

# Index

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## Agenda

- Highlights
- Issues Addressed & Delivered
- Economic Review
- Financial & Actuarial Review
- Strategic Focus

## Notes

## Highlights

- Capital efficiency significant progress
  - R10 billion realised from Absa disposal to Barclays
  - Share buy-back; 13% for R4,4bn
- Entry Level Market
  - Key acquisitions to accelerate market share
  - ELM focus consolidated
- Sound results
  - Operating result per share growth of 29%
  - Headline earnings per share growth of 99%
  - New business flows of R74bn - growth of 23%
  - Net inflow of funds R15bn

## Notes

## Issues Addressed & Delivered

Notes

## Issues Addressed & Delivered

### Sanlam Group

- First phase share buy-back completed
  - R4bn of capital released
  - Average price of R12.25 per share
  - Total shares cancelled: 359 million (13%)
- African Life & Channel Life acquisitions completed
  - CEO appointed, synergies being extracted
  - Migration of Sanlam Group Solutions into African Life
- Expansion of offering to clients
  - Health management added to offering
  - Majority stake in Resolution Health

### Notes

## Issues Addressed & Delivered

Sanlam Group *.../continued*

- Pension Fund Adjudicator Rulings
  - Sanlam supports industry agreement with Treasury on early termination values
  - Agreement will be regulated
  - Intermediary remuneration to be resolved by 30 September 2006
  - Estimated EV cost of R500m for Sanlam (including Aflife)
  - Sanlam responding to challenge of better value for money

Notes

## Issues Addressed & Delivered

### Sanlam Personal Finance

- Excellent second half results - new initiatives starting to deliver
- Profit growth of 16% on the back of good underwriting and buoyant markets
- Good growth in alternative revenue sources\*
  - Profit growth of 46%
  - Comprise 15% of total profits
  - Acquisition of Resolution Health

\* Non-life and international

## Notes

## Issues Addressed & Delivered

Sanlam Personal Finance *.../continued*

- Total new business volumes increased by 21%
  - RSA life recurring premiums grew by 13%
  - RSA single premiums grew by 9% - diversification to non-life solutions
  - Mortgage & personal loan business grew by 166%
  - International sales grew by 48% & comprise 22% of total sales
- Non-life new business compensated for lower life value of new business

Notes



## Issues Addressed & Delivered

Sanlam Personal Finance *.../continued*

- Product competitiveness
  - Launch of Stratus <sup>SP</sup>
  - Risk sales grew by 44%
  - Targets set for “Reduction in Yield” in 2006
- Launch sub-brands
  - Sanlam Topaz (middle market), Sanlam Sky (entry level) and Cobalt (SMME)
  - Launch affluent market sub-brand in 2006
- Agreement with Treasury regarding early termination values
- Investment in system agility of R100 million

Notes

## Issues Addressed & Delivered

### Sanlam Personal Finance: Middle Market

Top-line growth - focus on improving the basics:

- Increase number of advisors from a low of 1703 to 1976
- Advisor productivity = up to 8,4 products per advisor per month
- Advisor recurring premium per policy increased by 8% to R3 900 per annum
- Share of ABSA brokers business increased from 14% in 2004 to 21% for 2005

## Notes

## Issues Addressed & Delivered

### Sanlam Personal Finance: Middle Market

.../continued

- Building Gauteng presence
  - APE\* sales in central Gauteng grew by 20% to R567 million
  - Wealth Agency progress slow – APE\* sales R14 million
  - Broker initiative remains challenging - new provincial manager appointed in February 2006
- Broker Services Outsourcing increased sales by 87% off low base
- Direct marketing increased APE\* sales by 32%

\* APE includes non-life linked business

## Notes

## Issues Addressed & Delivered

### Sanlam Personal Finance: Affluent Market

- Continued growth in Innofin fund flows (18%)
- Investment channel spearhead our affluent market focus – driven by Innofin
- Focus on converting non-supporting brokers
- Investment channel APE\* sales up 17%

\* APE includes non-life linked business

## Notes

## Issues Addressed & Delivered

Sanlam Personal Finance: Entry Level Market

### Sanlam's Building Blocks in the Entry-Level Market

#### SOUTH AFRICA

- African Life 100%
- Sanlam Group Solutions 100%
- Channel Life 51%
- Safrican 55%

#### NON SOUTH AFRICAN

- Shriram Life 26% (India)
- BIHL 54% (Botswana)
- Pan African Life 50% (Kenya)
- ELAC 39% (Ghana)
- African Life Tanzania (65%)
- African Life Zambia (70%)
- Namlife 70% (Namibia)

Notes

## Issues Addressed & Delivered

Sanlam Personal Finance: Entry Level Market

### Progress made with African Life integration

- Management structures flattened/focused
  - Sanlam Group Solutions & Aflife RSA placed under one RSA management team
  - Focussed management teams for RSA versus non RSA businesses
- Asset management responsibility transferred to SIM
  - Savings to both policyholders and shareholders
  - Future asset liability matching in line with Sanlam practice

Notes

## Issues Addressed & Delivered

Sanlam Personal Finance: Entry Level Market

### Progress made with African Life integration *.../continued*

- Excess capital of R1bn in African Life SA
- Cost saving/synergies of R50m identified
- Research conducted on future branding
- African Life RSA refocused by moving single premium responsibility to SPF

Notes

## Issues Addressed & Delivered

### Sanlam Employee Benefits

- Full team now in place, starting to deliver
- Separating Administration from Risk & Investment in process
- Emphasis on profit over volumes pays off
- Positive risk experience – Underwriting profit up 48%
- Strong operational turnaround in 2H 2005

## Notes



## Issues Addressed & Delivered

### Sanlam Employee Benefits *.../continued*

- Operating profit up 18% to R217m
- New recurring premiums up 50%
- Single premiums increased by 11% to surpass R2,5bn
- Growth in new APE exceeds 25%
- Admin expenses decline in real terms

## Notes

## Issues Addressed & Delivered

### Investment Cluster

- Substantial growth in operating profit for second consecutive year (67%)
- Strong growth in gross fund flows
- Assets under management in excess of R300bn
- Top performing unit trust fund in South Africa over 2 & 3 years
- Significant increase in contribution of new businesses to cluster operating profit
- Cluster cost ratio down from 65% (2002) to 48% (2005)
- Strong emphasis on performance-based culture and people development

### Notes

## Investment cluster

(excluding SCM)

		2002	2003	2004	2005
Assets under Management	R'bn	209	227	286	327
Profit before Tax	R'm	236	269	419	699
○ South Africa		236	248	343	465
○ International		–	21	76	234
Profit after Tax & Minorities	R'm	164	189	301	528
Net flows	R'bn	-6.5	-0.9	6.4	9.2*

\* excluding PIC outflow

## Notes

## Investment performance

### Sanlam Collective Investments

Fund	Annualised returns		Ranking
	Years	%	
Value	1	35.85	3/7
	2	50.14	1/7
	3	41.33	2/7
Industrial	1	37.03	1/7
	2	45.13	1/7
Small Cap	1	32.18	3/7
	2	45.22	3/7
	3	44.78	1/7
Asia Pacific	1	36.06	1/26
	2	12.99	2/25
	3	10.24	4/24

Best performance in industry

Best performance in industry

## Notes

## Investment performance

### SIM Global

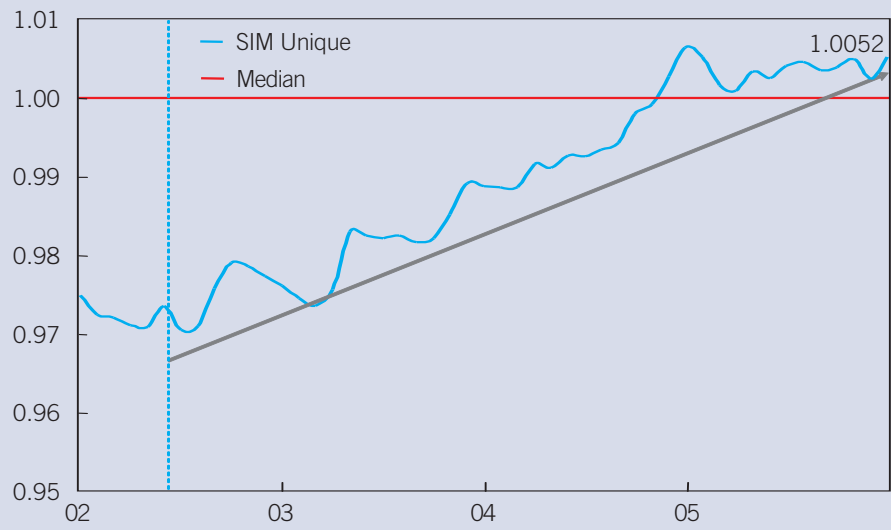
Fund	Index	Micropal ranking
Sanlam Global Financial Fund – 1 year		
37.6%	8.8%	1/39
Sanlam Global Financial Fund - 5 years		
23.9%	2.9%	–
Sanlam Global Best Ideas Fund – 1 year		
28.3%	9.5%	4/597

### Octane

3 years (annualised)				
HFRI FoF	Octane Stable	Octane Diversified	Octane Medium	Octane Liquid A
8.64%	9.32%	11.60%	13.61%	17.11%

Notes

### 36 Month Rolling SIM Domestic vs AF Domestic BIV Out / Underperformance



Notes

## Issues addressed and delivered

### Sanlam Capital Markets

- Revenue growth of 47%
- Growth achieved in all sectors, initiatives in debt business delivering
- Excellent ROE achieved
  - 31,5% on total capital
  - 49,5% on average economic capital
- Significant progress on synergy and value extraction in Investment Cluster

## Notes

## Issues addressed and delivered

### Santam

Focus on:

- Capital management & investment philosophy
- Business growth
- Underwriting
- Re-insurance
- Business efficiency

## Notes



## Issues addressed and delivered

### Santam

#### Delivered:

- Return on shareholders' funds of 34%
- Payment of special dividend of R6.50 per share
- Implemented integrated investment management platform, streamlined portfolio structure and investment mandates
- Net written premium increased by 21%
- Net insurance result of R1 billion, underwriting margin of 8.7%
- Acquisition cost ratio decreased by 2.2%
- R2.4 billion in cash generated by operations

### Notes

## Issues addressed and delivered

### Santam

Santam recognised as industry leader

- Made clean sweep at SAFSIA awards:
  - Personal, Commercial & Corporate Insurer of the Year
- Financial Mail Top Listed Companies Review 2005:
  - Highest ranked financial services provider
  - Only short-term insurer to feature
  - Ranked 14th on the exclusive list of 20 Top Companies
- PWC report on insurance industry:
  - Ranked as best insurance company in SA in both commercial and personal lines categories

## Notes

## Issues addressed and delivered

### Independent Financial Services

#### Focus on

- Extending portfolio of investments with objective of maximising
  - Return on equity
  - Business flows to the group
- Rationalise existing portfolio where appropriate

#### Achievements

- Return on market value of 12%
- Premium income of R745m
- Significant contribution to new AUM to date of R9.7bn
- Gained valuable experience on achieving improved business flows from an investment activity

## Notes

## Issues addressed and delivered

### Independent Financial Services

#### New Investment activities

- Intrinsic (32% holding)
  - UK multi-tied distribution entity supporting our UK product providers
- Thebe Community Financial Services (30% holding)
  - Emerging market distribution entity
- Simeka (35% holding)
  - Created scale in the EB market by combining Sanlam Consultants and Actuaries with Simeka
- Sanlam Financial Services UK
  - Reduced stake, released £13.5m in 2006

## Notes

## Economic Review

Notes

## Business Environment

2005 was a remarkable year financially

- highest economic growth since 1984
- lowest inflation since 1969
- unprecedented foreign purchases of SA shares; rising foreign exchange reserves
- all-time high recorded on JSE
- lowest budget deficit since 1981
- lowest long-term interest rates since 1970

## Notes

## Business Environment

But there are some reservations...

