

Sanlam Limited

2002 Annual Results

Thinking ahead  **Sanlam**

NOTES:

Introduction

Thinking ahead  **Sanlam**

NOTES:

Challenging Business Environment

- Weak and uncertain global economies
- Rand appreciated by 28%
- Volatile / falling equity markets
- Prime overdraft rate up 4%

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NOTES :

Impact on Sanlam

- Lower new business inflows
- Major depreciation in equity investment values
 - ◆ Negative investment return
 - ◆ Fall in assets under management / fee base
 - ◆ Deterioration in portfolio funding levels

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NOTES :

Salient Features

		2002	2001
Total new business	R'm	32 257	36 581
Life business APE	R'm	2 179	2 204
Net outflow of funds	R'm	(3 934)	(950)
New business EV	R'm	320	290
NUB EV margin	%	14,7	13,2
Net operating profit	R'm	1 482	1 670
Headline earnings	R'm	2 280	2 628
LTRR earnings	cps	122,7	133,2
Comparable LTRR earnings	cps	134,4	117,6

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NOTES :

Further detail :

Analysis of new business : p. 59

Analysis of gross funds received : p. 60

Analysis of payments to clients: p. 61

Analysis of net flow of funds: p. 62

Sanlam Limited

Financials

Thinking ahead



Sanlam

NOTES :

Detail :

Sanlam Life : p. 72

Sanlam Investment Management : p. 75

Sanlam International : p. 77

Gensec Bank : p. 79

Santam : p. 80

Income Statement

Rand Million	2002	2001	△%
Gross operating profit	2 149	2 092	3
Net operating profit	1 482	1 670	-11
Net investment income	798	958	-17
Headline earnings	2 280	2 628	-13
Net investment surpluses	(2 621)	1 596	
LTRR adjustment	3 568	(690)	
LTRR Headline earnings	3 227	3 534	-9
Headline earnings cps	86,7	99,1	-13
LTRR cps	122,7	133,2	-8

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NOTES :

Investment income

Investment income	402	416
Equity accounted savings	396	443
	<u>798</u>	<u>859</u>

LTRR earnings

Net operating profit	1 482	1 670
LTRR investment return	1 745	1 864
	<u>3 227</u>	<u>3 534</u>

Further detail :

Full Income Statement : p. 56

Segmental Investment Return : p. 58

Gross Operating Profit

Rand Million	2002	2001	△%
Sanlam Life	1 533	1 375	11
Sanlam Investment Management	185	184	1
Sanlam International	75	103	-27
Gensec Bank	112	191	-41
Santam	257	188	37
Other	125	176	-29
	<u>2 287</u>	<u>2 217</u>	<u>3</u>
Corporate expenses	(138)	(125)	-10
	<u>2 149</u>	<u>2 092</u>	<u>3</u>

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NOTES :

Further detail :

Segmental Operating Profit : p. 57

Corporate Costs : p. 64

Headcount : p. 70

Gross Operating Profit

Rand Million	2002	2001	Δ%
Financial Services income	12 668	11 380	11
Underwriting benefits	(6 162)	(5 285)	-17
Adminstration expenditure	(4 357)	(4 003)	-9
Operating profit before tax	2 149	2 092	3
Admin ratio	34,4%	35,2%	
Operating margin	17,0%	18,4%	
International contribution	8,3%	9,4%	

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NOTES :

Further detail :

Segmental Investment Return : p. 58

Comparable Basis

Rand Million	2002	2001	△%
LTRR earnings	3 227	3 534	-9
• Currency translation	-	(158)	
• Tax reversal	-	(284)	
• Absa / Unifer impact	189	-	
• CGT on investment return	120	28	
Adjusted LTRR earnings	3 536	3 120	13
Cents per share (comparable)	134,4	117,6	14
Adjusted headline earnings	2 470	2 186	13
Cents per share (comparable)	93,9	82,4	14

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NOTES :

New Business Inflows

Rand Million	2002	2001	Δ%
Life business	13 123	13 297	-1
Investment	13 586	17 977	-24
Short term	5 548	4 760	17
Health	–	547	
	32 257	36 581	-12
• APE inflows	2 179	2 204	-1
• NUB embedded value	320	290	10
• NUB EV margin	14,7%	13,2%	

Thinking ahead  Sanlam

NOTES :

Further detail :

Analysis of New Business : p. 59

Net Fund Flows

Rand Million	2002	2001	Δ%
Life business	(4 932)	(6 094)	19
Investment	(625)	3 691	
Short term	1 623	1 393	17
Health	–	60	
	<u>(3 934)</u>	<u>(950)</u>	
Total inflows	42 098	46 124	–9
Total outflows	(46 032)	(47 074)	2

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NOTES :

Actuarial Review

Thinking ahead



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NOTES:

Embedded Value

Rand Million	2002	2001
Net Assets at fair value	20 947	24 399
• Group operations	5 447	7 262
• Investment in ABSA	3 957	4 036
• Other net assets	11 543	13 101
Adjustment to net asset value	(600)	(603)
Value of existing business	6 740	6 941
• Gross value of business	8 251	8 756
• Cost of capital at risk	(1 511)	(1 815)
Total embedded value	27 087	30 737
Cents per share	1 032	1 167

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NOTES :

Group operations (at fair value)

• Santam	1 581	1 709
• Sanlam Investment Management	1 289	2 166
• Gensec Bank	1 186	1 442
• Sanlam International	1 071	1 539
• Other	320	406
	<u>5 447</u>	<u>7 262</u>

Adjustment of net asset value

• Adjustment for discounting CGT	—	61
• Present value of corporate expenses	(600)	(664)
	<u>(600)</u>	<u>(603)</u>

Risk discount rate	13,3%	14,3%
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Further detail :

Shareholders' Fund Balance Sheet @ fair value, NAV : p. 63 & 64
 Actuarial Balance Sheet : p. 65
 Capital adequacy requirements (CAR) and CAR cover : p. 65
 Sanlam Group Embedded Value : p. 67
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 Net value of new life business : p. 68
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 Prudential reserves asset mix : p. 70

Embedded Value Earnings

Rand Million	2002	2001
• Net value of new business	320	290
• Earnings from existing business ⁽¹⁾	1 353	1 111
• Econ & other assumption changes	117	105
• Tax changes	–	(613)
• Investment variances	(907)	200
Growth from life business	883	1 093
• Investment return on net assets	(3 612)	2 356
Total embedded value earnings	(2 729)	3 449
Growth from life business ⁽²⁾	12,7%	15,7%
Return on embedded value ⁽³⁾	-8,9%	12,3%

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NOTES :

1. Earnings from existing life business

• Expected return	1 208	1 204
• Experience variance	96	32
• Assumption changes	49	(125)
	<u>1 353</u>	<u>1 111</u>

- The main contributor to the operating experience was positive risk experience of R140 million.
- The main contributor to the assumption line was changes to assumed future mortality.

2. Growth from life business expressed as a percentage of VIF at the beginning of the year.

3. Embedded value earnings expressed as a percentage of embedded value at the beginning of the year.

Review

2002 Focus Areas

Thinking ahead



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NOTES:

2002 Focus Areas

- Top-line growth
- Productivity and efficiency
- Innovation
- Employer of choice
- Black economic empowerment

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NOTES :

Top Line Growth

- Challenging environment
 - ◆ Investment inflows substantially lower
- Innofin inflows up 22%
- Individual Life up 5%
 - ◆ Single premiums up 16%
 - ◆ Institutional business growth from R123m to R752m
- Santam premiums up 17%

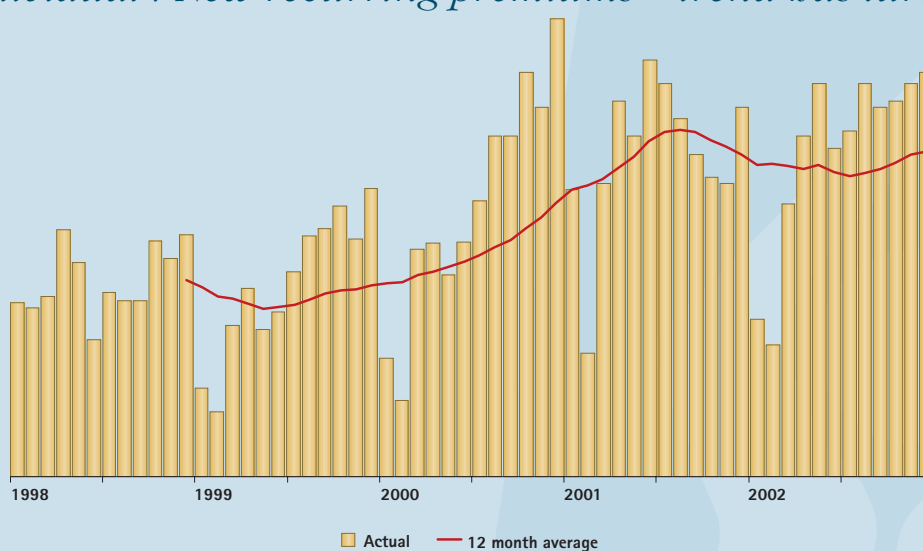
Thinking ahead  Sanlam

NOTES :

Single premiums exclude continuations.

