
5. *Investments* *(continued)*		
Spread of investments in equities listed on JSE by sector[1]:		
Basic industries	**2,7**	3,1
Cyclical consumer goods	**5,2**	4,7
Cyclical services	**9,1**	9,5
Financials	**33,2**	34,4
General industrials	**6,0**	5,7
Information technology	**0,3**	0,6
Non-cyclical consumer goods	**8,0**	9,2
Non-cyclical services	**8,3**	6,2
Resources	**24,8**	24,4
Other	**2,4**	2,2
	100	100

(1) *Excludes offshore equities, derivatives, collective investment schemes and unlisted investments and includes the appropriate underlying investments of Santam.*

	R million	R million
Offshore investments		
Equities	**2 036**	1 202
Interest-bearing investments	**3 435**	2 422
Total offshore investments	**5 471**	3 624

Register of investments

A register containing details of all investments, including fixed property investments, is available for inspection at the registered office of Sanlam Limited.

6. *Short-term insurance technical assets and provisions*

Details of short-term insurance technical assets and provisions are reflected in note 9 on page 187 of the Sanlam Limited group financial statements.

7. *Trade and other receivables*

Premiums receivable	**1 138**	681
Accrued investment income	**283**	304
Trading account and money market investments	**17 686**	12 391
Amounts due from reinsurers	**198**	92
Accounts receivable	**3 232**	1 967
Total trade and other receivables	**22 537**	15 435

8. *Share capital and premium*

Details of share capital and premium are reflected in note 11 on page 188 of the Sanlam Limited group financial statements.

9. *Working capital liabilities*

Trading account and money market liabilities	**19 963**	13 737
Accounts payable	**6 071**	4 771
Provisions	**860**	465
Policy benefits payable	**1 232**	1 637
Amounts due to reinsurers	**253**	233
Bank overdrafts	**13**	196
Taxation	**1 332**	1 187
Total working capital liabilities	**29 724**	22 226

Notes to the segmental information continued

for the year ended 31 December 2005

	2005 R million	2004 R million
10. Excess of fair value over net asset value of Sanlam businesses and investments		
The shareholders' fund balance sheet at fair value includes the value of the companies below based on directors' valuation, apart from Santam, Absa and Peermont, which are valued according to ruling share prices.		
Net fair value of businesses and investments	**10 422**	16 900
Fair value of businesses and investments	**10 968**	18 046
Deferred capital gains tax on businesses and investments at fair value	**(546)**	(1 146)
Less: Net asset value of businesses and investments(1)	**5 583**	8 434
Investment Management businesses	**752**	514
SIM Wholesale	**437**	346
International (SMMI and Octane)	**231**	90
Sanlam Collective Investments	**84**	78
Life Cluster businesses	**305**	156
Innofin	**177**	155
Direct Axis	**32**	12
Multi-Data	**18**	9
Sanlam Trust	**4**	(36)
Sanlam Home Loans	**55**	8
Other	**19**	8
Independent Financial Services Cluster businesses	**450**	375
Sanlam Financial Services UK	**340**	335
Gensec Properties	**11**	5
Other	**99**	35
Sanlam Capital Markets	**552**	441
Santam	**2 903**	2 655
Associated companies	**403**	4 248
Absa	**—**	4 030
Peermont	**310**	218
Other	**93**	—
Joint ventures	**218**	45
Safair Lease Finance	**94**	45
Shriram	**124**	—
Less: Goodwill in respect of above businesses(1)	**1 198**	1 198
Revaluation adjustment of interest in businesses and investments to fair value	**3 641**	7 268
Analysis of fair value		
Sanlam businesses	**9 702**	7 743
Associated companies	**871**	10 033
Joint ventures	**395**	270
Fair value of businesses and investments	**10 968**	18 046

	2005 %

10. Excess of fair value over net asset value of Sanlam businesses and investments *(continued)*

The fair value of the Sanlam businesses has been determined by the application of the following valuation methodologies, as appropriate:

- stock exchange prices;
- ratio of price to assets under management;
- discounted cash flows;
- earnings multiple; and
- net asset value.

The major assumptions applied to the valuation methods for unlisted businesses are as follows:

	2005 %
Weighted average ratio of price to assets under management	1,0
Weighted average risk discount rate	18,4
Weighted average perpetuity growth rate	5,0
Weighted average earnings multiple	7,1

The sensitivity of the fair values to changes in the major assumptions applied in the valuation of the unlisted businesses is as follows:

		Fair value of Sanlam businesses		
R million	Change in assumption	Base value	Decrease in assumption	Increase in assumption
Ratio of price to assets under management	0,1%	10 968	10 624	11 311
Risk discount rate	1,0%	10 968	11 022	10 921
Perpetuity growth rate	1,0%	10 968	10 946	10 990
Earnings multiple	1,0	10 968	10 963	10 975

	2005 R million	2004 R million
[(1)]Goodwill attributable to the above businesses:		
Goodwill included in the net asset value of the respective businesses	557	585
SIM Wholesale	30	29
International (SMMI and Octane)	11	11
Innofin	91	91
Sanlam Financial Services UK	345	367
Santam	80	87
Goodwill held on Group level in respect of the above businesses	1 198	1 198
Total goodwill attributable to the above businesses	1 755	1 783
Goodwill attributable to other non-life insurance businesses	11	—
Total goodwill attributable to non-life insurance businesses	1 766	1 783

11. Net asset value per share

Net asset value per share is calculated on the Group shareholders' fund at fair value of R30 592 million (2004: R29 782 million), divided by 2 366,5 million (2004: 2 725,9 million) shares.

Number of shares for value per share:	2005	2004
Number of ordinary shares in issue (refer to note 11 of Sanlam Limited group financial statements)	2 408,6	2 767,6
Shares held by subsidiaries in shareholders' fund	(48,6)	(47,5)
Convertible deferred shares held by Ubuntu-Botho	6,5	5,8
Adjusted number of shares for value per share	2 366,5	2 725,9

Notes to the segmental information continued

for the year ended 31 December 2005

	2005 R million	2004 R million
12. Investment return		
Investment income		
Equities and similar securities	756	576
Dividends received from associated companies	384	264
Other	372	312
Interest-bearing, preference shares and similar securities	460	445
Properties	53	32
Rental income	83	53
Rental related expenses	(30)	(21)
Total investment income	1 269	1 053
Investment surpluses		
Balanced portfolio	2 748	1 247
Fund transfers	730	(1 214)
Total investment surpluses	3 478	33
13. Long-term rate of return adjusted headline earnings		
Adjusted headline earnings based on the long-term rate of return (LTRR)		
Net result from financial services	2 300	1 812
Secondary tax on companies	(88)	100
Financial claims	(590)	—
LTRR investment return after taxation	2 453	2 158
Equity-accounted headline earnings	478	720
Dividends received from associated companies	290	264
LTRR investment return – balanced portfolio	1 685	1 174
Adjusted headline earnings based on the LTRR	4 075	4 070
Reconciliation of headline earnings and adjusted headline earnings based on the LTRR		
Headline earnings per segmental income statement	5 813	2 963
Fund transfers	(730)	1 214
Net LTRR adjustment	(1 008)	(107)
Adjusted headline earnings based on the LTRR	4 075	4 070
Analysis of net LTRR adjustment		
Investment return	(1 411)	(300)
Equities	(1 856)	(331)
Interest-bearing investments	460	47
Properties	(15)	(16)
Tax	64	(65)
Minority shareholders' interest	339	258
Net LTRR adjustment	(1 008)	(107)

