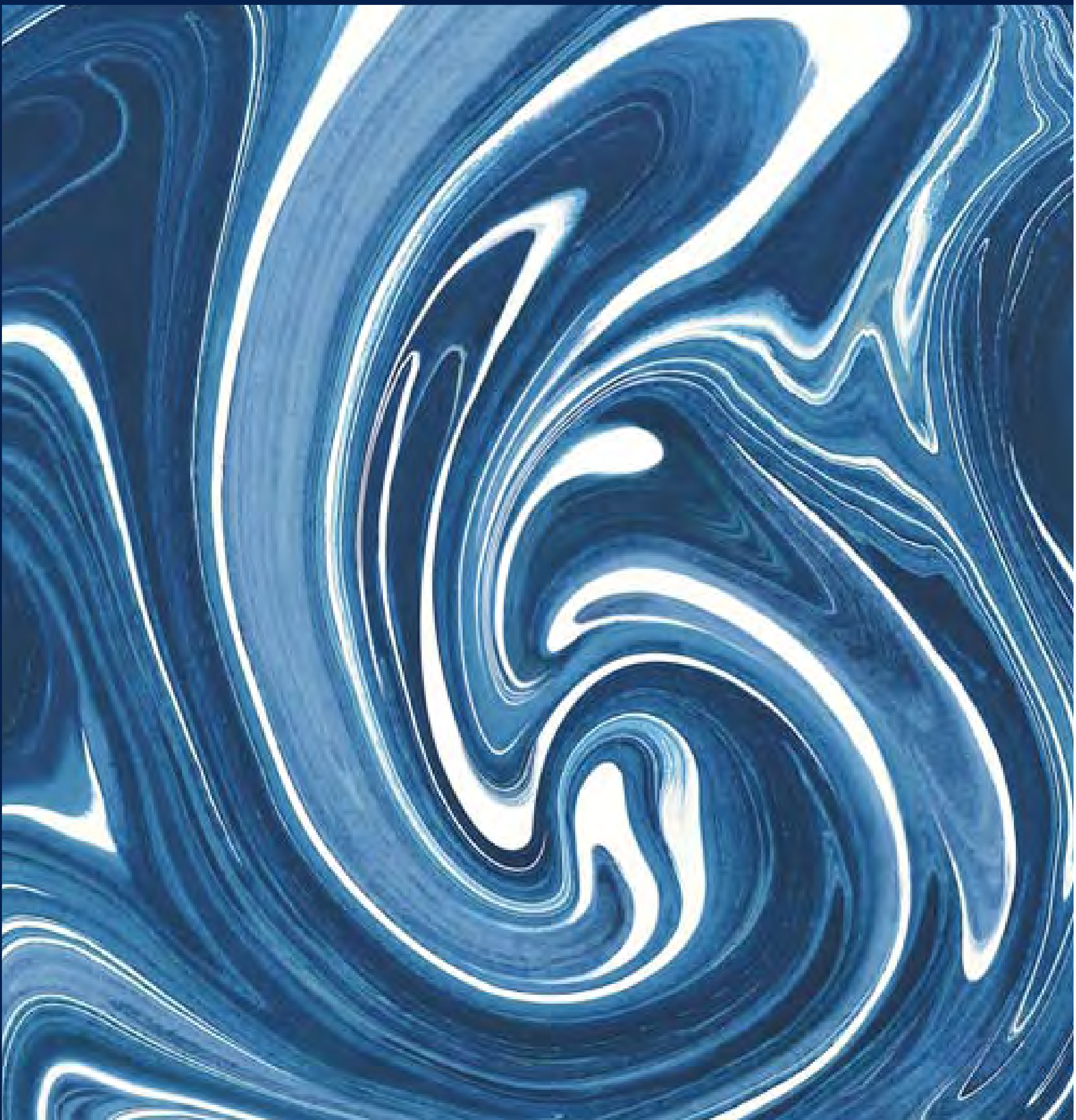
Sanlam

2005 Annual Results



Sanlam Group

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

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

Audited results for the year ended 31 December 2005

Contents

Sanlam Group Results 2005

Key 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 per share 1 615 cents

Return on embedded value per share 24,4%

Embedded value of new life business R291 million

New business embedded value margin 13,5%

Dividend per share up 30% to 65 cents

Capital management

Disposal of shareholding in Absa realised some R10 billion

13% of issued shares successfully bought back for R4.4 billion

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%
Group administration cost ratio (3)	%	**29,1**	31,4	
Group operating margin (4)	%	**20,7**	21,6	
Dividend per share	cents	**65**	50	30%
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 period.
The above is extracted from segmental information, except for embedded value results.

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 equity bull market pushed the JSE all-share index to all-time highs, while the property market continued to grow, albeit at a more subdued rate than that experienced during the preceding few years.

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.

Sanlam achieved strong overall results in 2005. Headline earnings improved by 99% to 229.8 cents per share while 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. The embedded value of new life business written was some 9% lower at R291 million but was compensated for by the growth in value of new non-life business.

Delivering on strategy

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. A successful share buy back programme resulted in 13% of Sanlam’s shares in issue being acquired for R4.4 billion at an average price of R12.39 per share. 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.

Capital management

The directors and management of Sanlam continue to focus on ensuring an optimal capital structure. The share buy-back 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 concern 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.

Life industry developments

A number of high-profile rulings relating to the charge structures and membership entitlements in respect of early terminations 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, and National Treasury have broadly reached agreement on termination values to be met by insurers. Sanlam has made a provision of R620 million (before tax) in the 2005 results for these enhanced early termination benefits.
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Dividend

The sound earnings performance in 2005 enabled the board to increase the total dividend distribution by 30% on 2004. As a result of the reduction in the number of shares in issue, the dividend per share increases by 15 cents to 65 cents per share. The dividend is payable on Wednesday, 10 May 2006 to shareholders recorded in the register on Friday, 28 April 2006.