Top Line Growth

Individual : New recurring premiums – trend has turned



Thinking ahead  Sanlam

NOTES :

Top Line Growth

Sanlam International

- Total funds under advice more than doubled to \$24bn
- Significant active institutional client relationships growth from 310 to over 450
- Hichens Investment Management
 - ♦ \$75m new funds under management
- Fee income growth of 48%

Santam

- Acquisition of Westminster Motor Insurance (London) £23m

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NOTES:

Productivity and Efficiency

- Admin expenditure
 - ◆ SA expenditure down 3%
 - ◆ Life admin ratio improved from 39% to 35%
- NUBev margin increased to 14,7%
- Market leader in service levels
 - ◆ Best Contact Centre solution
 - ◆ First position in Employee Benefits survey
 - ◆ Client service satisfaction rating
 - Individual Life – 90%
 - Unit Trust – 93%
- Lapse rates below industry

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NOTES :

- New Products
 - ◆ Sanlam Life : International ILLA, Low Volatility Hedge Funds, Matrix Risk cover
 - ◆ Inflation Protection Unit Trust
 - ◆ Gensec Bank Weather Derivatives
- New Funds
 - ◆ Sanlam Development Fund of Funds
 - ◆ Absolute Return Fund
- Transactions
 - ◆ Gensec Bank JV with Imperial Holdings

NOTES :

Employer of Choice

Attract & Retain the best people

- Caring & Respect
- Challenging Environment
- People Development & Opportunities
- Recognition of Excellence & Success
- Fair Reward Systems

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NOTES :

Black Economic Empowerment

- BEE committee of Board established
- Participation in development of Financial Charter
- Employment Equity
 - ◆ Performance target
- Ownership
 - ◆ Initiatives aimed at increasing participation
- South African development
- Procurement policy implemented
- Corporate Social Involvement

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NOTES :

Investment Performance

Thinking ahead



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NOTES:

Critical Success Factors

- Quality and experienced people utilised appropriately
- Focus on achievable tasks
- Investment process: logical, disciplined and structured
- Good decision support systems

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NOTES :

Investment Process

- Individual accountability
- Cluster based portfolio construction
- Renewed focus on fundamental research

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NOTES :

Investment Results

Performance : SA LMW (Asset classes 2002)

	12 months to 31/12/02	6 months to 31/12/02
Equities	6/10	5/10
Cash	5/10	6/10
Fixed Interest	4/10	1/10
Overall	6/10	3/10

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NOTES :

Investment Results

Sanlam Unit Trusts

	12 months to 31/12/02		12 months to 31/12/01	
Top Half	13/16	81%	5/16	31%
Top Quartile	5/16	31%	1/16	6%

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NOTES:

Unit Trust Investment Performance

Unit Trust	12 months to 21 February 2003	6 months to 21 February 2003
General	24/53	28/56
Select	3/11	2/11
Financial	1/9	4/9
Inflation Linked	3/28	2/29
Gilt	2/19	4/21
Global	15/27	11/27

Source: Micropal

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NOTES :

Sanlam Life

Key business drivers

Thinking ahead



Sanlam

NOTES:

2002 Highlights

- Growth in operating profit of 11%
- NUBev margin increase to 14,7%
- Administration costs decrease by 5%
 - ◆ Effective saving of R430m over four years
- Operating profit margin increase to 26,4%
- Net cash inflow of R1,1 billion
- Innovative new products

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NOTES :

Key Business drivers for 2003

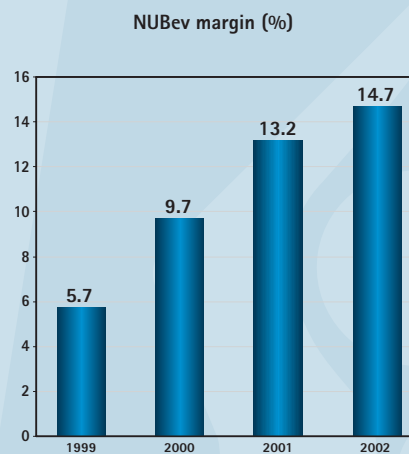
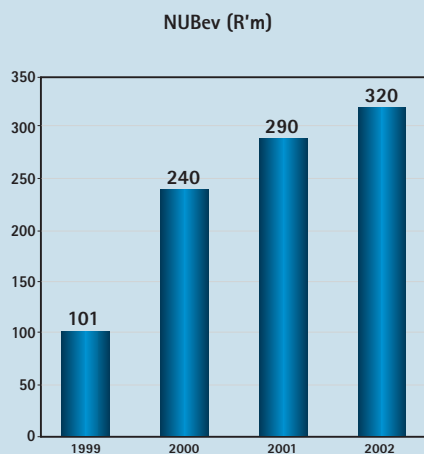
- Top Line Growth
 - ◆ Increase market share in recurring premiums
 - ◆ Use Client Relationship Management to maximise share of wallet of existing clients
 - ◆ Strengthen service and visibility of Sanlam in the market place
 - ◆ Capitalise on improved investment performance of Unit Trust Equity Portfolios
 - ◆ Renew focus on Employee Benefits
 - ◆ Provide innovative client solutions

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NOTES :

Key Business drivers for 2003

- New Business EV margin improvement
 - ◆ Target of 18% by 2005



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NOTES :

Key Business drivers for 2003

- Service and operational excellence
 - ◆ Improve client and intermediary satisfaction
 - ◆ Unit cost reduction
 - ◆ Focused project spending
 - ◆ Optimisation of IT capacity
- Employment Equity

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NOTES :

Distribution Initiatives

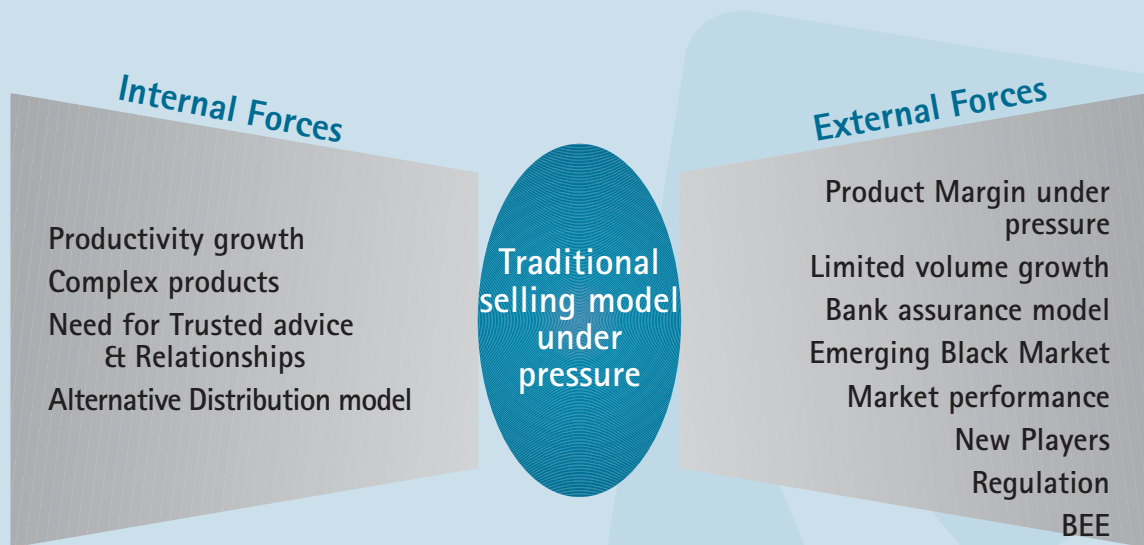
Thinking ahead



Sanlam

NOTES:

Distribution Landscape ...