	2005 R million	2004 R million
13. Long-term rate of return adjusted headline earnings *(continued)*		
A comparison of the aggregate actual and calculated longer-term returns (after tax and minorities) since 1 January 1999 is set out below:		
Actual returns	15 521	11 330
Longer-term returns	(14 058)	(11 605)
Surplus/(deficit) aggregate short-term fluctuations	**1 463**	(275)
A reconciliation of the investments included in the calculation of the adjusted headline earnings based on the LTRR is as follows:		
Investments per shareholders' fund balance sheet (refer page 248)	32 547	26 582
Less: Investment in associated companies	(2 428)	(4 544)
Investment in joint ventures	(328)	(69)
Investments held in respect of term finance	(2 508)	(3 809)
Investments held in respect of capital market activity	(42)	(62)
Investments matched by liabilities	(2 567)	(905)
Other	(36)	(104)
LTRR investments	**24 638**	17 089
Analysis of LTRR investments		
Equities	15 770	9 985
Securities	4 397	4 107
Cash, deposits and similar securities	3 979	2 376
Properties	492	621
LTRR investments	**24 638**	17 089
LTRR yield applied to balanced portfolio	**10%**	11%
14. Geographical segmental information		
Total assets	276 712	225 280
Southern Africa	223 399	190 478
International	53 313	34 802
Financial services income	18 947	16 633
Southern Africa	17 229	15 314
International	1 718	1 319
Net result from financial services	2 300	1 812
Southern Africa	2 006	1 674
International	294	138
15. Assets under management and administration		
Total assets per Group balance sheet (page 172)	276 712	225 280
Segregated funds not included in Group balance sheet	167 215	121 678
Total assets under management and administration	**443 927**	346 958

16. Reconciliation of segmental information

16.1 Reconciliation of earnings to segmental analysis

	Year ended 31 December 2005				Year ended 31 December 2004			
		Shareholder activities				Shareholder activities		
R million	Total	Financial services	Investment return	Policyholder activities	Total	Financial services	Investment return	Policyholder activities
Net income	63 307	19 390	10 022	33 895	41 975	17 170	879	23 926
Financial services income	20 393	20 524	(3)	(128)	17 836	17 886	(7)	(43)
Reinsurance premiums paid	(2 339)	(2 339)	—	—	(2 303)	(2 303)	—	—
Reinsurance commission received	445	445	—	—	504	504	—	—
Investment income	10 429	718	892	8 819	9 658	1 083	789	7 786
Investment surpluses	35 282	42	9 115	26 125	16 659	—	127	16 532
Change in fair value of external investors liability	(903)	—	18	(921)	(379)	—	(30)	(349)
Net insurance and investment contract benefits and claims	(41 440)	(9 030)	—	(32 410)	(30 081)	(6 965)	—	(23 116)
Long-term insurance contract benefits	(21 070)	(2 754)	—	(18 316)	(15 829)	(2 698)	—	(13 131)
Long-term investment contract benefits	(14 094)	—	—	(14 094)	(9 985)	—	—	(9 985)
Enhanced early termination benefits	(620)	(620)	—	—	—	—	—	—
Short-term insurance claims	(6 904)	(6 904)	—	—	(5 014)	(5 014)	—	—
Reinsurance claims received	1 248	1 248	—	—	747	747	—	—
Expenses	(7 769)	(7 685)	—	(84)	(7 026)	(6 996)	(1)	(29)
Sales remuneration	(2 632)	(2 632)	—	—	(2 302)	(2 302)	—	—
Administration costs	(5 137)	(5 053)	—	(84)	(4 724)	(4 694)	(1)	(29)
Impairment of investments and goodwill	(12)	—	(12)	—	(263)	—	(263)	—
Net operating result	14 086	2 675	10 010	1 401	4 605	3 209	615	781
Equity-accounted earnings	944	5	865	74	1 085	—	984	101
Finance cost	(136)	—	—	(136)	(49)	—	—	(49)
Discontinued operations	—	—	—	—	(92)	(94)	2	—
Profit before tax	14 894	2 680	10 875	1 339	5 549	3 115	1 601	833
Tax expense	(2 803)	(567)	(1 117)	(1 119)	(1 771)	(789)	(224)	(758)
Shareholders' fund	(1 684)	(567)	(1 117)	—	(1 013)	(789)	(224)	—
Policyholders' fund	(1 119)	—	—	(1 119)	(758)	—	—	(758)
Profit for the year	12 091	2 113	9 758	220	3 778	2 326	1 377	75
Attributable to:								
Shareholders' fund	10 927	1 710	9 217	—	2 758	1 812	946	—
Minority shareholders' interest	1 164	403	541	220	1 020	514	431	75
	12 091	2 113	9 758	220	3 778	2 326	1 377	75
Financial services profit comprising (refer segmental income statement):								
Net result from financial services		2 300				1 812		
Net enhanced early termination benefits		(440)				—		
Provision for financial claims		(150)				—		
Total financial services profit		1 710				1 812		

16. *Reconciliation of segmental information* (continued)