To allow for the dividend calculation, Sanlam's share register (including Sanlam's two nominee companies namely Sanlam Share Account (Pty) Ltd and Sanlam Fundshares Nominee (Pty) Ltd) will be closed for all transfers, off market transactions and dematerialisations or rematerialisations from Friday, 21 April 2006 to Friday, 28 April 2006, both dates included.

The last date of trade to qualify for this dividend will be Thursday, 20 April 2006 and shares will trade ex div from Friday, 21 April 2006.

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.

Looking forward

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 reinventing the architecture of Sanlam's business and 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 we believe that 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.

COMMENTS ON THE RESULTS

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. 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.

Earnings

Shareholders' fund summarised income statement for the year ended 31 December

R million	**2005**	2004	△
Net result from financial services	**2 300**	1 812	27%
Net investment income	**980**	847	16%
CORE EARNINGS	**3 280**	2 659	23%
Secondary Tax on Companies (STC)	**(88)**	100	
Equity-accounted headline earnings	**478**	720	-34%
Net investment surpluses	**2 003**	698	187%
Earnings before fund transfers and provisions	**5 673**	4 177	36%
Financial claims	**(590)**	-	
Fund transfers	**730**	(1 214)	
HEADLINE EARNINGS	**5 813**	2 963	96%
Other equity-accounted earnings	**(8)**	-	
Profit on disposal of associate and subsidiaries	**5 125**	58	
Impairment of investments and goodwill	**(3)**	(263)	
Attributable earnings	**10 927**	2 758	296%
Net result from financial services	**2 300**	1 812	
Net investment return	**8 627**	946	
Attributable earnings	**10 927**	2 758	
Net result from financial services after tax and STC	**2 212**	1 912	16%
Financial claims	**(590)**	-	
LTRR investment return	**2 453**	2 158	14%
LTRR HEADLINE EARNINGS	**4 075**	4 070	1%

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 in 2004 to Ubunto-Botho Investments as part of the black empowerment transaction, being offset by the impact of the Sanlam shares bought back late in 2005.

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 (e.g. the investment in Absa prior to its disposal). Core earnings of **R3 280 million** are **23% up** on 2004, 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 net 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 the Santam minorities' share of its lower net income, net operating income increased by 27% on 2004. Notwithstanding the reduction in underwriting results in 2005, the strong performance of the equity markets enabled Santam to equal its 2004 headline earnings.
- Net investment income consists of dividends and interest earned on the shareholders' fund's discretionary investment portfolio, as well as the margin earned on a preference share portfolio. Investment income for the first six months of 2005 was substantially up on 2004, in part due to the extraordinary dividend of R249 million received on the realisation of the investment in Absa. The sale of Absa and the capital reduction in the second half of the year, however, caused a major reduction in the level of investment income and limited the full-year increase on this line to 16%.

Result from financial services for the year ended 31 December

R million	**2005**	2004	△
Life insurance	**1 729**	1 493	16%
Sanlam Personal Finance	**1 512**	1 309	16%
Sanlam Employee Benefits	**217**	184	18%
Short-term insurance	**1 016**	1 361	-25%
Investment management	**699**	419	67%
Sanlam Capital Markets	**151**	86	76%
Independent Financial Services	**32**	44	-27%
Corporate expenses	**(172)**	(169)	-2%
Continued operations	**3 455**	3 234	7%
Discontinued operations & Marketing provision	**-**	(119)	-
Gross result from financial services	**3 455**	3 115	11%

Headline earnings are reported net of a **Secondary Tax on Companies** (STC) charge of R88 million as the STC payable in respect of the group's dividends paid 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.

Equity-accounted retained headline earnings of R478 million are down 34% on 2004. The major contribution to this line is the Sanlam shareholders' fund's proportionate share of Absa's earnings prior to the sale of the investment. The reported earnings for 2005 reflect Absa's strong operating performance for the six months to March 2005. It also includes 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 market growth 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. Certain enhanced early termination values will, where applicable, be applied retrospectively for five years. The cost of providing these benefits in respect of Sanlam's existing business is estimated at some R620 million. This amount, net of tax, is provided for in full in the 2005 financial results as a once-off income statement charge of R440 million. For embedded value purposes it is assumed that the full tax relief will only be realised some time in the 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 possible tax liabilities due to differences on treatment and interpretation between Sanlam and the South African Revenue Services, 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 existing provisions created for such claims by R150 million. This should ensure that provisions sufficiently cover the aggregate liability in a best estimate outcome, although not necessarily the maximum exposure in respect of these items.

In terms of IFRS, in determining the Sanlam group results, Sanlam shares held in the policyholder portfolios 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 and associates 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. Since the policyholder liabilities remain unaffected, 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, the once-off provision created in respect of potential financial claims and enhanced termination values, the growth in Headline earnings amounted to 36%.

Attributable earnings for 2005 of R10.93 billion are 296% higher than the R2.76 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 a subsidiary or associate 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 sales / transaction value and the equity accounted carrying value of the investment.

Business volumes

New business flows

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, 32% 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. The new life business 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.

New Business Volumes for the year ended 31 December

R million	**2005**	2004	△
Life insurance	**11 862**	11 200	6%
Investments	**52 748**	40 933	29%
Short-term insurance	**8 871**	7 719	15%
	73 481	59 852	23%
Retail	**28 473**	24 613	16%
Institutional	**19 684**	18 239	8%
Sanlam Financial Services (UK)	**10 615**	5 950	78%
Sanlam Collective Investments white label	**5 838**	3 331	75%
Short-term insurance	**8 871**	7 719	15%
	73 481	59 852	23%

- 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. 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 premiums 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 166% 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 inflows.