- highest current account deficit since 1983
- lowest household savings rate since 1952
- lowest national savings rate since 1949
- highest household debt ever
- manufacturing sector hollowed out by currency being too strong

Notes

## Economic Outlook 2006

- Question: Economy booming because of domestic structural improvement or favourable international tailwinds?
- Dependent on continuation of buoyant global economy, high commodity prices, capital inflows
- Watch out for possible turning point in momentum, leading to tighter financial conditions
- Core outlook remains positive, but business conditions for financial services could become less buoyant

### Notes



## Financial and Actuarial Review

Notes

## Salient Features

<b>Rand Million</b>		<b>2005</b>	<b>2004</b>	<b>%△</b>
New business volumes		73 481	59 852	23%
Net inflow of funds		15 168	16 591	
Operating result after tax		2 300	1 812	27%
Core Earnings		3 280	2 659	23%
Headline Earnings	IFRS cps	229,8	115,2	99%
	LTRR cps	161,1	158,3	2%
Group operating profit margin	%	20,7	21,6	
Group admin cost ratio	%	29,1	31,4	

## Notes

## Salient Features

<b>Rand Million</b>		<b>2005</b>	<b>2004</b>
Life new business APE		2 152	1 958
Life new business EV		291	321
Life new business EV Margin	%	13,5	16,4
○ Individual life		15,4	18,1
○ Employee benefits		10,4	11,5
○ International		2,8	9,7
Embedded Value	cps	1 615	1 344
Growth from Life business	%	22,3	26,5
ROEV (EV in cps)	%	24,4	22,6
Share price discount to EV	%	5,9	3,3

## Notes

## New Business Flows

<b>Rand Million</b>	<b>2005</b>	<b>2004</b>	<b>%△</b>
Retail	28 473	24 613	16%
Institutional	30 299	24 189	25%
○ Investment Cluster	19 684	18 239	8%
○ Sanlam Financial Services	10 615	5 950	78%
Sanlam Collective Investments :			
White label	5 838	3 331	75%
Short term	8 871	7 719	15%
	<u>73 481</u>	<u>59 852</u>	<u>23%</u>

## Notes

## New Business Flows

Rand Million	2005	2004	%Δ
Life Insurance	11 862	11 200	6%
○ Individual Life	9 033	8 707	4%
○ Employee Benefits	2 829	2 493	13%
Investments	52 748	40 933	29%
Short term	8 871	7 719	15%
	73 481	59 852	23%

Notes

## New Business Flows

<b>Rand Million</b>	<b>1st half 2005</b>	<b>%<math>\Delta</math></b>	<b>2nd half 2005</b>	<b>%<math>\Delta</math></b>
Life Insurance	5 207	-3%	6 655	14%
Investments	20 788	14%	31 960	41%
Short term	4 139	15%	4 732	14%
	<u>30 134</u>	<u>11%</u>	<u>43 347</u>	<u>33%</u>

Notes

## Net Business Flows

<b>Rand Million</b>	<b>2005</b>	<b>2004</b>
Retail	3 457	4 367
Institutional	6 060	7 893
○ Investment Cluster	(2 808)	2 210
○ Sanlam Financial Services	8 868	5 683
Sanlam Collective Investments:		
White label	2 572	1 009
Short term	3 079	3 322
	<u>15 168</u>	<u>16 591</u>

### Notes

## Operating Result

### Segmental analysis

<b>Rand Million</b>	<b>2005</b>	<b>2004</b>	<b>%△</b>
Sanlam Personal Finance	1 512	1 309	16%
Santam	1 016	1 361	-25%
Employee Benefits	217	184	18%
Investment Management	699	419	67%
Sanlam Capital Markets	151	86	76%
Independent Financial Services	32	44	-27%
Corporate expenses	(172)	(194)	11%
Discontinued operations & other	–	(94)	
	<u>3 455</u>	<u>3 115</u>	<u>11%</u>

## Notes



## Income Statement

<b>Rand Million</b>	<b>2005</b>	<b>2004</b>	<b>%△</b>
Net result from financial services	2 300	1 812	27%
Net investment income	980	847	16%
<b>CORE EARNINGS</b>	<b>3 280</b>	<b>2 659</b>	<b>23%</b>
Secondary Tax on Companies (STC)	(88)	100	
Equity-accounted headline earnings	478	718	-33%
Net investment surpluses	2 003	700	186%
Earnings before fund transfers & provisions	5 673	4 177	36%
Provision for financial claims	(590)	-	
Fund transfers	730	(1 214)	
<b>HEADLINE EARNINGS</b>	<b>5 813</b>	<b>2 963</b>	<b>96%</b>

## Notes

## Investment Profile

<b>Rand Million</b>	<b>2005</b>	<b>%</b>	<b>2004</b>
Strategic Investments:	9 702	32	7 743
○ Santam	4 749	16	4 028
○ Investment Management	3 228	10	2 384
○ Sanlam Capital Markets	552	2	441
○ Independent Financial Services	505	2	394
○ Life Cluster businesses	668	2	496
Absa	–		9 429
Balanced Portfolio & Net Corporate Assets	20 890	68	12 610
	<u>30 592</u>	<u>100</u>	<u>29 782</u>

## Notes

## Embedded Value

	2005		2004	
Non-life operations	9 702	25%	7 743	21%
○ Life cluster	668		496	
○ Santam	4 749		4 028	
○ SIM	3 228		2 384	
○ SCM	552		441	
○ IFS	505		394	
Balanced portfolio	17 928	47%	20 039	55%
Net Asset Value	27 630	72%	27 782	76%
Value of in-force	10 574	28%	8 851	24%
Embedded value (Rm)	38 204		36 633	
Embedded value (cps)	1 615		1 344	
No of shares in issue (mil)	2 366		2 726	

## Notes

## Return on Embedded Value

	2005		2004	
	EV $\Delta$	ROEV	EV $\Delta$	ROEV
Non-life operations	2 610	33.7%	2 334	41.2%
○ Life cluster	190	38.3%	269	111.2%
○ Santam	1 198	29.7%	1 322	49.2%
○ SIM	1 011	42.4%	678	35.6%
○ SCM	152	34.5%	83	20.8%
○ IFS	59	15.0%	( 18)	(4.2)%
Balanced portfolio	2 947	14.7%	3 687	23.4%
Value of in-force	1 976	22.3%	2 063	26.5%
Total return (Rm)	7 533	20.6%	8 084	27.7%
Total return (cps)	318	24.4%	255	22.6%

## Notes

## Growth in Life Business

	2005		2004	
New life business	291	3.3%	321	4.1%
Existing life business	1 351	15.3%	1 363	17.5%
○ Expected return	1 193	13.5%	1 148	14.7%
○ Experience variations	138	1.6%	144	1.9%
○ Assumption changes	20	0.2%	71	0.9%
Adjustments	354	3.9%	413	5.3%
○ Investment variances	849	9.5%	216	2.8%
○ Assumption changes	(316)	-3.6%	197	2.5%
○ Tax changes	(179)	-2.0%	-	
Minority interest	(20)	-0.2%	(34)	-0.4%
TOTAL (Rm)	1 976	22.3%	2 063	26.5%

## Notes

## Analysis of Return on Embedded Value

Non-Life Operations (25%)	33.7%	R2 610m
Balanced Portfolio & Other (47%)	13.6%	R2 947m
<b>VIF (28%)</b> R1 976m 22,3%	NUB EV	R291m
	Expected Profit	R1 193m
	Operating Experience Var.	R138m
	Other	R670m
	Economic Assumptions	(R316m)
<b>EV</b>	<b>20,6%</b>	<b>R7 533m</b>

Notes

## Strategic Focus 2006

Notes

## Strategic Focus 2006

### Retail: Sanlam Personal Finance

- Continued focus on Top-line growth strategies
- Do basics well (productivity, advisor numbers, premium size)
- Increase investment in system agility by more than 30%
- Further develop affluent market strategy
- Implement & leverage off agreement with Treasury regarding early terminations
- Prepare for new commission regulations
- Bed down Resolution Health acquisition
- MIA build on its new business growth strategy

## Notes



## Strategic Focus 2006

### Retail: Entry Level Market

- Deliver on 2006 budgeted targets – top and bottom line
- Integration of Aflife
  - Integration of Sanlam Group Solutions and Aflife RSA
  - Determine further levels of cost saving
  - Implement branding strategy following research
  - Determine non RSA excess capital
  - Return excess capital
- Co-ordination of Aflife with Channel / Safrican

## Notes

## Strategic Focus 2006

Retail: Entry Level Market *.../continued*

- Enhanced co-operation between ELM entities and Sanlam
  - Broker business
  - Future retail cluster
- Develop longer term ELM strategy
  - South Africa
  - Africa/other developing countries

Notes

## Strategic Focus 2006

### Sanlam Employee Benefits

- Grow market share by utilising:
  - Distribution and product capabilities
  - Synergies within Group institutional offering
- Greater focus on structured investment solutions rather than commoditised market related business
- Establish specialist EB Administrator as a stand-alone operation

## Notes

## Strategic Focus 2006

### Investment Cluster

- Continue to improve LT investment performance
- Aggressively grow third party AUM
- Grow the investment cluster business
- Continue to improve FSC numbers
- Develop international strategy further
- Continue to build strong investment brand
- Drive performance culture and break down barriers
- Continue synergy drive with Sanlam Capital Markets and Sanlam Employee Benefits

### Notes

## Strategic Focus 2006

### Santam

The key focus areas identified as a result of Santam's 2010 strategy definition process include to:

- Understand client needs; implement client centricity as differentiating strategy
- Grow market share in existing and new markets
- Expand efficient range of distribution channels
- Set up seamless, cost effective and efficient processes throughout value chain
- Develop flexible technology solutions that will create business value

### Notes

## Strategic Focus 2006

Santam *.../continued*

- Create an organisational structure that will support continual change and renewal
- Attract, develop and retain the right skills and embed an ownership culture