16.2 Reconciliation between segmental and Group balance sheets

R million	31 December 2005 Total	31 December 2005 Shareholder activities	31 December 2005 Policyholder activities	31 December 2004 Total	31 December 2004 Shareholder activities	31 December 2004 Policyholder activities
Assets						
Property and equipment	249	249	—	184	184	—
Owner-occupied properties	492	492	—	380	380	—
Goodwill	2 174	2 174	—	2 186	2 170	16
Value of business acquired	942	942	—	—	—	—
Deferred acquisition costs	1 155	625	530	994	—	994
Long-term reinsurance assets	389	—	389	318	—	318
Investments	232 851	32 547	200 304	187 606	26 582	161 024
Properties	12 748	737	12 011	14 413	682	13 731
Associated companies	709	703	6	5 098	4 544	554
Joint ventures	328	328	—	69	69	—
Equities and similar securities	120 763	16 598	104 165	88 084	9 934	78 150
Public sector stocks and loans	47 998	2 684	45 314	44 434	3 182	41 252
Debentures, insurance policies, preference shares and other loans	21 173	4 639	16 534	17 141	4 521	12 620
Cash, deposits and similar securities	29 132	6 858	22 274	18 367	3 650	14 717
Deferred tax	372	343	29	440	440	—
Short-term insurance technical assets	2 372	2 372	—	1 980	1 980	—
Consolidation reserve	—	(1 931)	1 931	—	(2 820)	2 820
Working capital assets	35 716	30 826	4 890	31 192	26 584	4 608
Trade and other receivables	27 427	22 537	4 890	20 043	15 435	4 608
Cash, deposits and similar securities	8 289	8,289	—	11 149	11 149	—
Total assets	276 712	68 639	208 073	225 280	55 500	169 780
Equity and liabilities						
Capital and reserves						
Share capital and premium	956	956	—	4 360	4 360	—
Treasury shares	(639)	(639)	—	(486)	(486)	—
Non-distributable reserves	9 539	9 539	—	9 415	9 415	—
Foreign currency translation reserve	(91)	(91)	—	(157)	(157)	—
Consolidation reserve	(1 931)	(1 931)	—	(2 820)	(2 820)	—
Retained earnings	17 186	17 186	—	9 373	9 373	—
Shareholders' fund	25 020	25 020	—	19 685	19 685	—
Minority shareholders' interest	3 443	3 557	(114)	3 515	2 932	583
Total equity	28 463	28 577	(114)	23 200	22 617	583
Long-term policy liabilities	198 234	—	198 234	163 556	—	163 556
Insurance contracts	109 591	—	109 591	92 961	—	92 961
Investment contracts	88 643	—	88 643	70 595	—	70 595
Term finance	2 879	2 574	305	6 685	5 204	1 481
External investors in consolidated funds	6 030	49	5 981	3 209	51	3 158
Cell owners' interest	268	268	—	47	47	—
Deferred tax	1 623	745	878	809	157	652
Short-term insurance technical provisions	6 702	6 702	—	5 198	5 198	—
Working capital liabilities	32 513	29 724	2 789	22 576	22 226	350
Trade and other payables	30 057	27 532	2 525	20 924	20 574	350
Provisions	860	860	—	465	465	—
Taxation	1 596	1 332	264	1 187	1 187	—
Total equity and liabilities	276 712	68 639	208 073	225 280	55 500	169 780

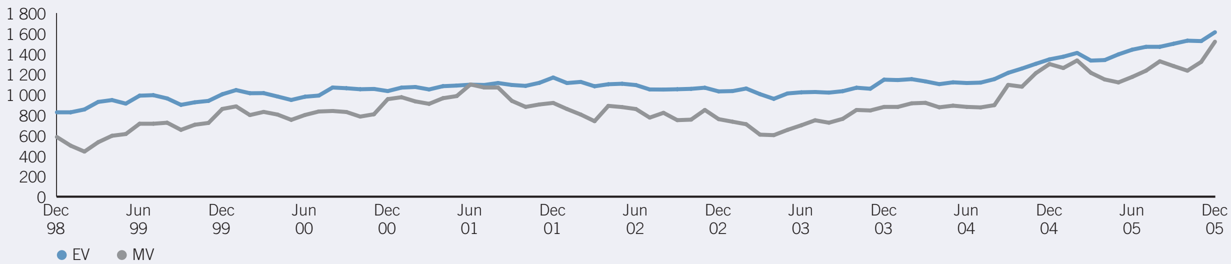
Stock Exchange Performance

	2005	2004	2003	2002	2001	2000	1999
Number of shares traded (million)	2 142	1 716	1 709	1 531	1 118	1 030	1 463
Value of shares traded (R million)	26 762	16 661	12 550	12 807	10 780	8 578	9 451
Percentage of issued shares traded (%)	89	62	64	58	42	39	55
Price/Earnings ratio (times)(2)	6,6	11,3	9,9	9,4	9,3	10,6	11,7
Price/LTRR earnings ratio (times)(2)	9,4	8,2	7,0	6,2	6,9	7,3	8,4
Return on Sanlam share price since listing(1) (%)	16	16	11	9	17	27	41
Market price per share (cents)							
• Year-end closing price	1 519	1 300	880	760	919	956	860
• Highest closing price	1 540	1 300	880	1 000	1 145	1 000	890
• Lowest closing price	1 080	830	585	700	830	675	440
Net asset value per share (cents)(2)	1 293	1 093	883	798	927	831	810
Embedded value per share (cents)(2)	1 615	1 344	1 131	1 021	1 167	1 067	1 004
Market capitalisation at year-end (R million)	36 587	35 979	23 360	20 175	24 192	25 381	22 833

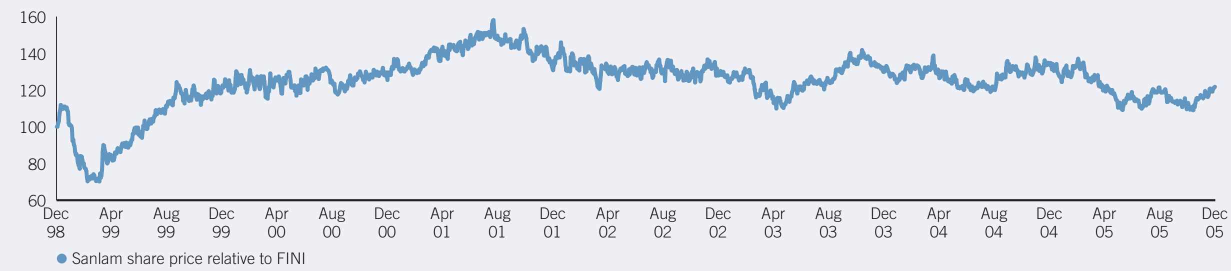
(1) *Annualised growth in the Sanlam share price since listing plus dividends paid.*

(2) *2004 figures restated for IFRS implementation in 2005. Prior year figures are reported on the previous SA GAAP basis.*

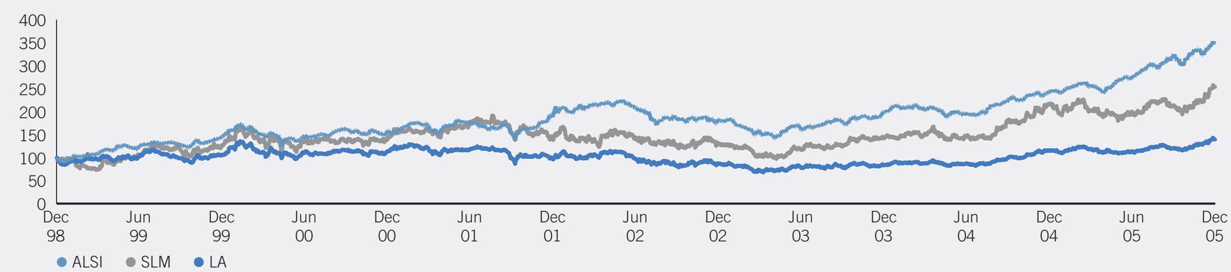
Share price vs embedded value



Share price relative to FINI



Sanlam vs ALSI vs Life Assurance Index



Assurance report of the Independent Auditors on the Sanlam group Embedded Value Report

To the directors of Sanlam Limited

We have carried out an assurance engagement on the Report on the Sanlam Group Embedded Value for the year ended 31 December 2005 on pages 264 to 273, which has been prepared in accordance with the applicable guidelines of the Actuarial Society of South Africa (PGN 107) and the policies of the Group set out on pages 155 to 167. This report should be read in conjunction with the audited annual financial statements where the policy liabilities calculated on the financial soundness valuation basis, and the profit entitlement rules are set out on pages 167 to 171.