- *SA Institutional* new business flows 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 R2.9 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 that in the comparable period in 2004. New Group Life business is essentially focussed on risk business due to an increasing percentage of investment business inflows being placed with asset managers directly.
    - Sanlam Investment Management's (SIM) institutional investment inflows grew by 7% to R16.9 billion. 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 administration and advice of £0.9 billion (R10.6 billion) in 2005, an improvement of 78% on 2004.

Net business flows

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. Excluding the R6 billion withdrawal, the South African institutional investment businesses achieved net inflows of R6.7 billion, which is only marginally down on 2004. A major contribution to the Group's institutional net inflow also came from Sanlam Financial Services (UK). Group Life net outflows however remain high. 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 to 2004. Net business inflows from retail business amounted to R3.5 billion.

Embedded value of new business

The embedded value of new life business written for 2005, of R291 million, is 9% lower than in 2004. Margins and profitability remained under pressure during the year, 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 proposed 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. On this basis the overall margin reduced from 2.1% to 1.8%.

Progress has been made in standardising the measurement of the profitability of and value added by non-life business. It is the intention to also disclose the value of new non-life business in future to provide a more complete picture of new business performance. These calculations are still being refined but indicate that non-life retail investment business made a substantial contribution to the value of the overall new retail business flows in 2005, compensating by and large for the lower value of the life business.

Embedded value

At 31 December 2005 Sanlam's embedded value amounted to R38.2 billion or 1 615 cents per share. This represents an increase of 4% on the R36.6 billion at the end of December 2004, despite the R4.4 billion utilised to buy back 359 million shares. Taking into account the capital reduction and the dividend paid in respect of the 2004 financial year, the return on embedded value to the end of 2005 amounted to 20.6%. A higher growth per share of 24.4% confirms the accretive effect of the share buy back. A return of 20.0% was achieved on net assets.

Embedded value			
R million	**2005**	2004	△
Net Asset Value (at fair value)	**30 592**	29 782	3%
Goodwill on life company acquisitions	**1 328**	356	
Non-life Group operations	**9 702**	7 743	25%
Portfolio investments	**19 562**	21 683	-10%
Adjustments	**(2 962)**	(2 000)	48%
Adjusted Net Asset Value	**27 630**	27 782	-1%
Net value of life in-force business	**10 574**	8 851	19%
Embedded value	**38 204**	36 633	4%
Embedded value per share (cents)	**1 615**	1 344	20%
Share price at 31 December (cents)	**1 519**	1 300	17%
Discount to embedded value	**5.9%**	3.3%	

The value of the Life businesses' in-force book (VIF) at the end of December 2005 amounted to R10,6 billion, after taking into account the cost of capital at risk of R1,7 billion. Growth from life insurance business, based on the starting value of VIF, amounted to 22,3% compared with growth of 26,5% in 2004. The negative effect of adjustments made to the long-term asset mix assumption of both the policyholder funds and the assets supporting CAR and an increased allowance for STC payable in future, in part offset the benefit of positive operating and investment variances experienced during the year.

Solvency

As at 31 December 2005 all group companies were adequately capitalised.

- The statutory capital requirement (CAR) of Sanlam Life amounted to R5.3 billion. Capital allocated to Sanlam Life and qualifying for regulatory capital purposes amounted to R20.9 billion, which covered the capital requirement 3.9 times (3.6 times at the end of 2004). The improved cover can be attributed to improved equity markets and the active management of the shareholders' funds. All policyholder portfolios were fully funded as at 31 December 2005.
- Santam ended the 2005 financial year with a healthy solvency level of 61%, which will reduce to 49% after payment of its ordinary dividend of 227 cents per share and special dividend of 650 cents per share.

These results will be tabled at the annual general meeting to be held at the Sanlam head office in Bellville on Wednesday, 7 June 2006 at 2pm. Shareholders are invited to attend this meeting.

Roy Andersen
Chairman

Johan van Zyl
Group Chief Executive

Sanlam Limited
Cape Town
8 March 2006

GROUP BALANCE SHEET at 31 December 2005

	2005 R million	2004 R million
ASSETS		
Property and equipment	249	184
Owner-occupied properties	492	380
Goodwill	2 174	2 186
Value of business acquired	942	-
Deferred acquisition costs	1 155	994
Long-term reinsurance assets	389	318
Investments	232 851	187 606
Investment properties	12 748	14 413
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	372	440
Short-term insurance technical assets	2 372	1 980
Working capital assets	35 716	31 192
Trade and other receivables	27 427	20 043
Cash, deposits and similar securities	8 289	11 149
Total assets	276 712	225 280
EQUITY AND LIABILITIES		
Shareholders' fund	25 020	19 685
Minority shareholders' interest	3 443	3 515
Total equity	28 463	23 200
Long-term policy liabilities	198 234	163 556
Insurance contracts	109 591	92 961
Investment contracts	88 643	70 595
Term finance	2 879	6 685
External investors in consolidated funds	6 030	3 209
Cell owners' interest	268	47
Deferred tax	1 623	809
Short-term insurance technical provisions	6 702	5 198
Working capital liabilities	32 513	22 576
Trade and other payables	30 057	20 924
Provisions	860	465
Taxation	1 596	1 187
Total equity and liabilities	276 712	225 280

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		20 393	17 836
Reinsurance premiums paid		(2 339)	(2 303)
Reinsurance commission received		445	504
Investment income		10 429	9 658
Investment surpluses		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		(21 070)	(15 829)
Long-term investment contract benefits		(14 094)	(9 985)
Enhanced early termination benefits		(620)	-
Short-term insurance claims		(6 904)	(5 014)
Reinsurance claims received		1 248	747
Expenses		(7 769)	(7 026)
Sales remuneration		(2 632)	(2 302)
Administration costs		(5 137)	(4 724)
Impairment of investments and goodwill		(12)	(263)
Net operating result		14 086	4 605
Equity-accounted earnings		944	1 085
Finance cost		(136)	(49)
Discontinued operations		-	(92)
Profit before tax		14 894	5 549
Taxation	4	(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):			
Continuing operations:			
Basic earnings per share	7	439,2	112,3
Diluted earnings per share	7	432,0	110,9