Various strategic projects have commenced covering all these areas

Notes

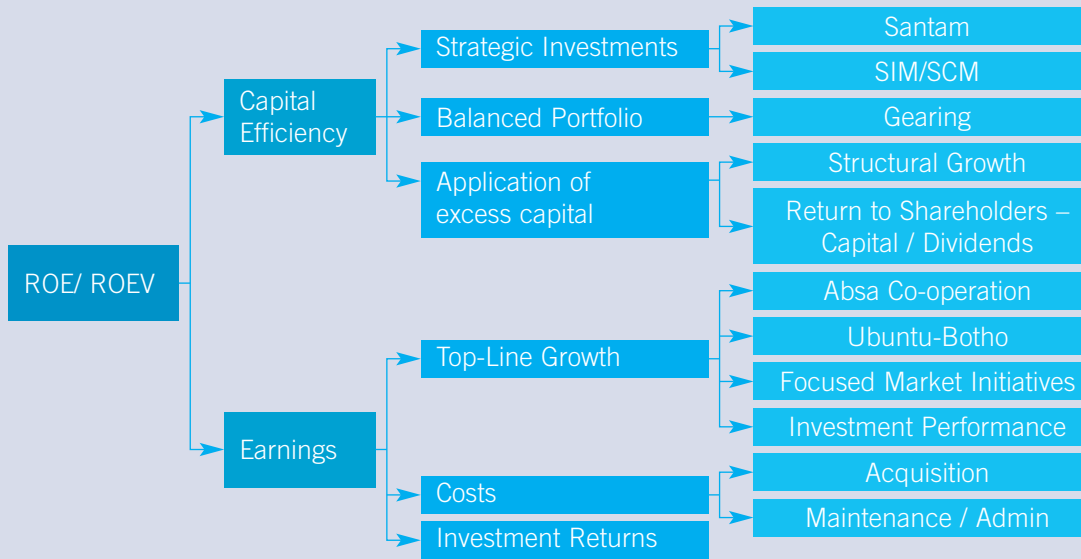
## Strategic Focus 2006

### Independent Financial Services

- Deliver a growth solution for Employee Benefits Administration, while ensuring that “business as usual” is not compromised
- Investigate models to significantly improve business flows to the retail product providers in the group
- Bed down Intrinsic and secure flows to Sanlam businesses
- Address obstacles that inhibit business flows to Sanlam

### Notes

## Sanlam Group focus remains Driving increased ROEV



Notes



## Sanlam Group Focus 2006

### Driving increased ROEV

- 2nd Phase of Capital Efficiency
  - Continue buy-back program
  - Level of excess capital to be determined after debt-raising
    - Apply to increase ROEV and top-line growth
    - Return to shareholders: Buy-backs
- Top-line Growth
  - Business strategies in place
- Implement restructuring of clusters to position Retail and Institutional businesses

### Notes

# Sanlam Group

## Appendices

## ADOPTION OF IFRS / ACCOUNTING POLICY AND PRESENTATION

### 1. 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.

### 2. First-time adoption of IFRS

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

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

### 3. Headline & Core earnings

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

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

Core earnings are presented as part of our reported results in an attempt to provide shareholders with an indication of 'normalised' earnings. Core earnings comprise net operating profit and investment income earned on shareholders' funds and exclude items that may cause volatility in earnings, i.e. the fair value adjustments of the investments in the shareholders' funds, transfers to or from the policyholders' fund and major or extraordinary financial claims lodged against Group companies.

### 4. Holdings in Group companies

The South African accounting standard applicable to long-term insurers, AC121, was 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.

In terms of South African Generally Accepted Accounting Practice (SA GAAP) the shareholders' fund's investments in associated companies were carried at their original cost plus the shareholders' fund's share of its retained earnings after acquisition (effectively carried at net asset value including goodwill, if any). In respect of the investment in Absa, Peermont and Safair Lease Finance, the equity-accounted carrying value was further adjusted to reflect the investment at fair value. These adjustments to fair value are not allowed in the absence of AC121 and Sanlam is required to reflect the shareholders' fund's investment in these companies at the equity-accounted carrying value.

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 have to be carried at consolidated net asset value. Portfolio investments in Sanlam shares have to be treated as treasury shares and deducted from equity on consolidation. The result is a mismatch between the valuation of long-term policy liabilities, which continues to include the affected investments on a marked-to-market basis, and the policyholder assets underlying these liabilities, which may not be at fair value or may be eliminated on consolidation.

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

### 5. 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 Payments* to equity instruments granted on or before 7 November 2002 or granted after 7 November 2002 but which had vested prior to 1 January 2005.

*Comparatives*

In terms of IFRS 1 an entity need not disclose comparative information that complies with IAS 32 Financial Instruments: Disclosure and Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts in its first set of IFRS annual financial statements. In the interest of comparable disclosure, the Group decided to disclose restated comparative numbers.

*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.

## 6. Changes in accounting policies

The financial impact and issues illustrated above are the result of the undermentioned proposed changes in Sanlam's accounting policies to ensure compliance with IFRS.

- 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).

Sanlam's 2005 financial statements include comparative information for the year ended 31 December 2004 on an IFRS basis. The tables included on pages 72 to 76 summarise the differences in reported earnings and equity between SA GAAP and IFRS for the comparative periods.

## 7. Restatements relating to policyholder funds

A number of restatements arose from the adoption of IFRS 4 Insurance contracts.

- *Deferred Acquisition costs.* In terms of previous practice a substantial component of Life business acquisition costs has been capitalised and deducted from policy liabilities to be recovered over the lives of the particular policies. In terms of IFRS only specific acquisition costs (defined as commission and other costs which vary directly with sales) in respect of investment policy contracts may be capitalised and must be disclosed separately as a Deferred Asset. The difference between this asset and the amounts previously capitalised, after tax and minorities, has been written off against the shareholders' fund. The fees receivable from policyholders over the remainder of the policy term to "repay" these written-off excess costs will now be recognised as profit in future years. (The effect of this change in treatment will result in the recognition of smaller profits at the inception of policies but increased profits over the remaining term of the policy.)
- *Reclassification of reinsurance asset.* Previously the expected reinsured claims were deducted from the corresponding expected claims included in policy liabilities. They must be disclosed separately now.

- *Zero-coupon policy loans.* Where there is a legal right and intention to offset a financial asset and financial liability, then they should be offset and the net amount reflected in the balance sheet. Zero-coupon policy loans fall into this definition and are now offset against the corresponding amount included in policy liabilities.
- *Reinsurance premiums, claims and commission.* These items must be disclosed separately.
- *Investment return and tax thereon of the policyholders' fund* must be disclosed in the income statement. A corresponding net "benefit" charge is also reflected in the income statement to transfer the net investment return to policyholder liabilities.

*Asset Management fees* paid to external asset managers were previously offset against fee and investment income. They must now be disclosed as an expense.

## 8. Shareholders' fund information

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

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



Group

## Income Statement for the year ended 31 December 2005

	2005 R Million	2004 R Million
<b>Net income</b>	<b>63 307</b>	<b>41 975</b>
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)
<b>Net insurance and investment contract benefits and claims</b>	<b>(41 440)</b>	<b>(30 081)</b>
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
<b>Expenses</b>	<b>(7 769)</b>	<b>(7 026)</b>
Sales remuneration	(2 632)	(2 302)
Administration costs	(5 137)	(4 724)
<b>Impairment of investments and goodwill</b>	<b>(12)</b>	<b>(263)</b>
<b>Net operating result</b>	<b>14 086</b>	<b>4 605</b>
Equity-accounted earnings	944	1 085
Finance cost	(136)	(49)
<b>Discontinued operations</b>	<b>-</b>	<b>(92)</b>
<b>Profit before tax</b>	<b>14 894</b>	<b>5 549</b>
Taxation	(2 803)	(1 771)
Shareholders' fund	(1 684)	(1 013)
Policyholders' fund	(1 119)	(758)
<b>Profit for the year</b>	<b>12 091</b>	<b>3 778</b>
<b>Attributable to:</b>		
Shareholders' fund	10 927	2 758
<b>Minority shareholders' interest</b>	<b>1 164</b>	<b>1 020</b>
	<b>12 091</b>	<b>3 778</b>
<b>Earnings attributable to shareholders of the company (cents):</b>		
Profit for the year:		
Basic earnings per share	439.2	108.7
Diluted earnings per share	432.0	107.3
Continuing operations:		
Basic earnings per share	439.2	112.3
<b>Diluted earnings per share</b>	<b>432.0</b>	<b>110.9</b>

## Reconciliation of earnings to segmental analysis

	Year ended 31 December 2005		Year ended 31 December 2004	
	Shareholder activities		Shareholder activities	
	Financial services	Investment return	Financial services	Investment return
<b>Net income</b>	<b>63 307</b>	<b>10 022</b>	<b>41 975</b>	<b>879</b>
Financial services income	20 393	(3)	17 836	(7)
Reinsurance premiums paid	(2 339)	-	(2 303)	-
Reinsurance commission received	445	-	504	-
Investment income	10 429	892	9 658	789
Investment surpluses	35 282	9 115	16 659	127
Change in fair value of external investors liability	(903)	18	(379)	(30)
<b>Net insurance and investment contract benefits and claims</b>	<b>(41 440)</b>	<b>-</b>	<b>(30 081)</b>	<b>-</b>
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	-
<b>Expenses</b>	<b>(7 769)</b>	<b>-</b>	<b>(7 026)</b>	<b>(1)</b>
Sales remuneration	(2 632)	-	(2 302)	-
Administration costs	(5 137)	-	(4 724)	(1)
<b>Impairment of investments and goodwill</b>	<b>(12)</b>	<b>(12)</b>	<b>(263)</b>	<b>(263)</b>
<b>Net operating result</b>	<b>14 086</b>	<b>10 010</b>	<b>4 605</b>	<b>615</b>
Equity-accounted earnings	944	865	1 085	984
Finance cost	(136)	-	(49)	-
Discontinued operations	-	-	(92)	2
<b>Profit before tax</b>	<b>14 894</b>	<b>10 875</b>	<b>5 549</b>	<b>1 601</b>
Tax expense	(2 803)	(1 117)	(1 771)	(224)
Shareholders' fund	(1 684)	(1 117)	(1 013)	(224)
Policyholders' fund	(1 119)	-	(758)	-
<b>Profit for the year</b>	<b>12 091</b>	<b>9 758</b>	<b>3 778</b>	<b>1 377</b>
<b>Attributable to:</b>				
Shareholders' fund	10 927	9 217	2 758	946
Minority shareholders' interest	1 164	541	1 020	431
	<b>12 091</b>	<b>9 758</b>	<b>3 778</b>	<b>1 377</b>
<b>Financial services profit comprising (refer segmental income statement):</b>				
Net result from financial services	2 300	-	1 812	-
Net enhanced early termination benefits	(440)	220	514	-
Provision for financial claims	(150)	220	2 326	-
<b>Total financial services profit</b>	<b>1 710</b>	<b>220</b>	<b>1 812</b>	<b>75</b>

## Summarised Income Statement

for the year ended 31 December 2005

	2005 R Million	2004 R Million
Net result from financial services	2 300	1 812
Net investment income	980	847
<b>CORE EARNINGS</b>	<b>3 280</b>	<b>2 659</b>
Net enhanced early termination benefits	(440)	–
Provision for financial claims	(150)	–
Net investment surpluses	2 733	(516)
Return on shareholders' fund	2 003	698
Fund transfers	730	(1 214)
Net equity-accounted headline earnings	478	720
Secondary Tax on Companies (STC)	(88)	100
<b>HEADLINE EARNINGS</b>	<b>5 813</b>	<b>2 963</b>
Other equity-accounted earnings	(8)	–
Net profit on disposal of subsidiaries and associated company	5 125	58
Impairment of investments and goodwill	(3)	(263)
<b>Attributable earnings</b>	<b>10 927</b>	<b>2 758</b>
Financial services	1 710	1 812
Investment return	9 217	946
<b>Attributable earnings</b>	<b>10 927</b>	<b>2 758</b>
Net operating income after tax and STC	1 622	1 912
LTRR investment return	2 453	2 158
<b>LTRR HEADLINE EARNINGS</b>	<b>4 075</b>	<b>4 070</b>