Respective responsibilities of directors and independent auditors

The directors are responsible for the annual financial statements, as described on page 151, as well as the Report on the Sanlam Group Embedded Value. Our responsibilities in relation to the annual financial statements are set out on page 153.

Our responsibilities, as independent auditors, in relation to the Report on the Sanlam Group Embedded Value are to express a conclusion to the board of directors as to whether the Sanlam Group embedded value as at 31 December 2005 and the value of new life insurance business and embedded value earnings for the year then ended were calculated in accordance with the applicable guidelines of the Actuarial Society of South Africa and the policies of the Group as set out in the Report on the Sanlam Group Embedded Value.

Scope of engagement

We conducted our assurance engagement in accordance with the International Standards on Assurance Engagements: ISAE 3000. This standard requires that we plan and perform the engagement to obtain reasonable assurance that the Report on the Sanlam Group Embedded Value is free of material misstatement.

Our engagement included:

- an examination, on a test basis, of evidence supporting the amounts and disclosures in the Report on the Sanlam Group Embedded Value;
- an assessment of the significant assumptions, estimates and judgements made by management in the preparation of the Report on the Sanlam Group Embedded Value, and of whether the guidelines of the Actuarial Society of South Africa, the methodologies and the policies of the Group, were consistently applied and adequately disclosed; and
- an evaluation of the overall adequacy of the presentation of information in the Report on the Sanlam Group Embedded Value in accordance with the guidelines of the Actuarial Society of South Africa.

We believe our engagement provided a reasonable basis for our conclusion.

Assurance conclusion

In our opinion the Sanlam group embedded value as at 31 December 2005 and the value of new life insurance business and embedded value earnings for the year then ended fairly presents, in all material respects, these values in accordance with the guidelines of the Actuarial Society of South Africa for the preparation and presentation of such a report and the policies and assumptions of the Group as set out in pages 264 to 273 of the Report on the Sanlam Group Embedded Value.

Ernst & Young

Ernst & Young

Chartered Accountants (SA)

Registered Accountants and Auditors

Cape Town

8 March 2006

1. Introduction

Embedded value is an actuarially determined estimate of the value of a company, excluding any value attributable to future new business. Embedded value consists of shareholders' adjusted net assets at fair value, together with the value of the in-force life insurance business less the cost of capital at risk.

The long-term policy liabilities in the financial statements are valued based on the financial soundness valuation for insurance contracts and fair value for investment contracts. The valuation includes profit margins, which can be expected to emerge as profits in the future. The value placed on these expected future profits, after taxation, is the value of the in-force life business.

The economic value of the company may be derived by adding to the embedded value an estimate of the value of the future sales of new life insurance business, often calculated as a multiple of the value of new business written during the past year.

2. Presentation

This report presents the embedded value and value of new life business, of the Sanlam group.

The African Life Assurance group (African Life) was acquired at the end of the 2005 financial year. African Life's value of in-force business is included in the Sanlam group value of in-force business as at 31 December 2005, but African Life is excluded from:

- Embedded value earnings;
- Value of new business; and
- The value of new business sensitivity analysis.

References to 'International' include Merchant Investors Assurance and Sanlam Namibia.

3. Basis of preparation

The embedded value and value of new business have been prepared in accordance with PGN 107, the guidance note on embedded value and value of new business issued by the Actuarial Society of South Africa.

The value of in-force business and value of new business only relate to the value of the life insurance business of the Group.

The value of in-force business, cost of capital at risk and the value of new business are based on the best estimate assumptions used for determining the value of policy liabilities in the financial statements, which are consistent with the statutory valuation method for the Sanlam group. The embedded value does not place a value on future new business.

The embedded values are net of company tax and do not allow for the tax position of an investor in Sanlam Limited.

The 2004 opening and closing embedded values, value of new business and embedded value earnings have been restated, where applicable, for the adoption of International Financial Reporting Standards (IFRS). The 2004 closing embedded value decreased by R49 million, while the 2004 embedded value earnings were unaffected.

3.1 Value of in-force business

The value of in-force business is calculated as the discounted value, using a risk-adjusted discount rate, of the projected stream of future after-tax profits. The profits are determined for life business in force at the valuation date. This value excludes the discounted value of the release of risk capital over the life of the in-force business.

3.2 Cost of capital at risk

In addition to policyholder reserves, capital is needed to support the life insurance business. The cost of capital at risk is calculated as the statutory capital adequacy requirement at the valuation date less the discounted value, using a risk-adjusted discount rate, of the expected annual release of the required capital over the life of the in-force business, allowing for the after-tax investment return on the expected level of required capital held in each year.

3.3 Shareholders' adjusted net assets

The shareholders' adjusted net assets are equal to the Group shareholders' fund in terms of IFRS, adjusted for the following:

- Subsidiaries and equity-accounted investments, other than life insurance businesses, and treasury shares held in policyholder portfolios are included at fair value (refer to shareholders' fund balance sheet at fair value on page 249);
- Goodwill and value of insurance and investment contract business acquired (VOBA) relating to life insurance businesses are reversed as the value of in-force business of life insurance businesses are included in the Group value of in-force business;
- The deferred tax asset recognised for unused Secondary Tax on Companies (STC) credits in respect of life insurance businesses is reversed, as the value of in-force business already includes an allowance for STC credits;
- The delay before incurring the capital gains tax liability recognised in respect of the shareholders' funds assets;
- A reduction in respect of the present value of corporate expenses by multiplying the after tax cost by the Sanlam Limited share price and dividing it by the headline earnings per share based on the long-term rate of return (excluding exceptional items); and
- The fair value of the Sanlam employee share incentive scheme shares outstanding (in the money option value) at the valuation date.

3.4 Value of new business

The value of new business is calculated as the discounted value, at point of sale, using a risk-adjusted discount rate, of the projected stream of after-tax profits for new business issued during the financial year under review. The value of new business is reduced by the cost of capital at risk over the life of this business to obtain the net embedded value of new business.