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NOTES :

Regulatory Measures: FAIS & FICA

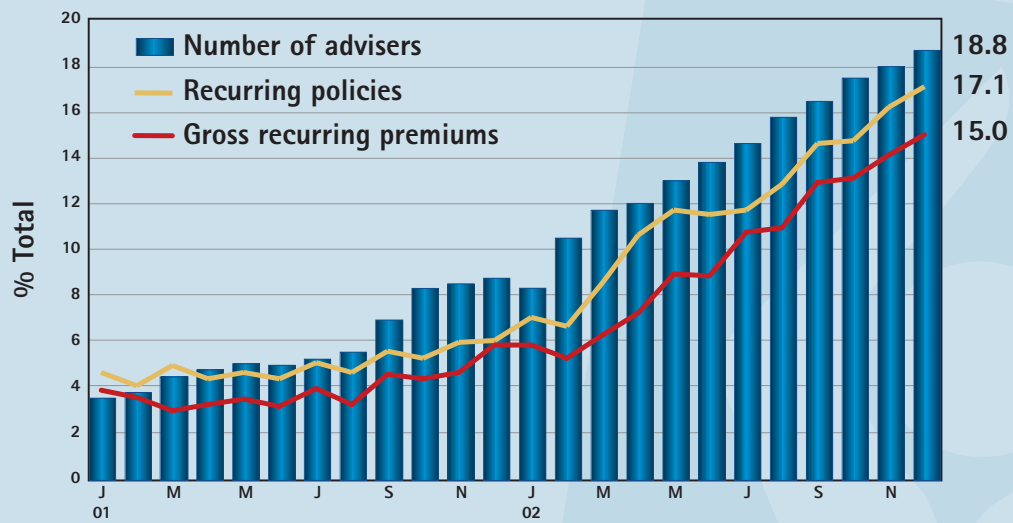
Financial Advisory and Intermediary Services act; Financial Intelligence Centre Act

- In line with being seen as a "Trusted adviser"
- Positive impact
 - ◆ Intermediaries being viewed as more professional
 - ◆ Greater focus on competence of intermediaries
 - ◆ Focus on quality of intermediaries
- Challenges
 - ◆ Decline in intermediary numbers
 - ◆ Lengthened sales process
 - ◆ Cost increase due to greater focus on training

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NOTES :

Selling our way into the Emerging Market

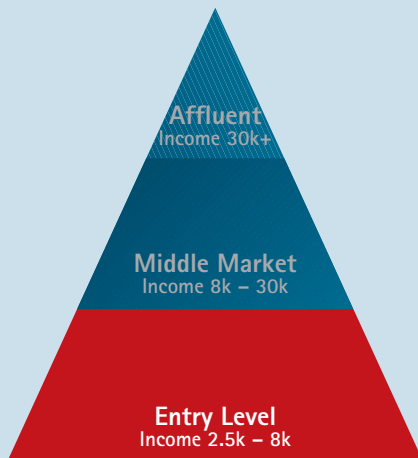


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NOTES :

Market Segmentation

Sanlam's Distribution Opportunity



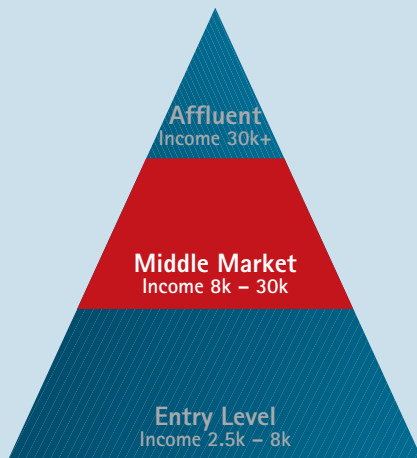
- One-to-many sales model
- Salaried plus incentives
- Optional group scheme type products
- Close alignment with unions & EB channels
- Strong worksite account planning & co-ordination

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NOTES :

Market Segmentation

Sanlam's Distribution Opportunity



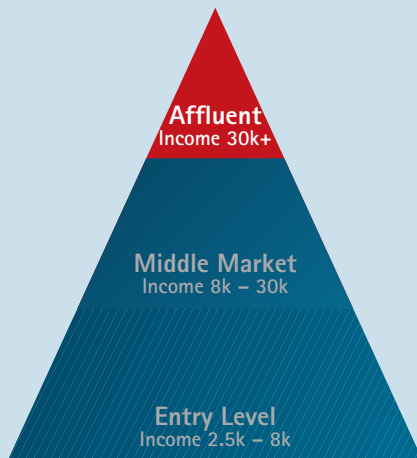
- Market-focused distribution
- Maximising existing client value (MEC)
- Partner relationship management (PRM)
- Leadership, learning & development
- Vesting & performance development

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NOTES :

Market Segmentation

Sanlam's Distribution Opportunity



- Retired, English, investible assets
- New & highly competitive market
- Aggressive focus/Gauteng
- National co-ordination/management
- Packaged solutions, including private banking-type service
- One-to-one sales model

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NOTES :

Agency Force

	Target 2003	2002	2001	2000	1999
Management (multi-level)	140	120	114	89	206
Agents	2 188	2 002	1 884	2 053	2 018
Agent / mgt ratio	16	17	17	23	10
Policies per agent	9,0	8,1	7,5	8,5	8,1
Turnover %	14	26	34	19	25

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NOTES :

Broker Channel Strategy

- Broker relationship management (PRM)
- People focus
- Distribution alliances
 - ◆ Networks
 - ◆ Alternative distribution models
- Market penetration
 - ◆ English brokers
 - ◆ Black brokers
 - ◆ Gauteng

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NOTES :

Broker Services

	Target 2003	2002	2001	2000	1999
Management	34	33	36	38	37
Broker consultants	222	210	222	215	211
Active brokers	2 750	2 598	2 928	2 712	2 318
Brokers per consultant	12,4	12,4	13,2	12,6	11,0
Activities per consultant	63	58	59	64	63

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NOTES :

Employee Benefits

Strategic Objectives

- Growth
- Business focus
- Market segmentation and differentiation
- Operational efficiency
- Respond to changing environment
- Competitive investment returns / products / rates

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NOTES :

Employee Benefits

Responding to changing environment

- Introduction of open architecture in our product mix
- Repositioning consultant capability
- Continued emphasis on BEE and EE
- Extending provision of compliance support to intermediaries

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NOTES :

Employee Benefits

Market segments for Sanlam

A. Unsophisticated non-unionised

- ◆ Growing, no dominant player
- ◆ Major opportunity for Sanlam

B. Traditional Corporate

- ◆ Declining, static employment
- ◆ Movement to A and C sectors
- ◆ Generally competitive, not in Advice business

C. Unionised, parastatals

- ◆ Growing market
- ◆ BEE credentials and cultural fit critical

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NOTES :

Distribution Cost Efficiencies

Direct distribution cost as % of APE

	2002	2001	2000
• Agency Channel	33%	37%	50%
• Broker Services	31%	28%	29%
• Employee Benefits	13%	11%	10%
• Total Distribution	33%	33%	36%
♦ Fixed	24%	24%	25%
♦ Variable	9%	9%	11%

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NOTES :

Differentiators

- Our people and training capability
- Distribution cockpit/dashboard
- Vesting process
- Worksite focus
- Institutional and retail channels working relationships
- Leads process – best in market (Managing existing clients)
- Service & support differentiation (Partner relationship model)

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NOTES :

Strategic Focus

Thinking ahead



Sanlam

NOTES:

Strategic Initiatives

- Banking Products
- Growth
 - ◆ Build out international
 - ◆ Address specific target markets
 - Employee Benefits
 - High net worth / Affluent
 - ◆ Leverage distribution and brand strength
- BEE : Business imperative

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NOTES :

Operational Focus

- Investment Performance
- New Business, Market Share
- Funds Flow
- Improved productivity & cost efficiency

Aimed at :

Operating profit growth of 10% real
Reduce discount to embedded value

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NOTES :



APPENDICES

SANLAM GROUP

INCOME STATEMENT

Rand Million	2002	2001
Operating profit before tax	2 149	2 092
Normal & deferred tax	(549)	(330)
Minority interest	(118)	(92)
Net Operating Profit	1 482	1 670
Net Investment income	402	515
• Gross investment income	620	644
• Taxation	(110)	(10)
• Minorities	(108)	(119)
Net equity accounted earnings	396	443
• Gross earnings	471	621
• Taxation	(75)	(178)
Headline Earnings	2 280	2 628
Net Investment surpluses	(2 621)	1 596
• Gross investment	(2 822)	1 999
• Taxation	177	(249)
• Minorities	24	(154)
Long term rate of return adjustment	3 568	(690)
• Investment income	4 054	(877)
• Taxation	(364)	126
• Minorities	(122)	61
LTRR Headline Earnings	3 227	3 534
Short term investment fluctuations	(3 568)	690
Amortisation of goodwill	(259)	(215)
Attributable Earnings	(600)	4 009
Headline earnings (cps)	86,7	99,0
LTRR Headline earnings (cps)	122,7	133,2
Adjusted weighted average number of shares (million)	2 631	2 653