## Sanlam Group Shareholders' Fund

## Segmental Income Statement for the year ended 31 December 2005

R Million	Sanlam Life		Santam	
	2005	2004	2005	2004
Financial services income	7 509	6 904	9 112	7 922
External clients	7 509	6 873	9 112	7 922
Inter-company	–	31	–	–
Sales remuneration	(1 034)	(864)	(1 183)	(942)
Income after sales remuneration	6 475	6 040	7 929	6 980
Underwriting policy benefits	(2 618)	(2 568)	(5 792)	(4 397)
Administration costs	(2 128)	(1 979)	(1 121)	(1 222)
Loss from discontinued operations	–	–	–	–
<b>Result from financial services before tax</b>	<b>1 729</b>	<b>1 493</b>	<b>1 016</b>	<b>1 361</b>
Tax on financial services income	(309)	(230)	(299)	(445)
<b>Result from financial services after tax</b>	<b>1 420</b>	<b>1 263</b>	<b>717</b>	<b>916</b>
Minority shareholders' interest	(7)	(1)	(368)	(497)
<b>NET RESULT FROM FINANCIAL SERVICES</b>	<b>1 413</b>	<b>1 262</b>	<b>349</b>	<b>419</b>
Net investment income	1 021	768	140	92
Investment income	1 153	835	281	225
Tax on investment income	(132)	(67)	(2)	(19)
Minority shareholders' interest	–	–	(139)	(114)
<b>CORE EARNINGS</b>	<b>2 434</b>	<b>2 030</b>	<b>489</b>	<b>511</b>
Net enhanced early termination benefits	(440)	–	–	–
Enhanced early termination benefits	(620)	–	–	–
Tax on enhanced early termination benefits	180	–	–	–
Provision for financial claims	(150)	–	–	–
Net equity-accounted headline earnings	33	33	12	27
Equity-accounted headline earnings	33	33	23	56
Minority shareholders' interest	–	–	(11)	(29)
Net investment surpluses	4 580	5 367	396	309
Investment surpluses	4 870	6 081	978	791
Tax on investment surpluses	(281)	(714)	(177)	(152)
Minority shareholders' interest	(9)	–	(405)	(330)
Secondary tax on companies - after minorities	(109)	–	(15)	–
<b>HEADLINE EARNINGS</b>	<b>6 348</b>	<b>7 430</b>	<b>882</b>	<b>847</b>
Other equity-accounted earnings	–	–	–	–
Profit / (loss) on disposal of subsidiaries	–	–	–	–
Net profit on disposal of associated companies	–	–	–	–
Profit on disposal of associated companies	–	–	–	–
Tax on profit on disposal of associated companies	–	–	–	–
Impairment of investments and goodwill	–	–	(2)	(10)
<b>ATTRIBUTABLE EARNINGS</b>	<b>6 348</b>	<b>7 430</b>	<b>880</b>	<b>837</b>
<b>Ratios</b>				
Admin ratio <sup>(1)</sup>	32.9%	32.8%	14.1%	17.5%
Operating margin <sup>(2)</sup>	26.7%	24.7%	12.8%	19.5%
<b>Earnings per share</b>				
Adjusted weighted average number of shares (million)				
Net result from financial services (cents)	55.9	49.1	13.8	16.3
Adjusted headline earnings based on the long-term rate of return (cents)				

Notes: (1) Administration costs (excluding Sanlam Life restructuring cost) as a percentage of income earned by the shareholders' fund less sales remuneration.

(2) Result from financial services before tax (excluding Sanlam Life restructuring cost) as a percentage of income earned by the shareholders' fund less sales remuneration.

(3) Refer to page 50 for a reconciliation between the segmental and Group income statements.

Sanlam Investments		Sanlam Capital Markets		Independent Financial Services		Corporate & other		TOTAL	
2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
1 425	992	331	225	569	585	1	5	18 947	16 633
919	527	251	187	569	585	1	5	18 361	16 099
506	465	80	38	-	-	-	-	586	534
-	-	-	-	-	-	-	-	(2 217)	(1 806)
1 425	992	331	225	569	585	1	5	16 730	14 827
-	-	-	-	-	-	-	-	(8 410)	(6 965)
(726)	(573)	(180)	(139)	(537)	(541)	(173)	(199)	(4 865)	(4 653)
-	-	-	-	-	-	-	(94)	-	(94)
<b>699</b>	<b>419</b>	<b>151</b>	<b>86</b>	<b>32</b>	<b>44</b>	<b>(172)</b>	<b>(288)</b>	<b>3 455</b>	<b>3 115</b>
(148)	(117)	(25)	(7)	(5)	(10)	34	20	(752)	(789)
<b>551</b>	<b>302</b>	<b>126</b>	<b>79</b>	<b>27</b>	<b>34</b>	<b>(138)</b>	<b>(268)</b>	<b>2 703</b>	<b>2 326</b>
(23)	(1)	-	-	(5)	(15)	-	-	(403)	(514)
<b>528</b>	<b>301</b>	<b>126</b>	<b>79</b>	<b>22</b>	<b>19</b>	<b>(138)</b>	<b>(268)</b>	<b>2 300</b>	<b>1 812</b>
-	1	-	-	4	1	(185)	(15)	980	847
-	1	-	-	4	1	(169)	(9)	1 269	1 053
-	-	-	-	-	-	(16)	(6)	(150)	(92)
-	-	-	-	-	-	-	-	(139)	(114)
<b>528</b>	<b>302</b>	<b>126</b>	<b>79</b>	<b>26</b>	<b>20</b>	<b>(323)</b>	<b>(283)</b>	<b>3 280</b>	<b>2 659</b>
-	-	-	-	-	-	-	-	(440)	-
-	-	-	-	-	-	-	-	(620)	-
-	-	-	-	-	-	-	-	180	-
-	-	-	-	-	-	-	-	(150)	-
-	-	-	-	-	-	433	660	478	720
-	-	-	-	-	-	433	660	489	749
-	-	-	-	-	-	-	-	(11)	(29)
12	3	-	-	(2)	-	(2 253)	(6 195)	2 733	(516)
14	3	-	-	(1)	-	(2 383)	(6 842)	3 478	33
(2)	-	-	-	-	-	130	634	(330)	(232)
-	-	-	-	(1)	-	-	13	(415)	(317)
-	-	22	-	-	-	14	100	(88)	100
<b>540</b>	<b>305</b>	<b>148</b>	<b>79</b>	<b>24</b>	<b>20</b>	<b>(2 129)</b>	<b>(5 718)</b>	<b>5 813</b>	<b>2 963</b>
-	-	-	-	-	-	(8)	-	(8)	-
(51)	50	-	-	-	8	-	-	(51)	58
-	-	-	-	-	-	5 176	-	5 176	-
-	-	-	-	-	-	5 710	-	5 710	-
-	-	-	-	-	-	(534)	-	(534)	-
6	(6)	-	-	(7)	(61)	-	(186)	(3)	(263)
<b>495</b>	<b>349</b>	<b>148</b>	<b>79</b>	<b>17</b>	<b>(33)</b>	<b>3 039</b>	<b>(5 904)</b>	<b>10 927</b>	<b>2 758</b>
50.9%	57.8%	54.4%	61.8%	94.4%	92.5%	-	-	29.1%	31.4%
49.1%	42.2%	45.6%	38.2%	5.6%	7.5%	-	-	20.7%	21.6%
20.9	11.7	5.0	3.1	0.9	0.7	(5.5)	(10.4)	2 529.4	2 570.8
								91	70.5
								161.1	158.3

## Shareholders' Fund Balance Sheet – Fair Value

	2005 R Million	2004 R Million
<b>Assets</b>		
Property and equipment	177	106
Owner-occupied properties	480	370
Goodwill (2)	419	387
Value of business acquired (2)	942	-
Deferred acquisition costs	582	-
Investments	35 307	34 794
Sanlam businesses	9 702	7 743
Investment Management businesses	3 228	2 384
SIM Wholesale	2 481	1 616
International (SMMI & Octane)	522	398
Sanlam Collective Investments	225	370
Life Cluster businesses	668	496
Innofin	341	187
Direct Axis (3)	71	163
Multi-Data	82	59
Sanlam Trust	84	76
Sanlam Home Loans	60	11
Other (4)	30	-
Independent Financial Services Cluster businesses	505	394
Sanlam Financial Services UK	382	349
Gensec Properties	13	12
Other (5)	110	33
Sanlam Capital Markets	552	441
Santam	4 749	4 028
Associated companies	871	10 033
Absa	-	9 429
Peermont	779	604
Other	92	-
Joint ventures	395	270
Safair Lease Finance	271	270
Shriram	124	-
Other investments	24 339	16 748
Other equities and similar securities	12 267	6 739
Public sector stocks and loans	2 019	1 550
Investment properties	671	619
Other interest-bearing and preference share investments	9 382	7 840
Deferred tax	216	313
Working capital assets	4 486	6 657
<b>Total assets</b>	<b>42 609</b>	<b>42 627</b>
<b>Equity and liabilities</b>		
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
<b>Total equity and liabilities</b>	<b>42 609</b>	<b>42 627</b>
<b>Net asset value per share (cents)</b>	<b>1 293</b>	<b>1 093</b>

- (1) Group businesses listed above are not consolidated, but reflected as investments at fair value.
- (2) The value of business acquired and goodwill relate mainly to the consolidation of African Life Assurance and Merchant Investors Assurance and are excluded in the build-up of the Group embedded value, as the current value of in-force business for these life insurance companies are included in the embedded value.
- (3) The life insurance component of Direct Axis' operations is included in the value of in-force business and therefore excluded from the Direct Axis fair value.
- (4) Other Life Cluster businesses comprise the non-life businesses in Namibia.
- (5) Other Independent Financial Services businesses include Thebe Community Financial Services, SA Quantum, Break-Thru Financial Services and Simeka Employee Benefits.