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2005

	2005 R million	2004 R million
Shareholders' fund:		
Balance at beginning of year	19 685	17 622
Total recognised income	11 008	2 559
Profit for the year	10 927	2 758
Equity-accounted earnings movement in associated companies' reserves	15	(42)
Movement in foreign currency translation reserve	66	(157)
Cost of treasury shares donated to the Ubuntu-Botho Community Development Trust	-	(314)
Net realised investment surpluses on other treasury shares	25	(126)
Share based payments	64	51
Dividends paid	(1 295)	(1 022)
Acquired through business combinations	(31)	-
New shares issued [(1)]	-	865
Costs relating to share issuance	-	(19)
Shares cancelled	(4 446)	-
Cost of treasury shares acquired [(2)]	10	69
Balance at end of year	25 020	19 685
Minority shareholders' interest:		
Balance at beginning of year	3 515	1 944
Total recognised income	1 163	1 005
Profit for the year	1 164	1 020
Movement in foreign currency translation reserve	(1)	(15)
Share based payments	5	4
Dividends paid	(788)	(168)
Acquisitions, disposals and other movements in minority interests	(452)	730
Balance at end of year	3 443	3 515
Shareholders' fund	19 685	17 622
Minority shareholders' interest	3 515	1 944
Total equity at beginning of year	23 200	19 566
Shareholders' fund	25 020	19 685
Minority shareholders' interest	3 443	3 515
Total equity at end of year	28 463	23 200

(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.

GROUP CASH FLOW STATEMENT

for the year ended 31 December 2005

	2005	2004
	R million	R million
Net cash inflow/(outflow) from operating activities	1 938	(3 774)
Net cash inflow from investment activities	13 069	1 908
Net cash (outflow)/inflow from financing activities	(6 919)	2 842
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	37 408	29 320

ABRIDGED SHAREHOLDERS' FUND BALANCE SHEET – FAIR VALUE *(Group businesses, associates and joint venture below reflected as investments at fair value)*

at 31 December 2005

	2005 R million	2004 R million
Assets		
Property and equipment	177	106
Owner-occupied properties	480	370
Goodwill [(1)]	419	387
Value of business acquired [(1)]	942	-
Deferred acquisition costs	582	-
Investments	35 307	34 794
Sanlam businesses	9 702	7 743
Investment Management [(2)]	3 228	2 384
Sanlam Financial Services UK	382	349
Sanlam Capital Markets	552	441
Innofin	341	187
Santam	4 749	4 028
Other [(3)]	450	354
Associated companies	871	10 033
Absa	-	9 429
Peermont	779	604
Other	92	-
Joint ventures	395	270
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)	1 293	1 093

(1) The value of business acquired and goodwill relates 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.

(2) Included in Investment Management are Sanlam Investment Management, Sanlam Collective Investments and the Investment Cluster's international businesses.

(3) Other businesses comprise the non-life businesses in the Life Insurance cluster, which are excluded from the value of in-force and all the businesses in the Independent Financial Services cluster apart from Sanlam Financial Services UK.

ABRIDGED SHAREHOLDERS' FUND BALANCE SHEET – FAIR VALUE *(continued)*

	2005 R million	2004 R million

EXCESS OF FAIR VALUE OVER NET ASSET VALUE: 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.

	2005 R million	2004 R million
Net asset value of businesses and investments	5 583	8 434
Investment Management businesses [1]	752	514
Sanlam Financial Services UK	340	335
Sanlam Capital Markets	552	441
Innofin	177	155
Santam	2 903	2 655
Absa	-	4 030
Peermont	310	218
Safair Lease Finance	94	45
Other [2]	455	41
Goodwill in respect of above businesses	1 198	1 198
Deferred capital gains tax on investments at fair value	546	1 146
Revaluation adjustment of interest in businesses and investments to fair value	3 641	7 268
Fair value of businesses and investments	10 968	18 046
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

(1) Included in Investment Management are Sanlam Investment Management, Sanlam Collective Investments and the Investment cluster's international businesses.

(2) Other businesses comprise the non-life businesses in the Life Insurance cluster, which are excluded from the value of in-force and all the businesses in the Independent Financial Services cluster apart from Sanlam Financial Services UK.

ABRIDGED SHAREHOLDERS' FUND BALANCE SHEET – FAIR VALUE *(continued)*

	Net assets R million	Minority shareholders' interest R million	Shareholders' fund R million
Reconciliation of equity - fair value:			
31 December 2004			
Reported under SA GAAP	**30 045**	**63**	**29 982**
Change in carrying value of investment contracts	(196)	(2)	(194)
Revaluation of trading account assets and liabilities	(42)	-	(42)
Goodwill amortisation reversed – Merchant Investors Assurance	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	(181)	-	(181)
Revaluation of trading account assets and liabilities	(42)	-	(42)
Reported under IFRS	**22 596**	**-**	**22 596**

ABRIDGED SHAREHOLDERS' FUND BALANCE SHEET – NET ASSET VALUE

(All businesses consolidated at net asset value)

at 31 December 2005

	2005 R million	2004 R million
Assets		
Goodwill	2 174	2 170
Investments	32 547	26 582
Working capital and other assets	33 918	26 748
Total assets	68 639	55 500
Equity and liabilities		
Shareholders' fund	25 020	19 685
Minority shareholders' interest	3 557	2 932
Term finance, working capital and other liabilities	40 062	32 883
Total equity and liabilities	68 639	55 500