In determining the value of new business:

- A policy is only taken into account if at least one premium, that is not subsequently refunded, is recognised in the financial statements;
- Premium increases that have been allowed for in the value of in-force business are not counted again as new business at inception;
- Increases in recurring premiums associated with indexation arrangements are not included, but instead allowed for in the value of in-force business;
- The expected value of future premium increases resulting from premium indexation on the new recurring premium business written during the financial year under review is included;
- Continuations of individual policies and deferrals of retirement annuity policies after the maturity dates in the contract are treated as new business if they have been included in the exits at their respective maturity dates;
- For employee benefits, increases in business from new schemes or new benefits on existing schemes are included and new members or salary-related increases under existing schemes are excluded and form part of the in-force value;
- The renewable recurring premiums under group insurance contracts are treated as in-force business; and
- Life licence business provided by Sanlam Investment Management and Innofin, where there is very little or no insurance risk, is excluded.

Profitability of new business is measured by the ratios of the net value of new business (VNB) to both the annual premium equivalent (APE), as well as the present value of new business premiums (PVNBP). The APE is calculated as new recurring premiums, excluding indexed growth premiums, plus 10% of single premiums. The PVNBP is the present value of new recurring premiums plus single premiums for the period.

3.5 Embedded value earnings

Embedded value earnings for the period are equal to the change in embedded value, after adjustment for any capital movements such as dividends, capital raised or reduced and cost of treasury shares acquired. The growth from life business is expressed as a percentage of the value of in-force.

The expected return on value of in-force business includes the expected return on both the starting value of in-force business and the accumulation of value of new business from point of sale to year-end. The expected after tax profit or loss transferred to net assets in respect of value of new business is included in the point of sale value.

3.6 Sensitivity analysis

Sensitivities are determined at the risk discount rates used to determine the base values, unless stated otherwise. The risk discount rate appropriate to an investor will depend on the investor's own requirements, tax position and perception of the risk associated with the realisation of the future profits from the Group's life insurance business. For each of the sensitivities, all other assumptions have been left unchanged. The different sensitivities do not indicate that they have a similar chance of occurring.

3.7 Long-term incentives to employees

The embedded values are adjusted for the fair value of shares in the Sanlam employee share incentive scheme outstanding at the valuation date. The value is calculated using a generally accepted statistical model making allowance for:

- actual vesting dates;
- the Sanlam share price at valuation date; and
- forfeiture rates, dividend yield and volatility consistent with the IFRS 2 *Share-based Payment* valuation principles.

In 2005, no share options were issued, but retention bonuses were paid to key employees.

The embedded value, at 31 December 2005, assumes the payment of a similar amount for long-term incentives in future and acknowledges the cost as outlined below.

In relation to:

- The life operations, within the value of in-force;
- The corporate function, within the adjustment for strategic corporate expenses; and
- All other operations, within the valuations of the respective businesses.

4. Assumptions

4.1 Investment return and inflation

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

Inflation indexation for individual life premiums is assumed to be equal to consumer price index inflation, while that for employee benefits is assumed to equal expected salary inflation. Unit cost inflation is assumed to be at the same level as salary inflation.

4.2 Cost of capital at risk

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

4.3 Decrements, expenses and bonuses

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

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

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

4.4 HIV/Aids

Allowance is made, where appropriate, for the impact of expected HIV/Aids-related claims, consistent with the recommendations of the Actuarial Society of South Africa (ASSA) as set out in its proposed Professional Guidance Note 105, but adjusted for the findings of ASSA Aids models released subsequently.

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

4.5 Recurring expenses and project costs

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

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

4.6 Taxation

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

Allowance is made for capital gains tax in South Africa. The assumed rollover period for realisation of investments is five years for property and equity assets supporting policy reserves. For property and equity assets supporting capital at risk, the assumed rollover period is five years except for Santam where a ten-year rollover period is assumed.

Allowance for secondary tax on companies (STC) is made by placing a present value on the tax liability generated by the net cash dividends paid that are attributable to the South African life companies. It is assumed that all future dividends will be paid in cash. Previously it was assumed that over the long-term the proportion of cash dividends paid would fall to a level of 50% from the starting 100% level.

No allowance is made for tax changes announced by the Minister of Finance in his budget speech on 15 February 2006.

4.7 Sensitivity analysis

Risk premiums relating to mortality are assumed to be increased consistent with mortality experience (where appropriate).

The mortality assumption relating to annuities is decreased, because a decrease in mortality increases the mortality risk on annuities.

5. Embedded value methodology

Other than stated below, the embedded value methodology applied in preparing the embedded value report is consistent with the methodology used in the previous year. The most significant changes for the current period include:

- Revised assumptions for modelling future STC on net cash dividends; and
- Adjustments to assumed long-term asset mix assumptions for both policyholders' and shareholders' funds.

These changes, together with other significant items of experience, have been highlighted and their effect quantified in the notes to the embedded value results tables.

6. Sanlam group embedded value

	2005 R million	2004 R million
Sanlam group shareholders' fund at fair value	30 592	29 782
Adjustment for discounting capital gains tax	245	138
Reverse goodwill and value of business acquired	(1 328)	(356)
Merchant Investors Assurance	(356)	(356)
African Life	(955)	—
Other	(17)	—
Present value of strategic corporate expenses[1]	(947)	(883)
Fair value of share incentive scheme	(793)	(799)
Adjustment for delayed tax relief on enhanced early termination benefits[2]	(60)	—
STC deferred tax asset written down	(79)	(100)
Sanlam group shareholders' adjusted net assets	27 630	27 782
Net value of life insurance business in force	10 574	8 851
Value of life insurance business in force	12 542	10 285
• Individual business	11 485	9 147
• Employee benefits	1 057	1 138
Cost of capital at risk	(1 707)	(1 400)
• Individual business	(1 393)	(1 128)
• Employee benefits	(314)	(272)
Minority shareholders' interest in value of in-force	(261)	(34)
Sanlam group embedded value	**38 204**	36 633
• Embedded value per share (cents)	1 615	1 344
• Number of shares (million)	2 366	2 726

Notes:

[1] *The December 2005 value has been calculated using headline earnings per share based on the long-term rate of return, excluding exceptional items, of 184,4 cents.*

[2] *At 31 December 2005, the financial statements allow for the full tax relief of R180 million on the enhanced early termination benefits cost of R620 million. This adjustment allows for the time value effect of not realising the tax relief immediately.*