## Group Statement of Changes in Equity

### for the year ended 31 December 2005

	2005 R Million	2004 R Million
<b>Shareholders' fund:</b>		
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 movement in associated companies' reserves	15	(42)
Movement in foreign currency translation reserve	66	(157)
Cost of treasury shares donated to the Sanlam Ubuntu-Botho Community Development Trust	–	(314)
Net realised investment surpluses on treasury shares	25	(126)
Share-based payments	64	51
Dividends paid	(1 295)	(1 022)
Consolidation reserve acquired through business combinations	(31)	–
New shares issued after cost of insurance	–	846
Shares cancelled	(4 446)	–
Cost of treasury shares acquired	10	69
<b>Balance at end of year</b>	<b>25 020</b>	<b>19 685</b>
<b>Minority shareholders' interest:</b>		
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
<b>Balance at end of year</b>	<b>3 443</b>	<b>3 515</b>
Shareholders fund	19 685	17 622
Minority shareholders' interest	3 515	1 944
<b>Total equity at beginning of year</b>	<b>23 200</b>	<b>19 566</b>
Shareholders fund	25 020	19 685
Minority shareholders' interest	3 443	3 515
<b>Total equity at end of year</b>	<b>28 463</b>	<b>23 200</b>

## Sanlam Businesses and investments

### Excess of fair value over Net Asset Value

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 <sup>(1)</sup>	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 <sup>(2)</sup>	455	41
Goodwill in respect of above businesses	1 198	1 198
Deferred capital gains tax on businesses and investments at fair value	546	1 146
Revaluation adjustment of interest in businesses and investments to fair value	3 641	7 268
<b>Fair value of businesses and investments</b>	<b>10 968</b>	<b>18 046</b>

### Analysis of fair value

Sanlam businesses	9 702	7 743
Associated companies	871	10 033
Joint venture	395	270
<b>Fair value of businesses and investments</b>	<b>10 968</b>	<b>18 046</b>

(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.

## Abridged Shareholders' Fund Balance Sheet – Net Asset Value

(All businesses consolidated at Net Asset Value)

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

# Reconciliation of Equity and Earnings

Notes refer to the notes on pages 75 to 76

Dec 2004  
R Million

## Reconciliation of reported earnings:

<b>Attributable earnings reported under SA GAAP</b>	<b>3 283</b>
<i>Withdrawal of AC121:</i>	
Difference between fair value-based earnings and equity-accounted earnings for the shareholders' fund's investment in:	
Absa <sup>(1)</sup>	(2 942)
Peermont <sup>(1)</sup>	(246)
Safair Lease Finance <sup>(1)</sup>	67
Change in value shortfall of the policyholders funds' investment in:	
Absa <sup>(1)</sup>	(384)
Santam <sup>(2)</sup>	46
Vukile <sup>(2)</sup>	(71)
Satrix <sup>(2)</sup>	(113)
Sanlam <sup>(3)</sup>	(632)
Elimination of dividend paid to policyholders <sup>(3)</sup>	(60)
<i>Adoption of IFRS:</i>	
New business strain from investment contracts <sup>(4)</sup>	(13)
Share-based payments <sup>(5)</sup>	(51)
Goodwill amortisation <sup>(6)</sup>	328
Goodwill impairment <sup>(6)</sup>	(42)
Reclassification of available for sale investments <sup>(7)</sup>	3 588
<b>Profit attributable to shareholders' fund under IFRS</b>	<b>2 758</b>

*Reconciliation of Equity and Earnings (.../continued)*

	1 January 2004			
	Assets	Liabilities	Minority shareholders' interest	Shareholders' fund
	R Million	R Million	R Million	R Million
<b>Reconciliation of equity :</b>				
<b>Reported under SA GAAP</b>	<b>196 056</b>	<b>172 438</b>	<b>1 931</b>	<b>21 687</b>
<i>Withdrawal of AC121:</i>				
Reduction in carrying value of shareholders' fund's investment in:				
Absa <sup>(1)</sup>	(1 822)	(148)	(8)	(1 666)
Peermont <sup>(1)</sup>	(91)	(18)	–	(73)
Safair Lease Finance <sup>(1)</sup>	(292)	–	–	(292)
Reduction in carrying value of policyholders' fund's investment in:				
Absa <sup>(1)</sup>	(206)	(11)	–	(195)
Santam <sup>(2)</sup>	(136)	–	–	(136)
Vukile <sup>(2)</sup>	–	–	–	–
Satrix <sup>(2)</sup>	547	690	–	(143)
Sanlam <sup>(3)</sup>	(1 344)	–	–	(1 344)
Consolidation of investment vehicles <sup>(8)</sup>	1 418	1 404	14	–
Elimination of inter-company transactions <sup>(9)</sup>	(375)	(375)	–	–
Reclassification of policy loans <sup>(10)</sup>	(207)	(207)	–	–
<i>Adoption of IFRS:</i>				
Change in carrying value of investment contracts <sup>(4)</sup>	–	1 092	–	(1 092)
Recognition of deferred acquisition costs asset <sup>(4)</sup>	836	–	–	836
Tax effect of change in investment contract valuation basis <sup>(4)</sup>	75	–	–	75
Goodwill amortisation <sup>(6)</sup>	–	–	–	–
Goodwill impairment <sup>(6)</sup>	–	–	–	–
Reclassification of long-term reinsurance assets <sup>(11)</sup>	232	232	–	–
Revaluation of trading account assets and liabilities <sup>(12)</sup>	(42)	–	–	(42)
Change in carrying value of other associated companies <sup>(13)</sup>	14	–	7	7
Reclassification of cell owners' interest <sup>(14)</sup>	–	–	–	–
Reclassification of term finance <sup>(15)</sup>	–	–	–	–
<b>Reported under IFRS</b>	<b>194 663</b>	<b>175 097</b>	<b>1 944</b>	<b>17 622</b>



## Reconciliation of Equity and Earnings (.../continued)

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

## Notes on IFRS implementation adjustments:

### 1. Investments in associated companies and joint ventures

The Group's investments in Absa, Peermont and the Safair Lease Finance joint venture were recognised at fair value in terms of SA GAAP. IFRS does not allow the continued use of a fair value basis for these investments, resulting in a reduction in the carrying value from fair value to an equity-accounted valuation.

Reported earnings are adjusted with the difference between the fair value-based investment return and equity-accounted earnings.

### 2. Policyholders' fund's investment in subsidiaries

In terms of SA GAAP the policyholders' fund's investments in Santam and Vukile, subsidiaries of the Sanlam group, and Satrix, now a consolidated fund, were accounted for as equity investments at fair value. In terms of IFRS the policyholders' interest must be consolidated and measured at net asset value.

Reported earnings are adjusted with the difference between the fair value-based investment return and the consolidated earnings.

### 3. Policyholders' fund's investment in Sanlam shares

In terms of SA GAAP the policyholders' fund's investment in Sanlam Limited shares was accounted for as an equity investment at fair value. In terms of IFRS the policyholders' interest must be treated as treasury shares and recognised as a deduction from equity on consolidation.

Reported earnings are adjusted with the investment return earned on the Sanlam shares held by policyholder portfolios.

### 4. Measurement of investment policy contracts

Investment contracts issued by Sanlam Life Insurance Limited were measured under SA GAAP using bases similar to the Financial Soundness Valuation (FSV) method. These contracts are valued at fair value in terms of IFRS, requiring an adjustment to their carrying value. The FSV valuation includes specific allowance for commission and other issuing costs. In a fair value environment, the FSV cost allowance is replaced by a deferred acquisition costs (DAC) asset in terms of IAS 18 Revenue. The new business strain, as well as the increase in the total net liability recognised in respect of investment contracts, result primarily from the difference between the incremental cost that can be capitalised to DAC in terms of IFRS and the level of cost allowance inherent to the FSV method.

### 5. Share-based payments

IFRS 2 *Share-based Payment* requires the recognition of an income statement expense in respect of equity instruments granted to participants of the Group's share incentive schemes. No income statement effect was recognised in terms of SA GAAP, except for administration costs incurred in respect of the schemes.

### 6. Goodwill amortisation and impairment

Goodwill in respect of business combinations with an agreement date prior to 31 March 2004 was amortised under SA GAAP and subject to an impairment review. Goodwill is not amortised under IFRS but subject to at least an annual impairment review. Goodwill amortised under SA GAAP during the 2004 financial year has been reversed in terms of IFRS 1. All goodwill has been tested for impairment as at 1 January 2004 and 31 December 2004. An additional impairment was required on 31 December 2004, mainly in respect of the Group's international operations.

### 7. Reclassification of available for sale investments

In terms of SA GAAP (AC133) the Group classified the majority of its investments as 'available for sale' and elected to transfer unrealised investment surpluses directly to equity. In terms of IFRS 1 the Group has reclassified these financial instruments as 'at fair value through profit or loss'. Unrealised investment surpluses formerly reported directly in equity have been transferred to the income statement.

### 8. Consolidation of investment vehicles

IFRS requires the consolidation of certain investment vehicles controlled by the Group, e.g. collective investment schemes, which were previously recognised at fair value in the Group balance sheet.

### 9. Elimination of inter-company transactions

Inter-company transactions at arm's length, which do not influence the Group's net earnings, were previously not eliminated from the results to fairly present the activities of the various businesses. In the absence of AC121 inter-company transactions are eliminated with no net impact on the shareholders' fund.

## 10. Reclassification of policy loans

Loans granted to policyholders were disclosed as separate assets under AC121. Loans with a legal right of set-off and where the intention is to settle the policy loan and policy liability on a net basis, must be offset in terms of IFRS. The affected loans have been reclassified from investment assets to long-term policy liabilities.

## 11. Reclassification of long-term reinsurance assets

Contracts entered into with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts were previously offset against long-term insurance contract liabilities. These reinsurance assets have been reclassified from long-term policy liabilities to a separate asset class in terms of the disclosure requirements of IFRS 4 *Insurance Contracts*.

## 12. Revaluation of trading assets and liabilities

The valuation of certain unquoted trading assets and liabilities was adjusted to comply with the requirements of the revised IAS 39 *Financial Instruments: Recognition and Measurement*, among others in respect of the treatment of day one profits.

## 13. Change in carrying value of other associated companies

The post acquisition equity-accounted earnings of certain associated companies have been changed as a result of the transition to IFRS.

## 14. Reclassification of cell owners' interest

Santam's 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.