RECONCILIATION OF EARNINGS to segmental analysis

for the year ended 31 December 2005

R million	Year ended 31 December 2005 Total	Shareholder activities Financial services	Shareholder activities Investment return	Policyholder activities
Net income	63 307	19 390	10 022	33 895
Financial services income	20 393	20 524	(3)	(128)
Reinsurance premiums paid	(2 339)	(2 339)	-	-
Reinsurance commission received	445	445	-	-
Investment income	10 429	718	892	8 819
Investment surpluses	35 282	42	9 115	26 125
Change in fair value of external investors liability	(903)	-	18	(921)
Net insurance and investment contract benefits and claims	(41 440)	(9 030)	-	(32 410)
Long-term insurance contract benefits	(21 070)	(2 754)	-	(18 316)
Long-term investment contract benefits	(14 094)	-	-	(14 094)
Enhanced early termination benefits	(620)	(620)	-	-
Short-term insurance claims	(6 904)	(6 904)	-	-
Reinsurance claims received	1 248	1 248	-	-
Expenses	(7 769)	(7 685)	-	(84)
Sales remuneration	(2 632)	(2 632)	-	-
Administration costs	(5 137)	(5 053)	-	(84)
Impairment of investments and goodwill	(12)	-	(12)	-
Net operating result	14 086	2 675	10 010	1 401
Equity-accounted earnings	944	5	865	74
Finance cost	(136)	-	-	(136)
Profit before tax	14 894	2 680	10 875	1 339
Tax expense	(2 803)	(567)	(1 117)	(1 119)
Shareholders' fund	(1 684)	(567)	(1 117)	-
Policyholders' fund	(1 119)	-	-	(1 119)
Profit for the year	12 091	2 113	9 758	220
Attributable to:				
Shareholders' fund	10 927	1 710	9 217	-
Minority shareholders' interest	1 164	403	541	220
	12 091	2 113	9 758	220

RECONCILIATION OF EARNINGS to segmental analysis

for the year ended 31 December 2005

R million	Total	Year ended 31 December 2004 Shareholder activities Financial services	Investment return	Policyholder activities
Net income	41 975	17 170	879	23 926
Financial services income	17 836	17 886	(7)	(43)
Reinsurance premiums paid	(2 303)	(2 303)	-	-
Reinsurance commission received	504	504	-	-
Investment income	9 658	1 083	789	7 786
Investment surpluses	16 659	-	127	16 532
Change in fair value of external investors liability	(379)	-	(30)	(349)
Net insurance and investment contract benefits and claims	(30 081)	(6 965)	-	(23 116)
Long-term insurance contract benefits	(15 829)	(2 698)	-	(13 131)
Long-term investment contract benefits	(9 985)	-	-	(9 985)
Short-term insurance claims	(5 014)	(5 014)	-	-
Reinsurance claims received	747	747	-	-
Expenses	(7 026)	(6 996)	(1)	(29)
Sales remuneration	(2 302)	(2 302)	-	-
Administration costs	(4 724)	(4 694)	(1)	(29)
Impairment of investments and goodwill	(263)	-	(263)	-
Net operating result	4 605	3 209	615	781
Equity-accounted earnings	1 085	-	984	101
Finance cost	(49)	-	-	(49)
Loss from discontinued operations	(92)	(94)	2	-
Profit before tax	5 549	3 115	1 601	833
Tax expense	(1 771)	(789)	(224)	(758)
Shareholders' fund	(1 013)	(789)	(224)	-
Policyholders' fund	(758)	-	-	(758)
Profit for the year	3 778	2 326	1 377	75
Attributable to:				
Shareholders' fund	2 758	1 812	946	-
Minority shareholders' interest	1 020	514	431	75
	3 778	2 326	1 377	75

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

	2005 R million	2004 R million
1. FUNDS RECEIVED FROM CLIENTS		
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 from clients	84 654	70 731

Funds received from short-term insurance are recognised in the income statement. All other funds received are recognised directly in the balance sheet or as segregated funds as applicable; fee income earned on this business is recognised in the income statement.

	2005 R million	2004 R million
2. PAYMENTS TO CLIENTS		
Life business	27 499	25 517
Risk underwriting benefits	2 618	2 568
Other payments	24 881	22 949
Investments	36 195	24 226
Short-term insurance	5 792	4 397
Total payments to clients	69 486	54 140

Life insurance risk underwriting benefits and short-term insurance payments are recognised in the income statement; all other payments to clients are recognised directly in the balance sheet or as segregated fund flows as applicable.

	2005 R million	2004 R million
3. NET FLOW OF FUNDS		
Life business	(4 464)	(3 438)
Investments	16 553	16 707
Short-term insurance	3 079	3 322
Total net inflow of funds	15 168	16 591
4. TAXATION		
Result from financial services	747	789
Current year	752	793
Prior year	(5)	(4)
Investment income – current year	150	92
Investment surpluses	330	232
Profit on disposal of associated companies	534	-
Enhanced early termination benefits	(180)	-
Secondary Tax on Companies	103	(100)
Tax expense – shareholders' fund	1 684	1 013
Tax expense – policyholders' fund	1 119	758
Total income tax charged to income statement	2 803	1 771

	2005 R million	2004 R million
5. SEGMENTAL ANALYSIS – SHAREHOLDERS' FUND		
Financial services		
Life insurance	1 729	1 493
Short-term insurance	1 016	1 361
Investment management	699	419
Sanlam Capital Markets	151	86
Independent Financial Services	32	44
Corporate expenses	(172)	(194)
Result from continued operations	3 455	3 209
Discontinued operations	-	(94)
Result from financial services before tax	3 455	3 115
6. INVESTMENT INCOME – SHAREHOLDERS' FUND		
Interest-bearing investments	460	445
Equities	372	312
Properties	53	32
Investment income before associated companies	885	789
Dividends from associated companies	384	264
Total investment income	1 269	1 053