7. Embedded value earnings

	2005			2004
	Value of in-force R million	Adjusted net assets R million	Total R million	Total R million
Embedded value from new life insurance business	709	(418)	291	321
Earnings from existing life insurance business	(450)	1 801	1 351	1 363
• Expected return on value of in-force business	1 193	—	1 193	1 148
• Expected transfer of profit from value of in-force to net assets	(1 348)	1 348	—	—
• Operating experience variations (Table 7.1)	(314)	452	138	144
• Operating assumption changes	19	1	20	71
Embedded value earnings from life operations	259	1 383	1 642	1 684
Economic assumption changes (Table 7.2)	(287)	(29)	(316)	197
Tax changes (Table 7.3)	(144)	(35)	(179)	—
Investment variances	785	60	845	253
Exchange rate movements	4	—	4	(37)
Change in minorities shareholders' interest in value of in-force	(20)	—	(20)	(34)
Growth from life insurance business	597	1 379	1 976	2 063
Investment return on shareholders' adjusted net assets	—	5 551	5 551	6 389
Change in fair value of share incentive scheme	—	6	6	(368)
Total embedded value earnings before dividends are paid, capital movements and cost of treasury shares acquired	597	6 936	7 533	8 084
Acquired value of in-force business	1 126	(1 126)	—	—
• African Life	1 109	(1 109)	—	—
• Safrican	17	(17)	—	—
Dividends paid	—	(1 363)	(1 363)	(1 082)
Capital (share buy-back)/raised	—	(4 446)	(4 446)	846
Cost of treasury shares acquired	—	(153)	(153)	(397)
Change in Sanlam group embedded value	1 723	(152)	1 571	7 451
Growth from life insurance business as a % of beginning value of in-force			22,3%	26,5%
Return on embedded value			20,6%	27,7%
Return on embedded value per share			24,4%	22,6%

	2005 R million	2004 R million
Table 7.1		
Analysis of operating experience variations:		
Risk experience	221	168
Group stabilised business outflows	(96)	(103)
Other	13	79
Total operating experience variations	138	144
Table 7.2		
Analysis of economic assumption changes:		
Investment yields and inflation gap	15	197
Long-term asset mix assumptions		
Policyholders’ fund	(130)	—
Capital at risk	(201)	—
Total economic assumption changes	(316)	197
Table 7.3		
Analysis of tax changes:		
Change in corporate tax rate	167	—
STC modelling changes	(273)	—
Strengthening of tax provisions	(73)	—
Total tax changes	(179)	—

8. Value of new life insurance business

	2005 R million	2004 R million
Value of new business:		
Gross value of new business	**318**	339
Individual business – RSA	**254**	279
Employee benefits – RSA	**56**	46
International	**8**	14
Cost of capital at risk	**(27)**	(18)
Individual business – RSA	**(13)**	(10)
Employee benefits – RSA	**(10)**	(5)
International	**(4)**	(3)
Net value of new business[1]	**291**	321
Attributable to:		
Shareholders of the company	**291**	319
Minority shareholders' interest	**—**	2
	291	321
New business profitability ratios:		
Annual Premium Equivalent (APE)	**2 153**	1 958
Individual business – RSA	**1 565**	1 489
Employee benefits – RSA	**445**	356
International	**143**	113
Present value of new business premiums	**16 533**	15 357
Individual business – RSA	**11 246**	11 096
Employee benefits – RSA	**4 111**	3 352
International	**1 176**	909
Net value of new business	**291**	321
Individual business – RSA	**241**	269
Employee benefits – RSA	**46**	41
International	**4**	11
	%	**%**
APE margin	**13,5**	16,4
Individual business – RSA	**15,4**	18,1
Employee benefits – RSA	**10,4**	11,5
International	**2,8**	9,7
Present value of premium margin	**1,8**	2,1
Individual business – RSA	**2,1**	2,4
Employee benefits – RSA	**1,1**	1,2
International	**0,3**	1,2

Note:

[1] *The total charge to embedded value of R500 million, resulting from the enhanced early termination benefit agreement for savings business, includes the effect on the current year's new business. Had the agreed minimum standard applied for the whole of 2005, the new business embedded value figure would have been R14 million lower.*

9. Sensitivity analysis at 31 December 2005

	Gross value of in-force business R million	Cost of capital at risk R million	Net value of in-force business R million	Change from base %
Value of in-force business				
Base value	**12 262**	**(1 688)**	**10 574**	
• Increase risk discount rate by 1,0%	11 717	(2 166)	9 551	(10)
• Decrease risk discount rate by 1,0%	13 179	(1 416)	11 763	11
• Investment return (and inflation) decrease by 1,0%, coupled with a 1,0% decrease in risk discount rate, and with bonus rates changing commensurately	12 269	(1 580)	10 689	1
• Investment return (and inflation) decrease by 1,0% and with bonus rates changing commensurately	11 368	(1 991)	9 377	(11)
• Non-commission maintenance expenses (excluding investment expenses) increase by 10%	11 892	(1 675)	10 217	(3)
• Discontinuance rates increase by 10%	12 037	(1 628)	10 409	(2)
• Mortality and morbidity increase by 10% for assurances, coupled with a 10% decrease in mortality for annuities	11 530	(1 663)	9 867	(7)
• Assets fall by 10%	11 700	(1 685)	10 015	(5)

	Gross value of new business R million	Cost of capital at risk R million	Net value of new business R million	Change from base %
Value of new business				
Base value	**318**	**(27)**	**291**	
• Increase risk discount rate by 1,0%	267	(30)	237	(19)
• Decrease risk discount rate by 1,0%	377	(22)	355	22
• Investment return (and inflation) decrease by 1,0%, coupled with a 1,0% decrease in risk discount rate, and with bonus rates changing commensurately	327	(25)	302	4
• Investment return (and inflation) decrease by 1,0% and with bonus rates changing commensurately	271	(29)	242	(17)
• Non-commission maintenance expenses (excluding investment expenses) increase by 10%	292	(27)	265	(9)
• Non-commission acquisition expenses increase by 10%	282	(27)	255	(12)
• Discontinuance rates increase by 10%	299	(26)	273	(6)
• Mortality and morbidity increase by 10% for assurances, coupled with a 10% decrease in mortality for annuities	249	(27)	222	(24)

10. Assumptions

Gross investment return and inflation

	Sanlam Life Insurance Limited		Merchant Investors Assurance		African Life[1]	BIHL[1]
	2005	2004	2005	2004	2005	2005
	%	%	%	%	%	%
Fixed-interest securities	7,5	8,3	4,1	4,6	7,4	10,0
Equities and offshore investments	9,5	10,3	6,6	7,0	9,4	12,0
Hedged equities[2]	7,5	8,3	6,6	7,0	n/a	n/a
Property	8,5	9,3	6,6	7,0	8,4	11,0
Cash	5,5	6,3	4,1	4,6	5,4	8,0
Risk discount rate	10,0	10,8	7,8	8,3	10,9	13,5
Return on capital at risk	7,8	9,1	4,1	4,6	7,9	11,0
Unit cost and salary inflation	4,0	4,3	3,0	3,0	4,4	7,0
Consumer price index inflation	3,0	3,3	3,0	3,0	n/a	n/a