SHAREHOLDERS' FUNDS : Segmental Operating Profit

Rand Million	Sanlam Life			Sanlam International			Sanlam Investment Management			Gensec Bank			Gensec Properties			Sanlam			Corporate & other			TOTAL	
	2002	2001	2002	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	
Financial services income	6 961	6 515	627	385	486	434	553	508	128	171	5 663	4 851	250	14 524	13 114								
Sales remuneration	(1 158)	(1 098)	—	—	—	—	—	—	—	—	(698)	(636)	—	(1 856)	(1 734)								
Income after sales remuneration	5 803	5 417	627	385	486	434	553	508	128	171	4 965	4 215	250	12 668	11 380								
Underwriting policy benefits	(2 237)	(1 918)	—	—	—	—	—	—	—	—	(3 925)	(3 367)	—	(6 162)	(5 285)								
Administration costs	(2 033)	(2 124)	(552)	(282)	(301)	(250)	(441)	(317)	(104)	(123)	(783)	(660)	(247)	(4 357)	(4 003)								
Operating profit before tax	1 533	1 375	75	103	185	184	112	191	24	48	257	188	3	2 149	2 092								
Tax on operating profit	(428)	(183)	(13)	(19)	(60)	(53)	53	18	(4)	(14)	(85)	(57)	(22)	(549)	(330)								
Operating profit after tax	1 105	1 192	62	84	125	131	165	209	20	34	172	131	(19)	1 600	1 762								
Minority interest	—	10	(10)	(13)	—	—	—	—	—	—	(108)	(89)	—	(118)	(92)								
Net operating profit	1 105	1 202	52	71	125	131	165	209	20	34	64	42	(19)	1 482	1 670								
Operating profit eps	42.0	45.3	2.0	2.7	4.8	4.9	6.3	7.9	0.8	1.3	2.4	1.6	-0.7	56.3	62.9								
Ratios																							
Admin ratio ⁽¹⁾	35,0%	39,2%	88,0%	73,2%	61,9%	57,6%	79,7%	62,4%	81,3%	71,9%	15,8%	15,7%	98,8%	34,4%	35,2%								
Operating margin ⁽¹⁾	26,4%	25,4%	12,0%	26,8%	38,1%	42,4%	20,3%	37,6%	18,8%	28,1%	5,2%	4,5%	1,2%	17,0%	18,4%								
Return on equity																							
Monthly average capital	—	—	—	—	—	—	—	—	—	—	—	—	—	20 701	20 351								
Operating profit before tax	—	—	—	—	—	—	—	—	—	—	—	—	—	10,4%	10,3%								
Operating profit after tax	—	—	—	—	—	—	—	—	—	—	—	—	—	7,2%	8,2%								

(1) Calculated as a percentage of income earned by the shareholders less sales remuneration.

SHAREHOLDERS' FUNDS : Segmental Investment Return

Rand Million	Sanlam Investment Management										Corporate & other				TOTAL	
	Sanlam Life		Sanlam International		Sanlam Investment Management		Gensec Bank		Gensec Properties		Santam		2001		2002	2001
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
NET OPERATING PROFIT	1 105	1 202	52	71	125	131	165	209	20	34	64	42	(49)	(19)	1 482	1 670
Net Investment income	421	501	-	-	-	-	-	-	-	-	81	77	(100)	(63)	402	515
• Investment income	474	452	-	-	-	-	-	-	-	-	218	230	(72)	(38)	620	644
• Tax on investment income	(53)	49	-	-	-	-	-	-	-	-	(29)	(34)	(28)	(25)	(110)	(10)
• Minority shareholders' interest	-	-	-	-	-	-	-	-	-	-	(108)	(119)	-	-	(108)	(119)
Net equity accounted earnings	-	-	-	-	-	-	-	-	-	-	(1)	2	397	441	396	443
HEADLINE EARNINGS	1 526	1 703	52	71	125	131	165	209	20	34	144	121	248	359	2 280	2 628
Net Investment surpluses	(3 462)	1 671	268	-	(12)	(83)	(230)	-	-	-	(18)	41	833	(33)	(2 621)	1 596
• Investment surpluses	(3 649)	1 901	268	-	(16)	(83)	(230)	-	-	-	(39)	245	844	(64)	(2 822)	1 999
• Tax on investment surpluses	187	(230)	-	-	4	-	-	-	-	-	(2)	(50)	(12)	31	177	(249)
• Minority shareholders' interest	-	-	-	-	-	-	-	-	-	-	23	(154)	1	-	24	(154)
Long term rate of return adjustment	3 818	(672)	(268)	-	12	83	230	-	-	-	92	12	(316)	(113)	3 568	(690)
LTRR HEADLINE EARNINGS	1 882	2 702	52	71	125	131	165	209	20	34	218	174	765	213	3 227	3 534
Short term investment fluctuations after tax & minorities	(3 818)	672	268	-	(12)	(83)	(230)	-	-	-	(92)	(12)	316	113	(3 568)	690
Goodwill written off	-	-	(69)	-	(10)	(44)	(6)	-	-	-	(3)	-	(171)	(171)	(259)	(215)
ATTRIBUTABLE EARNINGS	(1 936)	3 374	251	71	103	4	(71)	209	20	34	123	162	910	155	(600)	4 009
Dividends (net of rationalisation adjustment)	(900)	(660)	-	-	(62)	-	-	-	-	-	-	-	41	(130)	(921)	(790)
NET EARNINGS	(2 836)	2 714	251	71	41	4	(71)	209	20	34	123	162	951	25	(1 521)	3 219

ANALYSIS OF NEW BUSINESS

Rand Million	Total		Life Insurance*		Life Licence*		Other	
	2002	2001	2002	2001	2002	2001	2002	2001
Sanlam Life	21 604	21 271	11 823	11 948	1 194	965	8 587	8 358
Individual Life	9 181	8 770	9 181	8 770	—	—	—	—
Recurring	1 540	1 532	1 540	1 532	—	—	—	—
Single	5 839	5 044	5 839	5 044	—	—	—	—
Continuations	1 802	2 194	1 802	2 194	—	—	—	—
Unit Trust	4 388	4 908	—	—	—	—	4 388	4 908
Group Life	2 642	3 178	2 642	3 178	—	—	—	—
Recurring	156	171	156	171	—	—	—	—
Single	2 486	3 007	2 486	3 007	—	—	—	—
Innofin	5 393	4 415	—	—	1 194	965	4 199	3 450
Sanlam Investment Management	2 300	6 245	—	—	106	384	2 194	5 861
Life	106	384	—	—	106	384	—	—
Recurring	—	—	—	—	—	—	—	—
Single	132	459	—	—	132	459	—	—
Less: Inter group switches	(26)	(75)	—	—	(26)	(75)	—	—
SUT Wholesale business	1 521	2 382	—	—	—	—	1 521	2 382
Segregated	673	3 479	—	—	—	—	673	3 479
Total inflow	756	4 818	—	—	—	—	756	4 818
Less: Inter group switches	(83)	(1 339)	—	—	—	—	(83)	(1 339)
Sanlam International	830	276	—	—	—	—	830	276
Sanlam Health	—	547	—	—	—	—	—	547
Santam	5 548	4 760	—	—	—	—	5 548	4 760
Unit Trust white label	1 975	3 482	—	—	—	—	1 975	3 482
	32 257	36 581	11 823	11 948	1 300	1 349	19 134	23 284

* 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.

ANALYSIS OF GROSS FUNDS RECEIVED FROM CLIENTS

Rand Million	Total		Life Insurance*		Life Licence*		Other	
	2002	2001	2002	2001	2002	2001	2002	2001
Sanlam Life	31 107	30 209	21 326	20 886	1 194	965	8 587	8 358
Individual Life	16 275	15 574	16 275	15 574	-	-	-	-
Recurring	8 634	8 336	8 634	8 336	-	-	-	-
Single	7 641	7 238	7 641	7 238	-	-	-	-
Unit Trust	4 388	4 908	-	-	-	-	4 388	4 908
Group Life	5 051	5 312	5 051	5 312	-	-	-	-
Recurring	2 565	2 305	2 565	2 305	-	-	-	-
Single	2 486	3 007	2 486	3 007	-	-	-	-
Innofin	5 393	4 415	-	-	1 194	965	4 199	3 450
Sanlam Investment Management	2 638	6 850	-	-	444	989	2 194	5 861
Life	444	989	-	-	444	989	-	-
Recurring	338	605	-	-	338	605	-	-
Single	132	459	-	-	132	459	-	-
Less: Inter group switches	(26)	(75)	-	-	(26)	(75)	-	-
SUT Wholesale business	1 521	2 382	-	-	-	-	1 521	2 382
Segregated	673	3 479	-	-	-	-	673	3 479
Total Inflow	756	4 818	-	-	-	-	756	4 818
Less: Inter group switches	(83)	(1 339)	-	-	-	-	(83)	(1 339)
Sanlam International	830	276	-	-	-	-	830	276
Sanlam Health	-	547	-	-	-	-	-	547
Santam	5 548	4 760	-	-	-	-	5 548	4 760
Unit Trust White label	1 975	3 482	-	-	-	-	1 975	3 482
	42 098	46 124	21 326	20 886	1 638	1 954	19 134	23 284

* 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.