NOTES *(continued)*

	2005 Cents	2004 Cents
7. EARNINGS PER SHARE		
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 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 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:		
Net result from financial services	2 300	1 812
Net investment income	980	847
Investment income per note 6	1 269	1 053
Tax on investment income	(150)	(92)
Minority shareholders' interest	(139)	(114)
Core earnings	3 280	2 659
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	478	720
Equity-accounted headline earnings (excluding dividends received)	489	749
Minority shareholders' interest	(11)	(29)
Net investment surpluses	2 733	(516)
Investment surpluses	3 478	33
Tax on investment surpluses	(330)	(232)
Minority shareholders' interest	(415)	(317)
Secondary tax on companies	(88)	100
Headline earnings	5 813	2 963
Non-headline earnings	5 114	(205)
Profit for the period	10 927	2 758
Adjusted headline earnings based on the long-term rate of return	4 075	4 070
Profit from continuing operations attributable to shareholders' fund	10 927	2 850
Discontinued operations attributable to shareholders' fund	-	(92)

	2005 million	2004 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 average 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	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
Number of ordinary shares in issue – beginning of period	2 767,6	2 654,6
Shares issued	-	113,0
Shares cancelled	(359,0)	-
Number of ordinary shares in issue	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

	R million	R million
8. ASSETS UNDER MANAGEMENT AND ADMINISTRATION		
Total assets per Group balance sheet	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

9. CONTINGENT LIABILITIES

Shareholders are referred to the contingent liabilities disclosed in the 2004 annual report. The circumstances surrounding these contingent liabilities remained unchanged.

ADJUSTED HEADLINE EARNINGS – LTRR

	2005 R million	2004 R million
The LTRR investment return is determined by applying the long-term expected return of 10% (2004: 11%) to the average monthly shareholders' fund investments		
Adjusted headline earnings – long-term rate of return (LTRR)		
Net result from financial services	2 300	1 812
Secondary tax on companies	(88)	100
Policyholder fund restitution and 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 – LTRR	4 075	4 070
Reconciliation of headline earnings and LTRR headline earnings		
Headline earnings per note 7	5 813	2 963
Fund Transfers	(730)	1 214
Net LTRR adjustment	(1 008)	(107)
Adjusted headline earnings – 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)
ASSETS SUBJECT TO LTRR		
Investments per shareholders' fund balance sheet at net asset value	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

ACCOUNTING POLICIES AND ACTUARIAL BASIS

Statement of compliance

The accounting policies adopted for the purposes of the financial statements comply with International Financial Reporting Standards (IFRS) and with applicable legislation. The policy liabilities and profit entitlement rules are determined in accordance with prevailing legislation, generally accepted actuarial practice and the stipulations contained in the demutualisation proposal. There have been no material changes in the financial soundness valuation basis since 31 December 2004.

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 comply with all 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.

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 (and joint ventures) 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, Safair Lease Finance and Peermont, 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 (e.g. Santam) can no longer be accounted for at market value but 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, 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.

Transitional provisions

IFRS 1 *First-time Adoption of International Financial Reporting Standards* requires retrospective compliance with all IFRS expected to be effective at the end of the first IFRS reporting period. 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. Accordingly, no adjustments have been 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 F*irst time adoption of International Financial Reporting Standards* 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.

CHANGES IN REPORTING STRUCTURES AND ACCOUNTING POLICIES

The implementation of IFRS concurrently with the withdrawal of the specific South African accounting standard applicable to insurers (AC121) required the following changes to the Group's basis of presentation and accounting policies:

- The measurement basis of the investment in Absa and Peermont on the balance sheet is changed from fair value to an equity-accounted valuation. This item has been updated to include the policyholders' investment in Absa following the revised interpretation discussed above;
- 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 is 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).

The financial impact of the changes in accounting policies is disclosed in the IFRS Reconciliation of Equity and Earnings on pages 28 to 32.

IFRS RECONCILIATION OF EQUITY AND EARNINGS

Notes refer to the notes on pages 31 to 32.

	2004 R million
Reconciliation of reported earnings:	
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**

IFRS RECONCILIATION OF EQUITY AND EARNINGS *(continued)*

	31 December 2004			
	Assets R million	Liabilities R million	Minority shareholders' interest R million	Shareholders' fund R million
Reconciliation of equity:				
Reported under SA GAAP	**228 024**	**197 586**	**2 796**	**27 642**
Withdrawal of AC121:				
Reduction in carrying value of shareholders' fund's investment in:				
Absa [(1)]	(5 456)	(783)	(23)	(4 650)
Peermont [(1)]	(386)	(67)	-	(319)
Safair Lease Finance [(1)]	(225)	-	-	(225)
Reduction in carrying value of policyholders' fund's investment in:				
Absa [(1)]	(613)	(34)	-	(579)
Santam [(2)]	(90)	-	-	(90)
Vukile [(2)]	2 140	1 483	728	(71)
Satrix [(2)]	483	739	-	(256)
Sanlam [(3)]	(1 824)	-	-	(1 824)
Consolidation of investment vehicles [(8)]	2 539	2 507	32	-
Elimination of inter-company transactions [(9)]	(897)	(897)	-	-
Reclassification of policy loans [(10)]	(258)	(258)	-	-
Adoption of IFRS:				
Change in carrying value of investment contracts [(4)]	-	1 270	(2)	(1 268)
Recognition of deferred acquisition costs asset [(4)]	994	-	-	994
Tax effect of change in investment contract valuation basis [(4)]	80	-	-	80
Goodwill amortisation [(6)]	358	-	30	328
Goodwill impairment [(6)]	(48)	-	(6)	(42)
Reclassification of long-term reinsurance assets [(11)]	318	318	-	-
Revaluation of trading account assets and liabilities [(12)]	(42)	-	-	(42)
Change in carrying value of other associated companies [(13)]	14	-	7	7
Reclassification of cell owners' interest [(14)]	-	47	(47)	-
Reclassification of term finance [(15)]	169	169	-	-
Reported under IFRS	**225 280**	**202 080**	**3 515**	**19 685**