## Abridged Shareholders Fund Balance Sheet – Fair Value (Reconciliation of equity - Fair value)

	Net Assets R Million	Minority shareholders' interest R Million	Shareholders' fund R Million
<b>31 December 2004</b>			
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
<b>Reported under IFRS</b>	<b>29 843</b>	<b>61</b>	<b>29 782</b>
<b>1 January 2004</b>			
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)
<b>Reported under IFRS</b>	<b>22 596</b>	<b>–</b>	<b>22 596</b>

## Earnings per Share

	2005 Cents	2004 Cents
<b>Basic earnings per share:</b>		
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	
Discontinued operations attributable to shareholders' fund	–	(3,6)
<b>Diluted earnings per share:</b>		
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	
Discontinued operations attributable to shareholders' fund	–	(3,6)
	2005 R Million	2004 R Million
<b>Analysis of earnings:</b>		
Net result from financial services	2 300	1 812
Core earnings	3 280	2 659
Headline earnings	5 813	2 963
Profit attributable to shareholders' fund	10 927	2 758
Profit from continuing operations attributable to shareholders' fund	10 927	
Discontinued operations attributable to shareholders' fund	–	(92)
	2005 million	2004 million
<b>Number of shares:</b>		
Number of ordinary shares in issue at beginning of period	2 767,6	2 654,6
Add: Weighted number of shares issued	–	84,8
Less: Weighted number of shares cancelled	(76,4)	–
Less: Weighted Sanlam shares held by subsidiaries (including policyholders)	(203,5)	(201,6)
<b>Adjusted weighted average number of shares for basic earnings per share</b>	<b>2 487,7</b>	<b>2 537,8</b>
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)
<b>Adjusted weighted average number of shares for diluted earnings per share</b>	<b>2 529,4</b>	<b>2 570,8</b>
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
<b>Adjusted number of shares for value per share</b>	<b>2 366,5</b>	<b>2 725,9</b>

## Analysis of Gross Funds Received from Clients

R Million	Total		Life Insurance*		Life Licence*		Other	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>PER CLUSTER: NEW BUSINESS</b>								
<b>Sanlam Life</b>	<b>21 372</b>	<b>18 463</b>	<b>11 738</b>	<b>11 117</b>	<b>3</b>	<b>-</b>	<b>9 631</b>	<b>7 346</b>
Individual Life	6 280	6 432	6 280	6 432	-	-	-	-
Recurring	1 482	1 407	1 482	1 407	-	-	-	-
Single	3 156	3 466	3 156	3 466	-	-	-	-
Continuations	1 642	1 559	1 642	1 559	-	-	-	-
Employee benefits	2 699	2 394	2 699	2 394	-	-	-	-
Recurring	194	129	194	129	-	-	-	-
Single	2 505	2 265	2 505	2 265	-	-	-	-
Sanlam Namibia	3 756	2 393	361	286	-	-	3 395	2 107
Life	361	286	361	286	-	-	-	-
Non-Life	3 395	2 107	-	-	-	-	3 395	2 107
MIA	671	606	671	606	-	-	-	-
Safrican	108	-	108	-	-	-	-	-
Direct Axis Credit Life	22	-	22	-	-	-	-	-
Innofin	7 836	6 638	1 597	1 399	3	-	6 236	5 239
<b>Sanlam Investment Management</b>	<b>32 623</b>	<b>27 720</b>	<b>-</b>	<b>-</b>	<b>121</b>	<b>83</b>	<b>32 502</b>	<b>27 637</b>
Employee benefits	121	83	-	-	121	83	-	-
Recurring	-	-	-	-	-	-	-	-
Single	121	159	-	-	121	159	-	-
Less: Intergroup switches	-	(76)	-	-	-	(76)	-	-
Sanlam Collective Investments	14 994	10 977	-	-	-	-	14 994	10 977
Cash funds	5 089	4 305	-	-	-	-	5 089	4 305
Equity funds	1 557	1 196	-	-	-	-	1 557	1 196
Wholesale business	2 510	2 145	-	-	-	-	2 510	2 145
White label	5 838	3 331	-	-	-	-	5 838	3 331
Segregated funds	15 696	15 041	-	-	-	-	15 696	15 041
International	1 812	1 619	-	-	-	-	1 812	1 619
<b>Sanlam Financial Services UK</b>	<b>10 615</b>	<b>5 950</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10 615</b>	<b>5 950</b>
<b>Santam</b>	<b>8 871</b>	<b>7 719</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8 871</b>	<b>7 719</b>
<b>Total new business</b>	<b>73 481</b>	<b>59 852</b>	<b>11 738</b>	<b>11 117</b>	<b>124</b>	<b>83</b>	<b>61 619</b>	<b>48 652</b>
<b>Recurring premiums on existing funds:</b>								
Sanlam life	10 998	10 677	10 998	10 677	-	-	-	-
Sanlam Investment Management	175	202	-	-	175	202	-	-
Gross	175	303	-	-	175	303	-	-
Less: Intergroup switches	-	(101)	-	-	-	(101)	-	-
<b>Total Funds Received</b>	<b>84 654</b>	<b>70 731</b>	<b>22 736</b>	<b>21 794</b>	<b>299</b>	<b>285</b>	<b>61 619</b>	<b>48 652</b>

\* 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.

**Analysed per type of business or license**

R Million	2005	2004
Life business	11 862	11 200
Investments	52 748	40 933
Short-term insurance	8 871	7 719
<b>Total new business</b>	<b>73 481</b>	<b>59 852</b>
Premiums on existing business	11 173	10 879
<b>Total Funds Received</b>	<b>84 654</b>	<b>70 731</b>

**Comprises:****Retail**

Individual Life	8 010	7 831
Sanlam Life	6 280	6 432
Safrican	108	—
Direct Axis Credit Life	22	—
Innofin	1 600	1 399
Non Life	16 036	13 783
Innofin	6 236	5 239
SPI	3 154	3 043
SCI cash & equity	6 646	5 501

**South African** **24 046** **21 614**

**Non South African** **4 427** **2 999**

MIA	671	606
Namibia Life	361	286
Namibia non Life	3 395	2 107

**TOTAL** **28 473** **24 613**

**Institutional**

Group Life	2 820	2 477
Employee benefits	2 699	2 394
Sanlam Investment Management	121	83
Non Life	15 052	14 143
Segregated / SPE	9 448	8 772
SMM	3 094	3 226
SCI Wholesale	2 510	2 145

**South African** **17 872** **16 620**

SIM International 1 812 1 619

Sanlam Financial Services UK 10 615 5 950

**TOTAL** **30 299** **24 189**

**SCI White label** **5 838** **3 331**

**Short-term insurance** **8 871** **7 719**

**TOTAL** **73 481** **59 852**

## Analysis of Gross Funds Paid to Clients

R Million	Total		Life Insurance*		Life Licence*		Other	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>PER CLUSTER</b>								
<b>Sanlam Life</b>	<b>32 377</b>	<b>27 954</b>	<b>26 536</b>	<b>23 423</b>	<b>14</b>	<b>9</b>	<b>5 827</b>	<b>4 522</b>
Individual Life	15 694	14 424	15 694	14 424	-	-	-	-
Surrenders	3 203	3 190	3 203	3 190	-	-	-	-
Other	12 491	11 234	12 491	11 234	-	-	-	-
Employee benefits	8 267	6 722	8 267	6 722	-	-	-	-
Terminations & tax on retirem. Funds	4 018	1 736	4 018	1 736	-	-	-	-
Other benefits	4 249	5 004	4 249	5 004	-	-	-	-
Less: Intergroup switches	-	(18)	-	(18)	-	-	-	-
Sanlam Namibia	3 010	1 815	706	597	-	-	2 304	1 218
Life	706	597	706	597	-	-	-	-
Non-Life	2 304	1 218	-	-	-	-	2 304	1 218
MIA	962	938	962	938	-	-	-	-
Safrican	197	-	197	-	-	-	-	-
Direct Axis Credit Life	-	-	-	-	-	-	-	-
Innofin	4 247	4 055	710	742	14	9	3 523	3 304
<b>Sanlam Investment Management</b>	<b>29 585</b>	<b>21 560</b>	<b>-</b>	<b>-</b>	<b>964</b>	<b>2 123</b>	<b>28 621</b>	<b>19 437</b>
Employee benefits	964	2 123	-	-	964	2 123	-	-
Terminations & tax on retirem. Funds	656	1 819	-	-	656	1 819	-	-
Other benefits	308	583	-	-	308	583	-	-
Less: Inter group switches	-	(279)	-	-	-	(279)	-	-
Sanlam Collective Investments	11 422	9 571	-	-	-	-	11 422	9 571
Cash funds	5 117	3 808	-	-	-	-	5 117	3 808
Equity funds	1 103	1 582	-	-	-	-	1 103	1 582
Wholesale business	1 936	1 859	-	-	-	-	1 936	1 859
White label	3 266	2 322	-	-	-	-	3 266	2 322
Segregated funds	16 880	9 069	-	-	-	-	16 880	9 069
International	319	797	-	-	-	-	319	797
<b>Sanlam Financial Services UK</b>	<b>1 747</b>	<b>267</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 747</b>	<b>267</b>
<b>Santam</b>	<b>5 792</b>	<b>4 397</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5 792</b>	<b>4 397</b>
<b>Consolidation</b>	<b>(15)</b>	<b>(38)</b>	<b>(15)</b>	<b>(38)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total payments to clients</b>	<b>69 486</b>	<b>54 140</b>	<b>26 521</b>	<b>23 385</b>	<b>978</b>	<b>2 132</b>	<b>41 987</b>	<b>28 623</b>

\* 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.

### Analysed per type of business or licence

R Million	2005	2004
Life business	27 499	25 517
Investments	36 195	24 226
Short-term insurance	5 792	4 397
<b>Total payments to clients</b>	<b>69 486</b>	<b>54 140</b>

## Analysis of Net Inflow / (Outflow) of Funds

R Million	Total		Life Insurance*		Life Licence*		Other	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>PER CLUSTER</b>								
<b>Sanlam Life</b>	<b>(7)</b>	<b>1 186</b>	<b>(3 800)</b>	<b>(1 629)</b>	<b>(11)</b>	<b>(9)</b>	<b>3 804</b>	<b>2 824</b>
Individual Life	(2 017)	(702)	(2 017)	(702)	-	-	-	-
Employee benefits	(2 896)	(1 773)	(2 896)	(1 773)	-	-	-	-
Sanlam Namibia Ltd	1 095	904	4	15	-	-	1 091	889
MIA	56	174	56	174	-	-	-	-
Safrican	166	-	166	-	-	-	-	-
Direct Axis Credit Life	-	-	-	-	-	-	-	-
Innofin	3 589	2 583	887	657	(11)	(9)	2 713	1 935
<b>Sanlam Investment Management</b>	<b>3 213</b>	<b>6 362</b>	<b>-</b>	<b>-</b>	<b>(668)</b>	<b>(1 838)</b>	<b>3 881</b>	<b>8 200</b>
Employee benefits	(668)	(1 838)	-	-	(668)	(1 838)	-	-
Total	(668)	(1 940)	-	-	(668)	(1 940)	-	-
Less: Intergroup switches	-	102	-	-	-	102	-	-
Sanlam Collective Investments	3 572	1 406	-	-	-	-	3 572	1 406
Cash funds	(28)	497	-	-	-	-	(28)	497
Equity funds	454	(386)	-	-	-	-	454	(386)
Wholesale business	574	286	-	-	-	-	574	286
White label	2 572	1 009	-	-	-	-	2 572	1 009
Segregated funds	(1 184)	5 972	-	-	-	-	(1 184)	5 972
International	1 493	822	-	-	-	-	1 493	822
<b>Sanlam Financial Services UK</b>	<b>8 868</b>	<b>5 683</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8 868</b>	<b>5 683</b>
<b>Santam</b>	<b>3 079</b>	<b>3 322</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3 079</b>	<b>3 322</b>
<b>Consolidation</b>	<b>15</b>	<b>38</b>	<b>15</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net inflow/(outflow)</b>	<b>15 168</b>	<b>16 591</b>	<b>(3 785)</b>	<b>(1 591)</b>	<b>(679)</b>	<b>(1 847)</b>	<b>19 632</b>	<b>20 029</b>

\* 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.