ANALYSIS OF PAYMENTS TO CLIENTS

Rand Million	Total		Life Insurance ⁽¹⁾		Life Licence ⁽¹⁾		Other	
	2002	2001	2002	2001	2002	2001	2002	2001
Sanlam Life	30 036	28 768	23 730	22 701	314	226	5 992	5 841
Individual Life	17 291	16 593	17 291	16 593	-	-	-	-
Surrenders	4 867	4 186	4 867	4 186	-	-	-	-
Other	12 424	12 407	12 424	12 407	-	-	-	-
Unit Trust	3 712	4 064	-	-	-	-	3 712	4 064
Group Life	6 439	6 108	6 439	6 108	-	-	-	-
Terminations ⁽²⁾	2 033	2 240	2 033	2 240	-	-	-	-
Other benefits	4 406	3 868	4 406	3 868	-	-	-	-
Innofin	2 594	2 003	-	-	314	226	2 280	1 777
Sanlam Investment Management	10 717	14 071	-	-	3 852	6 007	6 865	8 064
Life	3 852	6 007	-	-	3 852	6 007	-	-
Terminations ⁽²⁾	2 760	5 723	-	-	2 760	5 723	-	-
Other benefits	1 201	1 696	-	-	1 201	1 696	-	-
Less: Inter group switches ⁽³⁾	(109)	(1 412)	-	-	(109)	(1 412)	-	-
SUT Wholesale business	1 841	3 648	-	-	-	-	1 841	3 648
Segregated	5 024	4 416	-	-	-	-	5 024	4 416
Total Outflow	5 045	4 416	-	-	-	-	5 045	4 416
Less: Inter group switches	(21)	-	-	-	-	-	(21)	-
Sanlam International	-	-	-	-	-	-	-	-
Sanlam Health	-	487	-	-	-	-	-	487
Santam	3 925	3 367	-	-	-	-	3 925	3 367
Unit Trust White label	1 354	381	-	-	-	-	1 354	381
	46 032	47 074	23 730	22 701	4 166	6 233	18 136	18 140

(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.

ANALYSIS OF NET (OUTFLOW)/INFLOW OF FUNDS

Rand Million	Total		Life Insurance*		Life Licence*		Other	
	2002	2001	2002	2001	2002	2001	2002	2001
Sanlam Life	1 071	1 441	(2 404)	(1 815)	880	739	2 595	2 517
Individual Life	(1 016)	(1 019)	(1 016)	(1 019)	-	-	-	-
Unit Trust	676	844	-	-	-	-	676	844
Group Life	(1 388)	(796)	(1 388)	(796)	-	-	-	-
Innofin	2 799	2 412	-	-	880	739	1 919	1 673
Sanlam Investment Management	(8 079)	(7 221)	-	-	(3 408)	(5 018)	(4 671)	(2 203)
Life	(3 408)	(5 018)	-	-	(3 408)	(5 018)	-	-
Total	(3 491)	(6 355)	-	-	(3 491)	(6 355)	-	-
Less: Inter group switches	83	1 337	-	-	83	1 337	-	-
SUT Wholesale business	(320)	(1 266)	-	-	-	-	(320)	(1 266)
Segregated	(4 351)	(937)	-	-	-	-	(4 351)	(937)
Total	(4 289)	402	-	-	-	-	(4 289)	402
Less: Inter group switches	(62)	(1 339)	-	-	-	-	(62)	(1 339)
Sanlam International	830	276	-	-	-	-	830	276
Sanlam Health	-	60	-	-	-	-	-	60
Santam	1 623	1 393	-	-	-	-	1 623	1 393
Unit Trust White label	621	3 101	-	-	-	-	621	3 101
	(3 934)	(950)	(2 404)	(1 815)	(2 528)	(4 279)	998	5 144

* 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.

SHAREHOLDERS' FUNDS BALANCE SHEET AT FAIR VALUE

(Santam, Sanlam Unit Trust, Sanlam Investment Management, Sanlam International, Gensec Bank & Gensec Properties not consolidated, reflected as investments at fair value)

Rand Million	2002	2001
ASSETS		
Fixed assets	153	158
Owner occupied properties	333	—
Investments		
Sanlam Businesses ⁽¹⁾	5 447	7 262
• Sanlam Investment Management	1 289	2 166
• Sanlam International	1 071	1 539
• Gensec Bank	1 186	1 442
• Gensec Properties	60	65
• Sanlam Unit Trust	260	341
Strategic investment — Santam	1 581	1 709
Associated company — Absa	3 957	4 036
Other investments		
• Other Equities	5 772	6 990
• Public sector stocks and loans	1 611	1 859
• Investment properties	659	1 241
• Other interest bearing investments	6 859	7 035
Deferred tax	50	88
Current assets	5 028	4 531
Total assets	29 869	33 200
EQUITY AND LIABILITIES		
Shareholders' Funds	20 947	24 399
Term Finance	4 581	4 331
Deferred Tax	1	244
Current Liabilities	4 340	4 226
Total equity and liabilities	29 869	33 200
Note :		
(1) Excess of fair value over net asset value		
Fair value of these businesses per above	5 447	7 262
Less : Tangible Net Asset Value	3 782	3 537
Sanlam Investment Management	223	245
Sanlam International	439	291
Gensec Bank	1 459	1 444
Gensec Properties	49	75
Sanlam Unit Trust	133	112
Santam	1 479	1 370
Less : Goodwill in respect of above businesses	1 369	1 540
Deferred capital gains tax on investments at fair value	—	17
Revaluation adjustment of interest in businesses to fair value	296	2 168

SHAREHOLDERS' FUNDS BALANCE SHEET AT NET ASSET VALUE

(All businesses consolidated at net asset value)

Rand Million	2002	2001
ASSETS		
Fixed assets	260	295
Owner occupied properties	381	—
Goodwill	1 992	1 840
Investments	24 026	25 095
• Properties	659	1 244
• Equities	12 557	13 249
• Public sector stocks and loans	1 753	2 479
• Other interest-bearing investments	9 057	8 123
Deferred tax	236	146
General reinsurance provisions	2 072	1 647
Current assets	24 839	25 394
Total assets	53 806	54 417
EQUITY AND LIABILITIES		
Capital and reserves : Shareholders' funds	20 651	22 231
Shareholders' and policyholders' interest	1 969	2 049
Term finance	5 382	4 936
Deferred Tax	35	346
Gross general insurance provisions	4 226	3 296
Current Liabilities	21 543	21 559
Total equity and liabilities	53 806	54 417

CORPORATE COSTS

Rand Million	2002	2001
Corporate marketing	8	11
Shareholder costs	23	27
Corporate support services	101	86
Shared services & Other	6	1
Total	138	125

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES OF SANLAM LIFE INSURANCE LIMITED GROUP AS AT 31 DECEMBER 2002

Rand Million	2002	2001
ASSETS		
Fair value of the assets of Sanlam Life Insurance Limited group	155 998	174 386
LESS: LIABILITIES	138 997	154 477
Actuarial value of policy liabilities	129 329	145 248
Long term and current liabilities of Sanlam Life Insurance Limited group	9 668	9 229
EXCESS OF ASSETS OVER LIABILITIES	17 001	19 909
ANALYSIS OF MOVEMENT IN EXCESS OF ASSETS OVER LIABILITIES		
Operating Profit ⁽¹⁾	1 476	1 294
Investment return on excess of assets over liabilities	(3 175)	2 344
• Investment income	474	450
• Capital (depreciation) / appreciation ⁽²⁾	(3 496)	1 894
• Financial assistance provided to policyholders	(153)	—
Taxation	(309)	(369)
• Income tax	(496)	(139)
• Capital gains tax	187	(230)
Normal dividends paid	(900)	(660)
Total change in excess assets	(2 908)	2 609

NOTES:

1. The operating profit of the Sanlam Life Insurance Limited group is net after corporate expenses (R147 million) and income (R90 million), which are not reported as part of the Sanlam Life business (R1 533 million) in the segmental reporting.
Changes in the valuation bases and assumptions did not have a material effect on the operating profit for 2002 and 2001.
2. A special dividend, relating to investment surpluses realised during the rationalisation of group companies, was paid to Sanlam Limited and is included in capital appreciation/depreciation above.
3. All information presented are in respect of the Sanlam Life Insurance Ltd group. As such the actuarial values of assets and liabilities relating to Sanlam Namibia Ltd are included above.
4. The valuation bases used to calculate the policy liabilities of all material lines of business are set out in the Annual Report and are also available on request.