Long-term asset mix for assets supporting the capital at risk

	Sanlam Life Insurance Limited		Merchant Investors Assurance		African Life[1]	BIHL[1]
	2005	2004	2005	2004	2005	2005
	%	%	%	%	%	%
Equities	25	42	—	—	50	65
Hedged equities	35	26	—	—	—	—
Property	5	8	—	—	—	4
Fixed-interest securities	20	20	—	—	25	14
Cash	15	4	100	100	25	17
	100	100	100	100	100	100

Notes:

[1] *African Life = African Life Assurance Company Limited;*
BIHL = Botswana Insurance Holdings Limited

[2] *The assumed future return for these assets is lower than that of equities, which are not hedged, reflecting the cost of derivative instruments.*

Sanlam

Definitions and Glossary of Technical Terms

"billion"	–	one thousand million;
"capital adequacy"	–	capital adequacy implies the existence of a buffer against experience worse than that assumed in the financial soundness valuation. The sufficiency of the buffer is measured by comparing available capital with the capital adequacy requirement. The main element in the calculation of the capital adequacy requirement is the determination of the effect of an assumed fall in asset values on the excess of assets over liabilities;
"embedded value"	–	embedded value represents the net assets of a life company together with the value of the portfolio of business in force, net of the cost of capital at risk in relation to this business;
"linked policy"	–	a non-participating policy which is allotted units in an investment portfolio. The value of the policy at any stage is equal to the number of units multiplied by the unit price at that stage less the value of unrecouped expenses;
"market-related policy"	–	a participating policy which participates in non-vesting investment growth. This growth reflects the volatility of the market value of the underlying assets of the policy;
"new business embedded value"	–	the value of new business is calculated as the discounted value, using a risk-adjusted discount rate, of the projected stream of after-tax financial soundness valuation profits for new business issued during the financial year under review, net of the cost of capital at risk over the life of this business;
"non-participating annuity"	–	a non-participating annuity is a policy which provides, in consideration for a single premium, a series of guaranteed regular benefit payments for a defined period;
"non-participating policy"	–	a policy which provides benefits that are fixed contractually, either in monetary terms or by linking them to the return of a particular investment portfolio, eg a linked or fixed-benefit policy;
"participating annuity"	–	a participating annuity is a policy which provides, in consideration for a single premium, a series of regular benefit payments for a defined period, the benefits of which are increased annually with bonuses declared;
"participating policy"	–	a policy which provides guaranteed benefits as well as discretionary bonuses. The declaration of such bonuses will take into account the return of a particular investment portfolio. Reversionary bonus, stable bonus, market-related and participating annuity policies are participating policies;

"policy"	–	unless the context indicates otherwise, a reference to a policy in this report means an insurance policy issued by Sanlam Life Insurance Limited or its subsidiaries in accordance with the Long-term Insurance Act;
"reversionary bonus policy"	–	a conventional participating policy which participates in reversionary bonuses, ie bonuses of which the face amounts are only payable at maturity or on earlier death or disability. The present value of such bonuses is less than their face amounts;
"Sanlam Life Insurance Limited"	–	a wholly owned subsidiary of Sanlam Limited conducting mainly life insurance business;
"Sanlam Limited"	–	the holding company listed on the JSE Limited and the Namibian Stock Exchange;
"Sanlam" and "Sanlam group"	–	Sanlam Limited and its subsidiaries;
"stable bonus policy"	–	a participating policy under which bonuses tend to stabilise short-term volatility in investment performance;
"surrender value"	–	the surrender value of a policy is the cash value, if any, which is payable in respect of that policy upon cancellation by the policyholder.

Sanlam Limited

(Incorporated in the Republic of South Africa)

(Registration No 1959/001562/06)

Notice is hereby given that the eighth annual general meeting of the members of Sanlam Limited ("the Company") will be held on Wednesday, 7 June 2006 at 14:00 in the CR Louw Auditorium, Sanlam Head Office, 2 Strand Road, Bellville ("the Meeting") for the following purposes:

1. To consider and adopt the annual financial statements of the Group and the Company for the year ended 31 December 2005.

2. To appoint a firm of external auditors for the Company. It is the intention of the board to nominate Ernst & Young to be appointed as such.

3. To re-elect the following retiring directors appointed by the board of directors of the Company ("the Board") in casual vacancies or as additional directors in terms of article 13.2 of the company's articles of association ("the Articles"), and who are eligible and offer themselves for re-election:

   AD Botha – former chief executive of Gensec Limited, currently director of the JSE Limited, Sanlam Capital Markets, University of Pretoria and Vukile Property Fund Limited

   RK Morathi – former COO of the Industrial Development Corporation. She has been seconded from the IDC to the office of the Deputy President of South Africa, as Economic Adviser

   SA Nkosi – chairperson of African Life Assurance Company Limited, CEO of Kumba Resources Limited and CEO of Eyesizwe Coal (Pty) Limited

   PL Zim – chief executive of Anglo American SA Limited until 30 April 2006. He is also a director of Kumba Resources Limited, Mondi South Africa Limited, AngloGold Ashanti Limited, Anglo Platinum Limited and Telkom SA Limited.

4. To re-elect the following directors* of the Company, retiring by rotation in terms of article 14 of the Articles, and who are eligible and offer themselves for re-election:

   ZB Swanepoel

   E van As

   Mr DC Brink is also retiring by rotation in terms of article 14 of the Articles, but although he is eligible, he indicated that he is not eligible for re-election. The board has decided to fill this casual vacancy at a later stage.

   *Brief curriculum vitae appear on page 29.

5. To authorise the Board to determine the remuneration of the external auditors.

6. To consider and approve the total amount of directors' remuneration for the year ended 31 December 2005.

7. To consider and approve, with or without modification, a 10% increase in the remuneration of the non-executive directors for the period 1 July 2006 up to 30 June 2007. This includes the fixed annual board fees as well as attendance fees for board meetings payable to the chairman, the deputy chairman, other non-executive directors and members of board committees, where applicable.

8. To consider and, if approved, to pass, with or without modification, the following ordinary resolution number 1:

   "Resolved that the authorised but unissued ordinary shares in the share capital of the Company, subject to a maximum of 240 million shares, be and are hereby placed at the disposal and under the control of the Board, and such directors are hereby authorised and empowered to allot, issue or otherwise dispose thereof to such person or persons and on such terms and conditions as the directors may from time to time determine, but subject to the provisions of the Companies Act, No 61 of 1973, as amended ("the Companies Act"), the requirements of the JSE Limited ("the JSE") and any other stock exchange upon which the shares of the Company may be quoted or listed from time to time".