### Analysed per type of business or licence

R Million	2005	2004
Life business	(4 464)	(3 438)
Investments	16 553	16 707
Short-term insurance	3 079	3 322
<b>Total net inflow</b>	<b>15 168</b>	<b>16 591</b>



**Comprises:**

R Million	2005	2004
<b>Retail</b>		
Individual Life	(975)	(54)
Sanlam Life	(2 017)	(702)
Safrican	166	-
Innofin	876	648
Non Life	3 281	3 343
Innofin	2 713	1 935
SPI	142	1 297
SCI cash & equity	426	111
<b>South African</b>	<b>2 306</b>	<b>3 289</b>
<b>Non South African</b>	<b>1 151</b>	<b>1 078</b>
MIA	56	174
Namibia Life	4	15
Namibia non Life	1 091	889
<b>TOTAL</b>	<b>3 457</b>	<b>4 367</b>
<b>Institutional</b>		
Group Life	(3 549)	(3 573)
Employee benefits	(2 881)	(1 735)
Sanlam Investment Management	(668)	(1 838)
Non Life	(752)	4 961
Segregated / SPE	(3 069)	3 052
SMM	1 743	1 623
SCI Wholesale	574	286
<b>South African</b>	<b>(4 301)</b>	<b>1 388</b>
SIM International	1 493	822
Sanlam Financial Services UK	8 868	5 683
<b>TOTAL</b>	<b>6 060</b>	<b>7 893</b>
<b>SCI White label</b>	<b>2 572</b>	<b>1 009</b>
<b>Short term insurance</b>	<b>3 079</b>	<b>3 322</b>
<b>TOTAL</b>	<b>15 168</b>	<b>16 591</b>

# Embedded Value

for the year ended 31 December 2005

	2005 R Million	2004 R Million
<b>1. EMBEDDED VALUE</b>		
Sanlam group shareholders' funds at fair value	30 592	29 782
Adjustment for discounting capital gains tax <sup>(1)</sup>	245	138
Adjustment to include business under value of in-force <sup>(2)</sup>	(1 328)	(356)
Present value of strategic corporate expenses <sup>(3)</sup>	(947)	(883)
Fair value of share incentive scheme <sup>(4)</sup>	(793)	(799)
Adjustment for delayed tax relief on enhanced early termination benefits <sup>(5)</sup>	(60)	–
STC deferred tax asset written down <sup>(6)</sup>	(79)	(100)
Sanlam group shareholders' adjusted net assets	27 630	27 782
Net value of life insurance business in force <sup>(7)</sup>	10 574	8 851
Value of life insurance business in force	12 542	10 285
o Individual business	11 485	9 147
o Employee benefits	1 057	1 138
Cost of capital at risk	(1 707)	(1 400)
o Individual business	(1 393)	(1 128)
o Employee benefits	(314)	(272)
Minority shareholders' interest in value of in-force	(261)	(34)
<b>Sanlam group embedded value</b>	<b>38 204</b>	<b>36 633</b>
o Embedded value per share (cents) <sup>(8)</sup>	1 615	1 344
o Number of shares (million) <sup>(8)</sup>	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 Mercant 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 adjusted for non-recurring 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) The financial statements allow for the full tax deduction of R180 million on the enhanced early termination benefit cost of R620 million in respect of Sanlam Life Insurance Limited. 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

	Value of in-force R Million	2005 Adjusted Net Assets R Million	Total R Million	2004 Total R Million
Embedded value from new life insurance business <sup>(1),(3)</sup>	709	(418)	291	321
Earnings from existing life insurance business	(450)	1 801	1 351	1 363
o Expected return on value of in-force business <sup>(2)</sup>	1 193	–	1 193	1 148
o Expected transfer of profit from value of in-force to net assets <sup>(3)</sup>	(1 348)	1 348	–	–
o Operating experience variations <sup>(4)</sup>	(314)	452	138	144
o Operating assumption changes	19	1	20	71
<b>Embedded value earnings from life operations</b>	<b>259</b>	<b>1 383</b>	<b>1 642</b>	<b>1 684</b>
Economic assumption changes <sup>(5)</sup>	(287)	(29)	(316)	197
Tax changes <sup>(6)</sup>	(144)	(35)	(179)	–
Investment variances	785	60	845	253
Exchange rate movements <sup>(7)</sup>	4	–	4	(37)
Change in minorities shareholders' interest in value of in-force	(20)	–	(20)	(34)
<b>Growth from life insurance business</b>	<b>597</b>	<b>1 379</b>	<b>1 976</b>	<b>2 063</b>
Investment return on shareholders' adjusted net assets <sup>(9)</sup>	–	5 551	5 551	6 389
Change in fair value of share incentive scheme	–	6	6	(368)
<b>Total embedded value earnings</b> before dividends are paid, capital raised and cost of treasury shares acquired	<b>597</b>	<b>6 936</b>	<b>7 533</b>	<b>8 084</b>
Acquired value of in-force business <sup>(8)</sup>	1 126	(1 126)	–	–
Dividends paid	–	(1 363)	(1 363)	(1 082)
Capital raised / (share buy back)	–	(4 446)	(4 446)	846
Cost of treasury shares acquired	–	(153)	(153)	(397)
<b>Change in Sanlam group embedded value</b>	<b>1 723</b>	<b>(152)</b>	<b>1 571</b>	<b>7 451</b>
Growth from life insurance business as a % of beginning value of in-force			22,3%	26,5%
Return on embedded value <sup>(9)</sup>			20,6%	27,7%
Return on embedded value per share <sup>(10)</sup>			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 value of new business from point of sale.
- (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.
- (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 be 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 value of in-force life insurance business acquired 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
<b>Value of new business:</b>		
<b>Gross value of new business</b>	<b>318</b>	<b>339</b>
Individual business – RSA	254	279
Employee benefits – RSA	56	46
International <sup>(1)</sup>	8	14
<b>Cost of capital at risk</b>	<b>(27)</b>	<b>(18)</b>
Individual business – RSA	(13)	(10)
Employee benefits – RSA	(10)	(5)
International <sup>(1)</sup>	(4)	(3)
<b>Net value of new business <sup>(2)(3) (5)</sup></b>	<b>291</b>	<b>321</b>
<b>New business profitability ratios:</b>		
<b>Annual Premium Equivalent (APE) <sup>(4)</sup></b>	<b>2,152</b>	<b>1,958</b>
Individual business – RSA	1,565	1,489
Employee benefits – RSA	444	356
International <sup>(1)</sup>	143	113
<b>Present value of new business premiums <sup>(4)</sup></b>	<b>16,533</b>	<b>15,357</b>
Individual business – RSA	11,246	11,096
Employee benefits – RSA	4,111	3,352
International <sup>(1)</sup>	1,176	909
<b>Net value of new business <sup>(2)(3)</sup></b>	<b>291</b>	<b>321</b>
Individual business – RSA	241	269
Employee benefits – RSA	46	41
International <sup>(1)</sup>	4	11

	2005 %	2004 %
<b>APE margin</b>	<b>13.5%</b>	<b>16.4%</b>
Individual business – RSA	15.4%	18.1%
Employee benefits – RSA	10.4%	11.5%
International <sup>(1)</sup>	2.8%	9.7%
<b>Present value of premium margin</b>	<b>1.8%</b>	<b>2.2%</b>
Individual business – RSA	2.1%	2.4%
Employee benefits – RSA	1.1%	1.2%
International <sup>(1)</sup>	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 only 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 minimum standard applied for the whole of 2005, the new business embedded value figure would have been R14 million lower.

#### 4. NEW BUSINESS PREMIUMS

	2005 R Million	2004 R Million
Financial statements		
New business premiums	11 862	11 200
Less: Premium increases (index growth)	(642)	(619)
Plus: Optional reduction in premiums	13	36
Less: Other life business <sup>(1)</sup>	(124)	(83)
<b>Premiums used in the calculation of APE</b>	<b>11 109</b>	<b>10 534</b>
<b>New business embedded value premiums</b>		
Recurring premiums	1 158	1 005
Single premiums	9 951	9 529
<b>Premiums used in the calculation of APE</b>	<b>11 109</b>	<b>10 534</b>

## Notes:

- (1) The majority of profits in respect of these premiums accrue to Sanlam Investment Management.

## 5. 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 %
<b>Value of in-force business <sup>(1)</sup></b>				
<b>Base value</b>	<b>12 262</b>	<b>(1 688)</b>	<b>10 574</b>	
○ Increase risk discount rate by 1,0%	11 717	(2 166)	9 551	(10)
○ Decrease risk discount rate by 1,0%	13 179	(1 415)	11 764	11
○ Investment return (and inflation) decreased 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) decreased 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	(1 676)	10 216	(3)
○ Discontinuance rates increase by 10%	12 037	(1 628)	10 409	(2)
○ Mortality and morbidity increased 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 %
<b>Value of new business <sup>(1)</sup></b>				
<b>Base value</b>	<b>318</b>	<b>(27)</b>	<b>291</b>	
○ 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) decreased 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) decreased 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 increased 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.

## 6. EMBEDDED VALUE METHODOLOGY

Other than stated below, the embedded value methodology applied in preparing the embedded value report is consistent with the methodology used in the previous year. The most significant changes for the current period include:

- Revised assumptions for modelling future STC on net cash dividends;
- Adjustments to assumed long-term asset mix assumptions for both policyholders' and shareholders' funds;
- The opening and closing embedded values, value of new business and embedded value earnings for 2004 have been restated, where applicable, for the adoption of International Financial Reporting Standards (IFRS). The 2004 closing embedded value decreased by R49 million, while the 2004 embedded value earnings were unaffected.

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.

## 7. ASSUMPTIONS: Gross Investment Return and Inflation

	Sanlam Life Insurance Limited		Merchant Investors		African Life <sup>(1)</sup>	BIHL <sup>(1)</sup>
	2005 % p.a.	2004 % p.a.	2005 % p.a.	2004 % p.a.	2005 % p.a.	2005 % p.a.
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 <sup>(2)</sup>	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 <sup>(3)</sup>	7,8	9,1	4,1	4,6	7,9	11,0
Unit cost and salary inflation	4,0	4,3	3,0	3,0	4,4	7,0
Consumer price index inflation	3,0	3,3	3,0	3,0	n/a	n/a

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

	Sanlam Life Insurance Limited		Merchant Investors		African Life <sup>(1)</sup>	BIHL <sup>(1)</sup>
	2005 % p.a.	2004 % p.a.	2005 % p.a.	2004 % p.a.	2005 % p.a.	2005 % p.a.
Equities	25	42	–	–	50	65
Hedged equities	35	26	–	–	–	–
Property	5	8	–	–	–	4
Fixed-interest securities	20	20	–	–	25	14
Cash	15	4	100	100	25	17
	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Notes:

(1) No 2004 comparatives are shown for the following businesses acquired at the end of the 2005 financial year:

- 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.

(3) The investment return on assets supporting the capital at risk is based on the long-term asset mix for these funds.

## 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 Industry (LOA) and the 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.

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.