CAPITAL ADEQUACY AND RATIOS

Capital adequacy requirements (CAR) before management actions	22 425	17 697
Management actions assumed	(12 525)	(10 595)
CAR after management actions assumed	9 900	7 102
Times CAR covered by excess of assets over liabilities	1,7	2,8
Excess of assets over liabilities as percentage of:		
• Policy liabilities	13%	14%
• Non-market-related policy liabilities	20%	22%

MANAGEMENT ACTIONS

The management actions assumed in determining CAR, given the resilience scenario, and their financial effect are as follows:

Rand Million	2002	2001
Reduction in non vested bonuses		
• Reversionary Bonus business	678	571
Reduction in future bonus rates		
• Individual Stable Bonus business	2 999	2 343
• Group Stable Bonus and Alpha Bonus business	1 153	975
• Monthly Bonus Fund	883	552
• Participating annuities	880	1 027
Capitalisation of future profits	2 611	2 298
Reduction in grossing up from IOCAR to OCAR	3 497	3 231
Independence credits	(176)	(402)
Total management actions	12 525	10 595

SANLAM GROUP EMBEDDED VALUE

	2002	2001
Risk discount rate	13,3%	14,3%
	R million	R million
Shareholders' assets at fair value <i>(refer to page 63 on the shareholder's balance sheet)</i>	20 947	24 399
Adjustment for discounting capital gains tax	—	61
Present value of corporate expenses ⁽¹⁾	(600)	(664)
Adjusted shareholders' assets at fair value	20 347	23 796
Value of In-force	8 251	8 756
• Individual business	7 011	7 354
• Group business	1 240	1 453
• Corporate	—	(51)
Cost of Capital at risk	(1 511)	(1 815)
• Individual business	(1 056)	(1 210)
• Group business	(455)	(605)
Sanlam Group Embedded Value	27 087	30 737
Embedded value per share (cents)	1 032	1 167
Number of shares (million)	2 625	2 632

Note:

(1) The value was calculated by multiplying the corporate costs after tax of R97 million (2001 : R96 million) by the market price per share 760c (2001 : 919c) and dividing by the headline earnings per share based on the long-term rate of return 122,7c (2001 : 133,2c).

EMBEDDED VALUE EARNINGS

	2002 R million	2001 R million
Net value of new business	320	290
Earnings from existing life insurance business	1 353	1 111
• Expected return	1 208	1 204
• Operating experience variations ⁽¹⁾	96	32
• Operating assumption changes ⁽²⁾	49	(125)
Embedded value earnings from operations	1 673	1 401
Economic and other assumption changes	117	105
Tax changes	—	(613)
Investment variances	(907)	200
Growth from life insurance business	883	1 093
Adjusted investment return on net assets ⁽³⁾	(3 612)	2 356
Total embedded value earnings	(2 729)	3 449
Dividends paid	(921)	(790)
Change in the Sanlam Group embedded value	(3 650)	2 659
Return on embedded value	(8,9%)	12,3%

Embedded Value Earnings (.../continued)

	2002 R million	2001 R million
Growth from life business	883	1 093
Value of in-force at beginning of the year	6 740	6 941
Plus: Net operating profit ⁽⁴⁾	1 084	1 134
Less: Value of in-force at end of the year	(6 941)	(6 982)
Percentage growth from life business	12,7%	15,7%

Notes:

(1) The main contributor to the operating experience was positive risk experience of R140 million.

(2) The main contributor to the assumption line was changes to assumed future mortality.

(3) The investment return experience includes the effect of realised and unrealised investment surpluses which was negatively influenced by stock market conditions and exchange rate movements in 2002.

(4) Sanlam Life segmental net operating profit less net operating profit from subsidiaries of R21 million.

VALUE OF NEW LIFE INSURANCE BUSINESS

	2002 R million	2001 R million
Value of new business	365	359
Individual business	266	228
Group business	99	131
Cost of Capital at risk	(45)	(69)
Individual business	(19)	(20)
Group business	(26)	(49)
Net value of new business	320	290
Net value of new business as a percentage of the annual premium equivalent		
Annual Premium Equivalent (APE)	2 179	2 204
Individual business	1 774	1 737
Group business	405	467
Net value of new business	320	290
Individual business	247	208
Group business	73	82
APE Margin	14,7%	13,2%
Individual business	13,9%	12,0%
Group business	18,0%	17,6%

SENSITIVITY ANALYSIS AT 31 DECEMBER 2002

	Gross Value of in-force R million	Cost of Capital at Risk R million	Net Value of in-force R million	30%
Value of in-force				
Base value	8 251	(1 511)	6 740	
Increase risk discount rate by 1,5% to 14,8%	7 607	(2 016)	5 591	(17%)
Decrease risk discount rate by 1,5% to 11,8%	9 016	(913)	8 103	20%
Increase investment return (and inflation) by 1,5%, coupled with an increase in risk discount rate of 1,5% to 14,8%, and with bonus rates changing commensurately	8 177	(1 578)	6 599	(2%)
Increase expense inflation by 1,5%, without adjustment to nominal investment return	8 246	(1 525)	6 721	(0%)
Non-commission expenses (excluding investment expenses) increase by 10%	8 012	(1 506)	6 506	(4%)
Discontinuance rates increase by 10%	8 073	(1 460)	6 613	(2%)
Increase mortality of products providing death benefits by 10% ⁽¹⁾	8 006	(1 498)	6 508	(4%)
	Gross Value of in-force R million	Cost of Capital at Risk R million	Net Value of in-force R million	30%
Value of new business				
Base value	365	(45)	320	
Increase risk discount rate by 1,5% to 14,8%	320	(59)	261	(18%)
Decrease risk discount rate by 1,5% to 11,8%	415	(27)	388	21%
Increase investment return (and inflation) by 1,5%, coupled with an increase in risk discount rate of 1,5% to 14,8%, and with bonus rates changing commensurately	348	(51)	297	(7%)
Increase expense inflation by 1,5%, without adjustment to nominal investment return	362	(45)	317	(1%)
Non-commission expenses (excluding investment expenses) increase by 10%	299	(44)	255	(20%)
New business volumes decrease by 10%	298	(40)	258	(19%)
Increase mortality of products providing death benefits by 10% ⁽¹⁾	337	(42)	295	(8%)

Note:

(1) Mortality of annuities is assumed unchanged, because a decrease, rather than an increase, in mortality increases the mortality risk on annuities.

ASSUMPTIONS

GROSS INVESTMENT RETURN AND INFLATION

	2002 % p.a.	2001 % p.a.
Fixed-interest securities	10,8	11,8
Equities and off-shore investments	12,8	13,8
Hedged equities ⁽¹⁾	9,8	10,8
Property	11,8	12,8
Cash	8,8	9,8
Risk discount rate	13,3	14,3
Return on capital at risk ⁽²⁾	11,9	12,7
Unit cost and salary inflation	6,3	7,3
Consumer Price Index inflation	4,8	5,8

Notes:

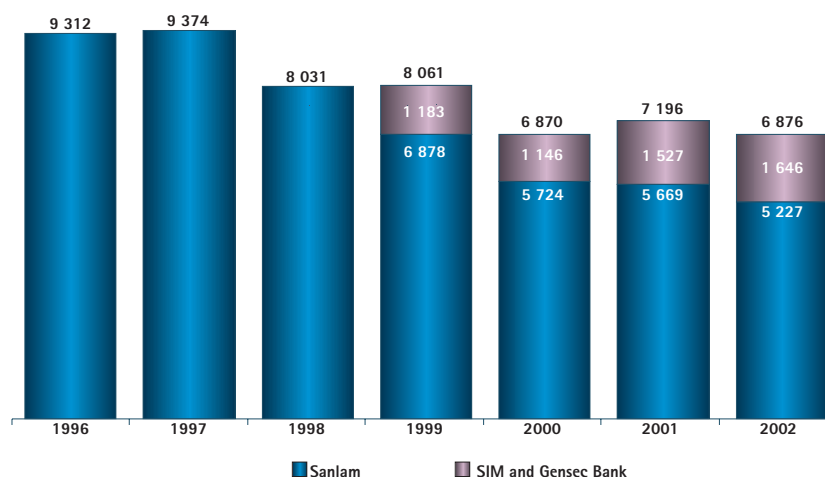
(1) The assumed future return for these assets are lower than that of equities which are not hedged, reflecting the cost of derivative instruments.

(2) The investment return on assets supporting the capital at risk is based on the long-term asset mix for these funds (shown in table below).