9. To consider and, if approved, to pass, with or without modification, the following special resolution number 1:

"Resolved that the Company approves, by way of general authority, and the board of directors of the Company be authorised pursuant hereto up to and including the date of the following annual general meeting of the Company, to effect, whether by way of a single transaction or a series of transactions:

(a) the purchase of any of its securities by the Company or its subsidiaries, including ordinary shares of R0,01 each in the capital of the Company;

(b) the purchase of such securities by the Company in any holding company of the Company, if any, and any subsidiary of any such holding company;

(c) the purchase by and/or transfer to the Company of any of its securities purchased pursuant to (a) above; and

(d) the purchase by and/or transfer to any holding company of the Company and/or any subsidiary of any such holding company of any securities purchased pursuant to (b) above,

subject to the provisions of the Companies Act and the requirements of the JSE and any other stock exchange upon which the securities of the Company may be quoted or listed from time to time, and subject to such other conditions as may be imposed by any other relevant authority, provided that:

- the general authority shall only be valid until the Company's next annual general meeting, provided that it does not extend beyond 15 months from the date of this resolution;
- the general authority to purchase be limited to a maximum of 10% of the relevant company's issued share capital of that class at the time the authority is granted; and
- purchases must not be made at a price more than 5% above the weighted average of the market value of the securities for the five business days immediately preceding the date of the purchases."

The reason for and effect of special resolution number 1 is to grant a general authority to enable the Company to acquire securities which have been issued by it, or its holding company, if any, and any subsidiary of any such holding company, and any subsidiaries of the holding company to acquire securities in the Company.

Statement of intent:

The Board shall implement a general purchase of the Company's securities, only if prevailing circumstances (including the tax dispensation and market conditions) warrant same, and should the Board be of the opinion, after considering the effect of such purchase of securities, that the following requirements have been and will be met:

- The Company will be able to pay its debts in the ordinary course of business;
- The consolidated assets of the Company, fairly valued in accordance with generally accepted accounting practice, are in excess of the consolidated liabilities of the Company;
- The Company will have adequate capital; and
- The working capital of the Company will be sufficient for the Company's requirements for the year ahead.

General notes:

1. A member entitled to attend, speak and vote at the meeting may appoint a proxy to attend, speak and vote in his or her stead.

2. Sanlam shareholders who hold share certificates for their Sanlam ordinary or Sanlam 'A' deferred shares or have dematerialised their Sanlam ordinary shares and have them registered in their own name or in the name of Sanlam Share Account (Proprietary) Limited

or Sanlam Fundshares Nominee (Proprietary) Limited, but who are unable to attend the Meeting and wish to be represented thereat, should **complete and return the enclosed form of proxy,** in accordance with the instructions contained therein, **to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (Private Bag X105, Marshalltown, 2107).** The form of proxy must be received by **not later than 14:00 on Monday, 5 June 2006.**

3. Sanlam ordinary shareholders who hold their dematerialised Sanlam ordinary shares through a bank or broker nominee and wish to cast their votes at this Meeting or wish to attend the Meeting in person, must contact their bank or broker.

4. A person representing a corporation/company is not deemed to be a proxy as such corporation/company can only attend a meeting through a person, duly authorised by way of a resolution to act as representative. A notarially certified copy of such power of attorney or other documentary evidence establishing the authority of the person signing the proxy in a representative capacity must be attached to the proxy form. Such person enjoys the same rights at the Meeting as the shareholding corporation/company.

5. A member whose shares are held by Sanlam Share Account (Proprietary) Limited or Sanlam Fundshares Nominee (Proprietary) Limited is empowered by such relevant nominee company to act and vote at the Meeting.

6. On a show of hands, every shareholder present in person or every proxy or a duly authorised representative representing shareholders shall have only one vote, irrespective of the number of shares he/she holds or represents.

7. On a poll, every shareholder present in person or represented by proxy or a duly authorised representative shall have one vote for every Sanlam share held by such shareholder.

8. A resolution put to the vote shall be decided on a show of hands unless, before or on the declaration of the results of the show of hands, a poll shall be demanded by any person entitled to vote at the Meeting. If a poll is so demanded, the resolution put to the vote shall be decided on a poll.

By order of the Board

JP Bester
Company Secretary

Bellville
13 March 2006

Analysis of shareholders

at 31 December 2005

	Total shareholders		*Total shares held*	
	Number	***%***	***Number***	***%***
Distribution of shareholding				
1 – 1 000	517 627	84,94	197 280 947	8,19
1 001 – 5 000	81 337	13,35	160 319 933	6,66
5 001 – 10 000	6 829	1,12	46 736 114	1,94
10 001 – 50 000	2 808	0,46	48 799 549	2,03
50 001 – 100 000	172	0,03	12 358 764	0,51
100 001 – 1 000 000	412	0,07	153 286 995	6,36
1 000 001 and over	196	0,03	1 789 826 002	74,31
Total	609 381	100,00	2 408 608 304	100,00

	% shareholding		***% shareholding***
Public and non-public shareholders		**Shareholder structure**	
Public shareholders (609 367)	99,21	Institutional and other shareholding	
Non-public shareholders		Offshore	23,76
Directors' interest	0,03	South Africa	59,00
Employee pension funds	0,17	Individuals	17,14
Sanlam Limited Share Incentive Trust	0,59	Demutualisation Trust	0,10
Total	100,00	Total	100,00

Beneficial holdings of five percent or more:

• Public Investment Commissioner (SA)	14,38
• Ubuntu-Botho Investments (Pty) Limited	9,38

Shareholders' Diary and Administration

Shareholders' diary

Financial year-end	31 December
Annual general meeting	7 June 2006

Reports

• Interim report for 30 June 2006	September 2006
• Announcement of the results for the year ended 31 December 2006	March 2007
• Annual report for the year ended 31 December 2006	April 2007

Dividends

• Dividend for 2005 declared	8 March 2006
• Last date to trade for 2005 dividend	20 April 2006
• Shares will trade ex-dividend from	21 April 2006
• Record date for 2005 dividend	28 April 2006
• Payment of dividend for 2005	10 May 2006
• Declaration of dividend for 2006	March 2007
• Payment of dividend for 2006	May 2007

To allow for the dividend calculation, Sanlam's share register (including Sanlam's two nominee companies, namely Sanlam Share Account (Pty) Ltd and Sanlam Fundshares Nominee (Pty) Ltd), will be closed for all transfers, off-market transactions and dematerialisations or rematerialisations between 21 April 2006 and 28 April 2006, both dates included.

Transactions on the JSE via STRATE are not affected by this arrangement.

Administration

Sanlam Limited

Registration No 1959/001562/06

Incorporated in South Africa

Sanlam Life Insurance Limited

Registration No 1998/021121/06

Group Secretary

JP Bester

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