IFRS RECONCILIATION OF EQUITY AND EARNINGS *(continued)*

	1 January 2004			
	Assets R million	Liabilities R million	Minority shareholders' interest R million	Shareholders' fund R million
Reconciliation of equity:				
Reported under SA GAAP	**196 056**	**172 438**	**1 931**	**21 687**
Withdrawal of AC121:				
Reduction in carrying value of shareholders' fund's investment in:				
Absa [(1)]	(1 822)	(148)	(8)	(1 666)
Peermont [(1)]	(91)	(18)	-	(73)
Safair Lease Finance [(1)]	(292)	-	-	(292)
Reduction in carrying value of policyholders' fund's investment in:				
Absa [(1)]	(206)	(11)	-	(195)
Santam [(2)]	(136)	-	-	(136)
Vukile [(2)]	-	-	-	-
Satrix [(2)]	547	690	-	(143)
Sanlam [(3)]	(1 344)	-	-	(1 344)
Consolidation of investment vehicles [(8)]	1 418	1 404	14	-
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)]	-	1 092	-	(1 092)
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)]	(42)	-	-	(42)
Change in carrying value of other associated companies[(13)]	14	-	7	7
Reclassification of cell owners' interest [(14)]	-	-	-	-
Reclassification of term finance [(15)]	-	-	-	-
Reported under IFRS	**194 663**	**175 097**	**1 944**	**17 622**

IFRS RECONCILIATION OF EQUITY AND EARNINGS *(continued)*

Notes on IFRS implementation adjustments:

1. **Investments in associated companies and joint venture**

   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 option costs**

   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' (refer to the Transitional provisions above). 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.

12. Revaluation of trading account assets and liabilities

The valuation of certain unquoted trading assets and liabilities was adjusted to comply with the requirements of the revised IAS 39, 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 interests 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 policyholder portfolios have been reallocated and disclosed separately from policyholder assets.

EMBEDDED VALUE

1. 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 [1]	245	138
Reverse goodwill and value of business acquired [2]	(1 328)	(356)
Present value of strategic corporate expenses [3]	(947)	(883)
Fair value of share incentive scheme [4]	(793)	(799)
Adjustment for delayed tax relief on enhanced early termination benefits[5]	(60)	-
STC deferred tax asset written down [6]	(79)	(100)
Sanlam group shareholders' adjusted net assets	27 630	27 782
Net value of life insurance business in-force [7]	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) [8]	1 615	1 344
Number of shares (million) [8]	2 366	2 726

Notes:

1. *Adjustment to allow for the delay before incurring the capital gains tax liability included in the fair value.*

2. *Goodwill and value of insurance and investment contract business acquired (VOBA), relating to life insurance subsidiaries, are reversed from the net assets, as their value of in-force business is incorporated in the Group's value of in-force business. At 31 December 2005 the adjustment was mainly in respect of African Life (R955 million) and Merchant Investors Assurance (R356 million).*

3. *The December 2005 value has been calculated by multiplying the 2005 recurring corporate expenses not related to life business (after tax) of R115 million by the share price of 1519 cents and dividing by the headline earnings per share based on the long-term rate of return excluding extraordinary items of 184,4 cents.*

4. *The fair value of the Sanlam share incentive scheme has been determined using a statistical model. Actual options outstanding have been valued based on the actual share price and dividend yield at the valuation date.*

5. *At 31 December 2005 the financial statements allow for the full tax deduction of R180 million on the enhanced early termination benefit cost of R620 million. This adjustment allows for the time value effect of not realising the tax relief immediately.*

6. *The deferred tax asset, relating to life insurance business, based on the unused STC credits, and included in the net asset value, is reversed as the value of in-force business already includes an allowance for STC.*

7. *The net value of life insurance business in-force at 31 December 2005 includes that of the African Life Group.*

8. *The number of shares is after the effect of shares delisted and cancelled under the share buy back programme, as well as the dilution from the additional conversion rights vesting during the year in respect of the deferred shares held by Ubuntu-Botho*

2. EMBEDDED VALUE EARNINGS

	2005			2004
	Value of in-force	**Adjusted net assets**	**Total**	Total
	R million	**R million**	**R million**	R million
Embedded value from new life insurance business [1]	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 [2]	1 193	-	1 193	1 148
Expected transfer of profit from value of in-force to adjusted net assets [3]	(1 348)	1 348	-	-
Operating experience variations [4]	(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 [5]	(287)	(29)	(316)	197
Tax changes [6]	(144)	(35)	(179)	-
Investment variances	785	60	845	253
Exchange rate movements [7]	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 [9]	-	5 551	5 551	6 389
Change in fair value of share incentive scheme	-	6	6	(368)
Total embedded value earnings before dividends paid, capital movements and cost of treasury shares acquired	597	6 936	7 533	8 084
Acquired value of in-force business [8]	1 126	(1 126)	-	-
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 [9]			20,6%	27,7%
Return on embedded value per share [10]			24,4%	22,6%

Notes:

1. *The minority shareholders' interest in the net value of new business for 2005 amounted to R 0,2 million.*

2. *This amount 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.*

3. *This amount is the expected, after tax, profit transfer to net assets from the value of in-force at the start of the year. (The expected after tax profit/(loss) transferred to net assets in respect of value of new business is not included).*