LONG TERM ASSET MIX FOR ASSETS SUPPORTING THE CAPITAL AT RISK

	2002 % p.a.	2001 % p.a.
Equities and off-shore investments	58	54
Hedged equities	18	18
Property	12	16
Fixed-interest securities	10	10
Cash	2	2
	100	100

COST CONTROL: HEADCOUNT





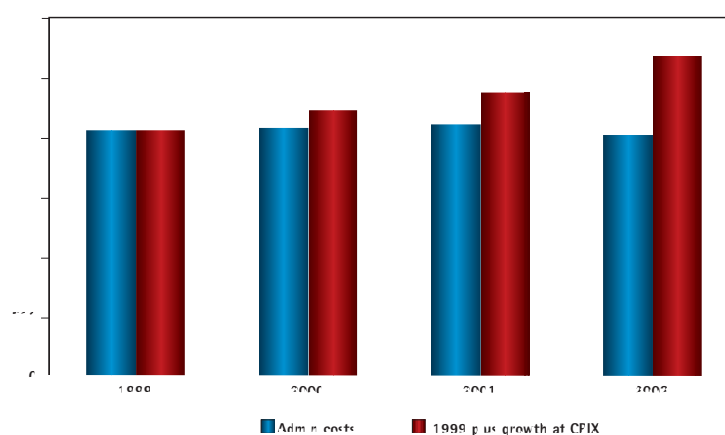
APPENDICES

INDIVIDUAL BUSINESSES

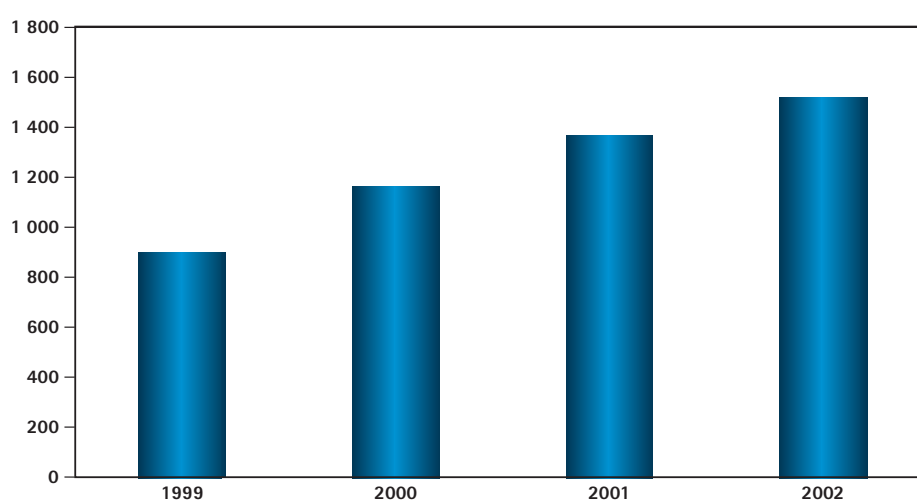
PROFITABILITY

Rand Million	2002	2001
Operating profit	1 533	1 375
Funds management	944	690
Risk management	589	685
Operating profit margin	26,4%	25,4%
Admin ratio	35,0%	39,2%
ROE (pre tax profit)	8,6%	7,4%

ADMIN COST



OPERATING PROFIT TREND

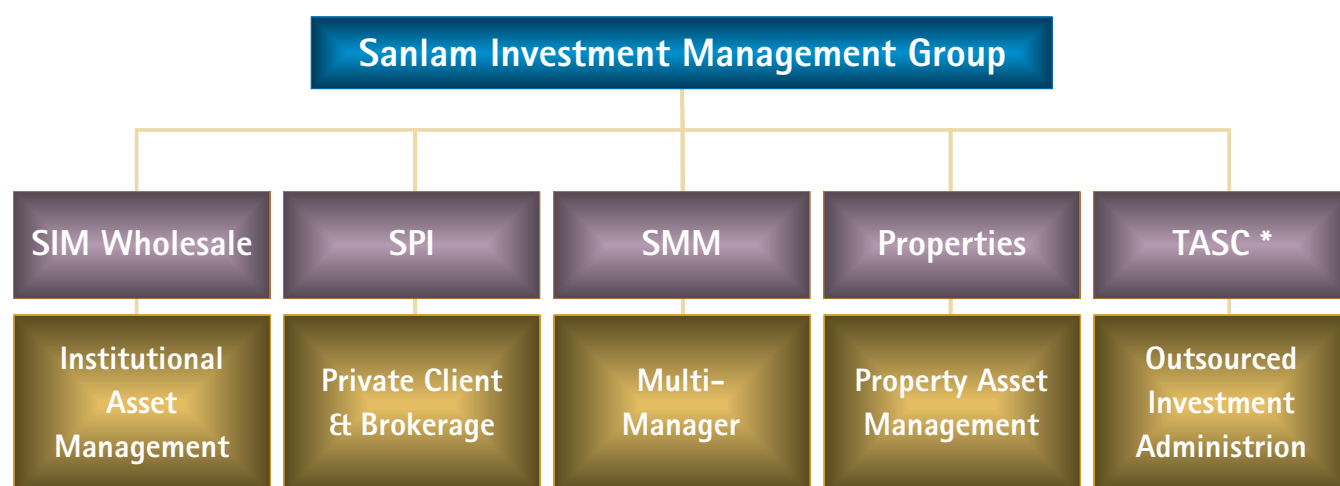


SANLAM LIFE : NET FUNDS FLOW

Rand Million	2002	2001
TOTAL BUSINESS		
Inflows		
Single	8 325	8 051
Continuations	1 802	2 194
Recurring	11 199	10 641
Total life inflows	21 326	20 886
Innofin inflows	5 393	4 415
Unit trust inflows	4 388	4 908
Total Inflows	31 107	30 209
New life business recurring premiums	1 696	1 703
White label unit trust inflows	1 975	3 482
Outflows		
Life business benefits paid	(23 730)	(22 701)
Innofin outflows	(2 594)	(2 003)
SUT outflows	(3 712)	(4 064)
Total Outflows	(30 036)	(28 768)
White label unit trust outflows	1 354	381
Total net (outflow)/inflow	1 071	1 441
White label unit trust net inflow	621	3 101

SANLAM LIFE : NET FUNDS FLOW (.../continued)

Rand Million	2002	2001
INDIVIDUAL BUSINESS		
Inflows		
Single	5 839	5 044
Continuations	1 802	2 194
Recurring	8 634	8 336
Life inflows	16 275	15 574
Innofin inflows	5 393	4 415
Unit trust inflows	4 388	4 908
Total Inflows	26 056	24 897
New life business recurring premiums	1 540	1 532
White label unit trust inflows	1 975	3 482
Outflows		
Benefits	(17 291)	(16 593)
Innofin outflows	(2 594)	(2 003)
SUT outflows	(3 712)	(4 064)
Total Outflows	(23 597)	(22 660)
White label unit trust outflows	1 354	381
Net inflow/(outflow)		
Life business	(1 016)	(1 019)
Innofin	2 799	2 412
SUT (excl wholesale)	676	844
Total individual business net inflow/(outflow)	2 459	2 237
White label unit trust net inflow	621	3 101
GROUP BUSINESS		
Inflows		
Single premiums	2 486	3 007
Recurring	2 565	2 305
Total Group life inflows	5 051	5 312
New Recurring premiums	156	171
Outflows		
Group Benefits	(4 406)	(3 868)
Terminations	(2 033)	(2 240)
Total Group life outflows	(6 439)	(6 108)
Net (Outflow)	(1 388)	(796)



** Separate Governance structure for Tasc*

SIM WHOLESALE : Progress/Achievements

- Strengthening of Investment Team
 - Attracted highly regarded Investment Professionals
- Impact on Investment Process
- Truly South African
 - Investment Professional Development Program
 - Employment Equity
- Launch of Sanlam Development Fund of Funds
 - R300 m for Private Equity Fund

SUBSIDIARIES : Progress/Achievements

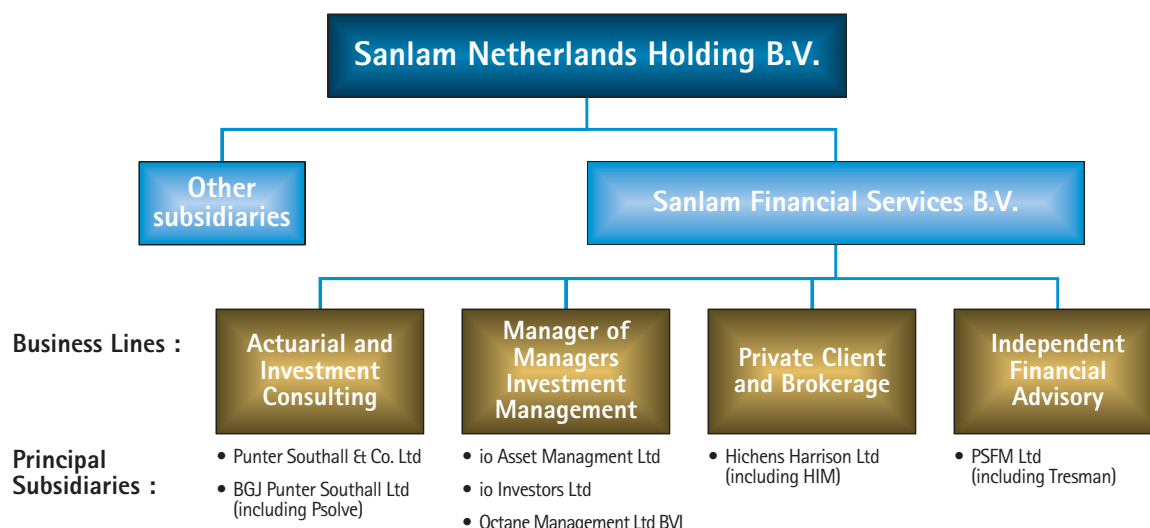
- **Sanlam Property Asset Management**
 - Excellent profit growth
- **Sanlam Private Investments**
 - Merrill Lynch transaction bedded down
 - Positive contribution in difficult trading conditions
- **Sanlam Multi-Manager**
 - Established as separate business
- **TASC**
 - Established Dublin office
 - Increased Revenues by 47%

SPLIT IN ASSETS UNDER MANAGMENT

	31 Dec 2002	31 Dec 2001	31Dec 2000	31 Dec 1999
Total AUM	181,0	186,3	175,0	173,1
• Sanlam	135,6	142,9	140,7	146,4
• Segregated	34,8	40,5	34,3	26,7
• Sanlam Private Investments	10,6	2,9	—	—

FOCUS 2003

- Investment Performance
- Regain client confidence
- Black Economic Empowerment
- Sustainable profit growth
- People / employer of choice / winning culture



BUSINESS DESCRIPTION

Sanlam International operates an integrated business complex targeting affluent and institutional markets, combining actuarial and investment consulting, manager of managers investment management, stockbroking, discretionary investment management and independent financial advisory services. This creates

- the opportunity for direct conversion of established assets-under-advice to assets-under-management or
- enhanced opportunities for the sale of assets-under-management services.

2002 SALIENT FEATURES

- Established Sanlam International to provide the impetus to develop a meaningful international financial services business.
- Laid foundations for higher levels of profit generating capacity through a build and buy program with a marked increase in fee income.
- Growth in significant continuing institutional client relationships within the consulting business from 310 to 450
- Funds under advice increased from US\$ 10 billion to US\$ 24 billion.
- Building Hichens Investment Management with US\$ 75 million in new funds under management.

INCOME STATEMENT

Rand Million	2002	2001
Fee income	639	433
Net interest & other income	33	5
Financial services income	672	438
Investment managers fees paid	(45)	(53)
Administration costs	(552)	(282)
Operational profit before tax	75	103
Tax	(13)	(19)
Operating profit after tax	62	84

FOCUS 2003

- Continue to execute against the Group internationalisation strategy in line with the agreed principles, focussing on identifying and acquiring carefully selected new business opportunities in the United Kingdom, Western Europe and Asia.
- Convert existing assets-under-advice to assets-under-management
- Gather new assets-under-management both through direct sales to clients and through contacts developed through the consulting businesses.
- Complete "the build" of the various "start-up" elements in our business model, including the construction of the solutions platforms targeted for completion early in 2003.

ACHIEVEMENTS

- Improved operational efficiency
- Development & launch of employment equity forum
- Successful year for Gensec Trading
- Excellent performance of fixed interest
- Innovative & good performance of structured products division
- Successful closing of partnership with Imperial group

INCOME STATEMENT

Rand Million	2002	2001
Revenue	402	508
• Treasury	88	241
• Investment banking	127	139
• Risk management solutions	136	79
• Arbitrage	51	49
Expenses	(311)	(317)
Fieldstone net income	21	—
Net operating income	112	191
Return On Equity	% 11	17
Expense / Income ratio	% 77	62

FOCUS AREAS TO DELIVER RESULTS

- Quality People
- Operational Excellence
- Risk Management and Capital Efficiency
- Diversified Product and Client base

ACHIEVEMENTS

- 32% Growth in gross written premiums
- Underwriting surplus of R142m represents a 46% increase
- Operating income of R257m represents a 39% increase
- Lion of Africa profitable
- UK acquisition concluded

INCOME STATEMENT

Rand Million	2002	2001
Net earned premium	5 548	4 760
Claims incurred	(3 925)	(3 367)
Net Commission	(698)	(635)
Management expenses	(783)	(661)
Underwriting surplus	142	97
Investment return on insurance funds	115	88
Operating income	257	185
Investment income	179	538
Income from associates	(1)	2
Income before taxation	435	725
Taxation	(116)	(142)
Minority interest	(14)	(12)
Headline earnings	305	571
Amortisation of goodwill	(3)	-
Attributable earnings to shareholders	302	571
 Earnings based on Long-term rate of return	 516	 444
 Earnings per share	 Cents	 Cents
Headline earnings per share	274	518
Earnings per share based on the long-term rate of return	464	404
Dividends per share	170	154
 Ratios	 %	 %
Net claims ratio	70.7	70.7
Net acquisition cost ratio	26.7	27.3
Net underwriting margin	2.6	2.0
Operating margin on net earned premiums	4.6	3.9

FOCUS 2003

- Operational Focus
 - Underwriting discipline
 - Optimising cash-flow management
 - Reduction of management expenses
 - Improved reinsurance efficiency
 - Reduction of claims leakage
 - Procurement initiatives
- Diversification of income base



THE SA ECONOMY

Outlook for 2003

- CPIX-inflation is viewed to have peaked in November 2002, and it will decline rapidly in 2003 because of a high 2002 base, the stronger rand and lower food prices. CPIX-inflation is forecast to average 7.5% in 2003 and 5% in 2004.
- We expect the exchange rate of the rand to give up some of its recent gains as a result of lower interest rates, a larger current account deficit, and exchange control relaxation with a Q4 2003 average of R9.00/\$ and R10.00/euro.
- We are forecasting a decline of 300 basis points in the repo rate to 10.5% (prime rate 14%) in 2003, starting at the June 2003 MPC meeting, in reaction to falling inflation.
- The 10-year SA bond yield should decline to 9.5% by Q4 2003 as inflation expectations improve. The balance between demand and supply of paper in the market will continue to exert downward pressure on long-term yields.
- Real GDP growth in SA is expected to be fairly robust in 2003 at 3%, with the contribution from the government sector continuing to increase.
- Household consumption expenditure should benefit from wage settlements exceeding inflation in large sectors of the economy, further reductions in personal taxes, poverty alleviation measures, lower inflation and falling interest rates. Consumer confidence is holding up well, and household debt levels are manageable. We are forecasting final consumption by households to grow by 3% in 2003.
- Final consumption expenditure by government is forecast to grow by 3.5% in 2003.
- Gross fixed capital formation should increase by 6% in 2003.
- Higher exports will be off set to some extent by higher imports because of robust domestic activity. On balance the contribution of net exports is expected to remain negative, but less so than in 2002.
- We are forecasting a current deficit of R6 billion in 2003, compared with a small surplus of R1.1 billion in 2002.

Key economic indicators

	2001	2002	Forecast 2003
Prime overdraft rate (year-end %)	13.00	17.00	15.00
RSA 10-year yield (q4 average %)	10.25	11.50	10.50
CPI inflation (average %)			
• Headline	5.7	9.7	7.4
• CPIX	6.6	9.6	7.0
Current account (% of GDP)	-0.2	0.1	-0.1
R/\$ exchange rate (q4 average)	10.57	10.50	11.35
Real GDP growth (%)	2.2	2.7	2.9
Real GDE growth (%)	1.8	2.3	2.6

BUSINESS STRUCTURE



Sanlam



CONTACT DETAILS

Registered Office

Sanlam
2 Strand Road
Bellville
7530
South Africa

Tel: +27 21 947-9111
Fax: +27 21 947-3670

Investor Relations Website:

www.sanlamltd.co.za

Corporate Office

Acting Chief Executive

Flip Rademeyer
Tel. : +27 21 947-6801
Mobile : +27 82 554-5573
Fax : +27 21 947-3670
E-mail : flip.rademeyer@sanlam.co.za

Group Executive : Finance

Kobus Möller
Tel. : +27 21 947-9201
Fax : +27 21 947-5536
E-mail : kobus.moller@sanlam.co.za

Chief Actuary

Chris Swanepoel
Tel. : +27 21 947-2375
Fax : +27 21 947-3670
E-mail : chris.swanepoel@sanlam.co.za

Investor Relations

Helet Malherbe
Tel. : +27 21 947-4092
Fax : +27 21 957-1331
E-mail : helet.malherbe@sanlam.co.za

Businesses

CEO : Sanlam Life

Lizé Lambrechts
Tel. : +27 21 947-3439
Fax : +27 21 957-1840
E-mail : lize.lambrechts@sanlam.co.za

CEO : Sanlam Investment Management

Johan van der Merwe
Tel. : +27 21 950-2945
Fax : +27 21 950-2850
E-mail : johanvdm@sim.sanlam.com

CEO : Sanlam International

Angus Samuels
Tel. : +27 21 947-5520
Fax : +27 21 947-3500
E-mail : angus.samuels@sanlam.co.za

CEO : Gensec Bank

Marius Ferreira
Tel. : +27 11 778-6145
Fax : +27 11 778-6921
E-mail : mariusf@gensec.com

CEO : Santam

Johan van Zyl
Tel. : +27 21 915-7193
Fax : +27 21 915-7570
E-mail : johan.vanzyl@santam.co.za