4. *The main contributors to the operating experience variations are positive risk experience of R221 million, offset by higher than expected outflows from group stabilised bonus business resulting in a R96 million decrease in embedded value.*

5. *Economic assumption changes at 31 December 2005 can be broken down into the following components:*
   Lower bond yields and the reduced inflation gap assumption added R15 million to the embedded value.
   Changes to the long-term asset mix assumptions, in respect of:
   a. *policyholder funds, leading to a R130 million decrease in the embedded value; and*
   b. *assets supporting capital at risk, leading to a R201 million decrease in the embedded value.*

6. *The tax changes at 31 December 2005 can by broken down into the following components:*

   The change in the corporate tax rate from 30% to 29%, which added R167 million to the embedded value;

   The allowance for secondary tax on companies (STC) is made by placing a present value on the tax liability generated by net cash dividends paid out by the life company. Previously it was assumed that over the long-term the proportion of cash dividends paid would reduce to a level of 50% from the current 100% level. We now assume that all future dividends will be paid in cash, increasing the deduction for future STC by R273 million; and

   A strengthening of tax provisions leading to a R73 million decrease in embedded value.

7. *The principal exchange rates used to translate the operating results of foreign business are the same as used in the principal financial statements.*

8. *The acquired value of in-force insurance business relates to the following:*

   At 1 January 2005 the carrying value of Safrican Insurance Company Limited was included in adjusted net assets. During 2005 the accompanying goodwill was reversed and replaced by value of in-force (R17 million), leaving adjusted shareholders' net assets of R9 million after minority interests, with no change to total embedded value.

   At 31 December 2005 the total cost and carrying value relating to African Life Assurance Company Limited was reversed and replaced by its value of in-force (R1 109 million) and adjusted shareholders' net assets (R1 647 million).

9. *Total embedded value earnings before dividends paid, capital raised / share buy back and cost of treasury shares acquired, as a percentage of embedded value at the beginning of the period.*

10. *The return on embedded value per share for 2005 includes the effect of shares delisted and cancelled under the share buy back programme, as well as the dilution from the additional conversion rights vesting during the year in respect of the deferred shares held by Ubuntu-Botho.*

3. 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 [1]	8	14
Cost of capital at risk	(27)	(18)
Individual business – RSA	(13)	(10)
Employee benefits – RSA	(10)	(5)
International [1]	(4)	(3)
Net value of new business [2][3][5]	291	321
New business profitability ratios:		
Annual Premium Equivalent (APE) [4]	2 153	1 958
Individual business – RSA	1 565	1 489
Employee benefits – RSA	445	356
International [1]	143	113
Present value of new business premiums [4]	16 533	15 357
Individual business – RSA	11 246	11 096
Employee benefits – RSA	4 111	3 352
International [1]	1 176	909
Net value of new business [2][3][5]	291	321
Individual business – RSA	241	269
Employee benefits – RSA	46	41
International [1]	4	11
APE margin	13,5%	16,4%
Individual business – RSA	15,4%	18,1%
Employee benefits – RSA	10,4%	11,5%
International [1]	2,8%	9,7%
Present value of new business premium margin	1,8%	2,1%
Individual business – RSA	2,1%	2,4%
Employee benefits – RSA	1,1%	1,2%
International [1]	0,3%	1,2%

Notes:

(1) *International includes life insurance business of Sanlam Namibia and Merchant Investors Assurance.*

(2) *African Life is not included, as the company was acquired at the end of the 2005 financial year.*

(3) *Net value of new business includes minority interests of R0,2 million in 2005 (R2 million in 2004).*

(4) *APE (annual premium equivalent) is equal to new recurring premiums (excluding indexed growth premiums) plus 10% of single premiums. The profitability of new business is measured by both the ratio of value of new business (VNB) to APE, as well as to the present value of new business premiums*

(5) *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 future minimum standard applied for the whole of 2005, the new business embedded value figure would have been R14 million lower.*

4. 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 %**
Value of in-force business [1]				
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)
Equity assets fall by 10%	11 700	(1 685)	10 015	(5)

Notes:

(1) Value of in-force sensitivity analysis includes African Life.

	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 %
Value of new business [1]				
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)

Notes:

(1) The value of new business sensitivity analysis excludes African Life.

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 modeling 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. ASSUMPTIONS

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.

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 when calculating the capital requirements.

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 by the Life Offices' Association and National Treasury. In all other respects, future benefits have been determined on current surrender and paid-up bases.

HIV/Aids

Allowance is made, where appropriate, for the impact of expected HIV/Aids-related claims, consistent with the recommendations of the Actuarial Society of South Africa as set out in its proposed Professional Guidance Note 105, adjusted for the findings from subsequently released ASSA Aids models.

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.

Recurring expenses and project costs

Future investment expenses are based on the current scale of fees payable by the Group's life insurance companies to the relevant asset managers. To the extent that this scale of fees includes profit margins for Sanlam Investment Management, these margins have **not** been 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 has been deducted. These projects are of a short-term nature, although similar projects may be undertaken from time-to-time. No allowance has been made for the expected positive impact these projects may have on the future operating experience.

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 we assume a ten year rollover period.

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 out, 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.

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.

7. GROSS INVESTMENT RETURN AND INFLATION

	Sanlam Life Insurance Limited		Merchant Investors		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

8. LONG-TERM ASSET MIX FOR ASSETS SUPPORTING THE CAPITAL AT RISK

	Sanlam Life Insurance Limited		Merchant Investors		African Life(1)	BIHL(1)
	2005	2004	**2005**	2004	**2005**	**2005**
	%	%	**%**	%	**%**	**%**
Equities	25	42	0	0	50	65
Hedged equities	35	26	0	0	0	0
Property	5	8	0	0	0	4
Fixed-interest securities	20	20	0	0	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.

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