## 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.

## Analysis of Return on Embedded Value

	2005 R Million	2004 R Million	2003 R Million
<b>Growth in Net Asset Value</b>	<b>5 557</b>	<b>6 021</b>	<b>2 076</b>
<b>Growth in Value In-force</b>	<b>1 976</b>	<b>2 063</b>	<b>1 665</b>
New business Embedded Value	291	321	218
Expected return	1 193	1 148	1 153
Experience variances	138	144	241
Other	354	450	53
<b>Embedded Value growth</b>	<b>7 533</b>	<b>8 084</b>	<b>3 741</b>
<b>EV growth per share</b>	<b>24,4</b>	<b>22,6</b>	<b>14,2</b>



# Statement of Actuarial Values of Assets & Liabilities

## at 31 December 2005

R Million	Sanlam Life Insurance		African Life Assurance Company		Botswana Life Insurance		Botswana Insurance Fund Management		Merchant Investors Assurance Company		Sanlam Life Namibia	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Assets</b>												
Fair value of assets <sup>(1)</sup>	201 233	178 717	5 900	–	2 536	–	5 461	–	17 576	14 476	5 176	4 632
<b>Less: Liabilities</b>	<b>173 919</b>	<b>152 409</b>	<b>3 989</b>	<b>–</b>	<b>2 011</b>	<b>–</b>	<b>5 250</b>	<b>–</b>	<b>17 393</b>	<b>14 375</b>	<b>4 787</b>	<b>4 170</b>
Actuarial value of policy liabilities <sup>(2)</sup>	164 758	144 923	3 590	–	1 896	–	5 236	–	17 156	14 296	4 663	4 036
Investment contracts	64 556	58 064	2 665	–	–	–	5 236	–	13 951	11 403	1 569	1 279
Insurance contracts	100 202	86 859	925	–	1 896	–	–	–	3 205	2 893	3 094	2 757
Long-term & current liabilities	9 161	7 486	399	–	115	–	14	–	237	79	124	134
<b>Excess of assets over liabilities for financial reporting</b>	<b>27 314</b>	<b>26 308</b>	<b>1 911</b>	<b>–</b>	<b>525</b>	<b>–</b>	<b>211</b>	<b>–</b>	<b>183</b>	<b>101</b>	<b>389</b>	<b>462</b>
Adjustment for prudential regulatory purposes <sup>(3)</sup>	(6 440)	(2 689)	(321)	–	–	–	(18)	–	(7)	–	–	–
<b>Excess of assets over liabilities for prudential regulatory purposes</b>	<b>20 874</b>	<b>23 619</b>	<b>1 590</b>	<b>–</b>	<b>525</b>	<b>–</b>	<b>193</b>	<b>–</b>	<b>176</b>	<b>101</b>	<b>389</b>	<b>462</b>
<b>Analysis of movement in excess of assets over liabilities</b>												
Result from financial services before tax	1 529	1 338	–	–	–	–	–	–	(19)	5	30	31
Investment return on excess of assets over liabilities	6 156	7 374	–	–	–	–	–	–	4	3	73	53
Investment income	1 166	829	–	–	–	–	–	–	4	3	18	21
Realised and unrealised investment surpluses	4 990	6 545	–	–	–	–	–	–	–	–	55	32
Donation of Sanlam Limited shares to Ubuntu-Botho Community Development Trust	–	(432)	–	–	–	–	–	–	–	–	–	–
Agreement on early termination values	(440)	–	–	–	–	–	–	–	–	–	–	–
Cost incurred	(620)	–	–	–	–	–	–	–	–	–	–	–
Income tax	180	–	–	–	–	–	–	–	–	–	–	–
Other	(150)	–	–	–	–	–	–	–	–	–	–	70
Taxation	(834)	(962)	–	–	–	–	–	–	(1)	(1)	(1)	(1)
Income tax	(291)	(227)	–	–	–	–	–	–	(1)	(1)	(1)	(1)
Capital gains tax	(434)	(835)	–	–	–	–	–	–	–	–	–	–
Secondary tax on companies	(109)	100	–	–	–	–	–	–	–	–	–	–
Attributable earnings <sup>(4)</sup>	6 261	7 318	–	–	–	–	–	–	(16)	7	102	153
Share capital raised	–	–	–	–	–	–	–	–	98	16	–	–
Repayment of shareholders' loan	–	–	–	–	–	–	–	–	–	–	(125)	(3)
Share-based payments	45	–	–	–	–	–	–	–	–	–	–	–
Dividends paid	(5 300)	(1 071)	–	–	–	–	–	–	–	–	(50)	(120)
<b>Movement in excess of assets over liabilities for financial reporting</b>	<b>1 006</b>	<b>6 247</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>82</b>	<b>23</b>	<b>(73)</b>	<b>30</b>
<b>Capital adequacy requirements</b>												
Capital adequacy requirements (CAR) before management actions	8 350	11 150	209	–	106	–	5	–	74	70	200	140
Management actions assumed <sup>(5)</sup>	(2 975)	(4 600)	–	–	–	–	–	–	–	–	(70)	(30)
<b>CAR after management actions assumed <sup>(5)</sup></b>	<b>5 375</b>	<b>6 550</b>	<b>209</b>	<b>–</b>	<b>106</b>	<b>–</b>	<b>5</b>	<b>–</b>	<b>74</b>	<b>70</b>	<b>130</b>	<b>110</b>
Times CAR covered by excess of assets over liabilities for prudential regulatory purposes	3.9	3.6	7.6	–	5.0	–	38.6	–	2.4	1.4	3.0	4.2

**Notes:****1. Fair value of Assets**

Assets have been valued on the bases as set out before, apart from equity investments in treasury shares and Group subsidiaries, associated companies and joint ventures, which are valued at fair value.

**2. Actuarial value of Policy Liabilities**

R Million

2005

2004

The actuarial value of policy liabilities reconciles as follows with the long-term policy liabilities in the Group balance sheet:

Long-term policy liabilities of the Sanlam group

198 234 163 556

Actuarial value of policy liabilities per Statement of Actuarial Values of Assets and Liabilities:

Sanlam Life Insurance

164 758 144 923

African Life Assurance Company <sup>(1)</sup>

3 590 –

Botswana Life Insurance <sup>(1)</sup>

1 896 –

Botswana Insurance Fund Management <sup>(1)</sup>

5 236 –

Merchant Investors Assurance Company

17 156 14 296

Sanlam Life Namibia

4 663 4 036

Other

935 301

1 = African Life Assurance group acquired at the end of the 2005 financial year.

**3. Adjustment for prudential regulatory purposes**

R Million	Sanlam Life Insurance		African Life Assurance Company		Botswana Life Insurance		Botswana Insurance Fund Management		Merchant Investors Assurance Company		Sanlam Life Namibia	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Total adjustment	(6 440)	(2 689)	(321)	–	–	–	(18)	–	(7)	–	–	–
Adjustment for group undertakings												
SIM	(1 853)	(1 299)	–	–	–	–	–	–	–	–	–	–
Santam	(2 143)	(502)	–	–	–	–	–	–	–	–	–	–
African Life	(1 503)	–	–	–	–	–	–	–	–	–	–	–
Other	(362)	(299)	–	–	–	–	–	–	–	–	–	–
Capital requirements of life insurance subsidiaries, adjusted for minority interests	(500)	(409)	(305)	–	–	–	(18)	–	–	–	–	–
Inadmissible asset	(79)	(180)	(16)	–	–	–	–	–	(16)	–	–	–
Other	–	–	–	–	–	–	–	–	9	–	–	–

**4. Attributable earnings**

R Million

2005

2004

Attributable earnings reconcile as follows with the Life Insurance Cluster segmental attributable earnings:

Life Insurance Cluster segmental attributable earnings

6 348 7 430

Attributable earnings per Statement of Actuarial Values of Assets and Liabilities:

Sanlam Life Insurance Limited

6 261 7 318

African Life Assurance Company Limited <sup>(1)</sup>

– –

Botswana Life Insurance Limited <sup>(1)</sup>

– –

Botswana Insurance Fund Management <sup>(1)</sup>

– –

Merchant Investors Assurance Company Limited

( 16) 7

Sanlam Life Namibia Limited

102 153

Remove attributable earnings reported in other business clusters

38 60

Attributable earnings of other Group subsidiaries included in Life Insurance Cluster segmental attributable earnings

106 81

Consolidation adjustments

( 143) ( 189)

1 = African Life Assurance Company Limited has been acquired at the end of the Sanlam Limited group's 2005 financial year and is therefore not consolidated in the Sanlam group income statement.

**5. Management actions assumed**

R Million	Sanlam Life Insurance		African Life Assurance Company		Botswana Life Insurance		Botswana Insurance Fund Management		Merchant Investors Assurance Company		Sanlam Life Namibia	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
The following management actions were assumed in the calculation of the capital adequacy requirements:												
Reduction in non-vested bonuses	-	346	-	-	-	-	-	-	-	-	-	-
Reduction in future bonus rates	2 097	2 644	-	-	-	-	-	-	-	-	57	32
Capitalisation of proportion of expected future profits held as second-tier margins	-	321	-	-	-	-	-	-	-	-	-	-
Reduction in grossing up of the assets covering CAR	892	1 374	-	-	-	-	-	-	-	-	12	-
Independence credits	( 14)	( 85)	-	-	-	-	-	-	-	-	1	( 2)
<b>Total management actions</b>	<b>2 975</b>	<b>4 600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70</b>	<b>30</b>
	%	%	%	%	%	%	%	%	%	%	%	%

The average change in non-vested bonuses for Reversionary Bonus type business

-	( 3)	-	-	-	-	-	-	-	-	-	-	-
---	------	---	---	---	---	---	---	---	---	---	---	---

The average change in future bonus rates below expected long-term rates, for three years

( 2)	( 2)	-	-	-	-	-	-	-	-	-	( 2)	( 2)
------	------	---	---	---	---	---	---	---	---	---	------	------

**6. Asset Composition**

The assets backing the capital adequacy requirements after management actions were invested as follows:

Cash	15	15	25	-	-	-	-	-	100	100	75	100
Fixed-interest securities	20	20	25	-	31	-	-	-	-	-	25	-
Hedged equities	35	40	-	-	-	-	-	-	-	-	-	-
Properties	5	8	-	-	4	-	100	-	-	-	-	-
Equities	25	17	50	-	65	-	-	-	-	-	-	-
	100	100	100	-	100	-	100	-	100	100	100	100

**7. Future investment return and inflation assumptions**

%	Sanlam Life Insurance		African Life Assurance Company		Botswana Life Insurance		Botswana Insurance Fund Management		Merchant Investors Assurance Company		Sanlam Life Namibia	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Pre-tax investment returns by major asset categories and inflation assumptions were as follows:												
Fixed-interest securities	7.5	8.3	7.4	-	10.0	-	10.0	-	4.1	4.6	7.5	8.3
Equities & offshore investments	9.5	10.3	9.4	-	12.0	-	12.0	-	6.6	7.0	9.5	10.3
Hedged equities	7.5	8.3	n/a	-	n/a	-	n/a	-	6.6	7.0	7.5	8.3
Properties	8.5	9.3	8.4	-	11.0	-	11.0	-	6.6	7.0	8.5	9.3
Cash	5.5	6.3	5.4	-	8.0	-	8.0	-	4.1	4.6	5.5	6.3
Future expense inflation (excluding margin)	4.0	4.3	4.4	-	7.0	-	7.0	-	3.0	3.0	4.0	4.3
Consumer price index inflation for premium indexation	3.0	3.3	n/a	-	n/a	-	n/a	-	3.0	3.0	3.0	3.3

**8. Discount rates used in calculating prospective policy liabilities**

%	Sanlam Life Insurance		African Life Assurance Company		Botswana Life Insurance		Botswana Insurance Fund Management		Merchant Investors Assurance Company		Sanlam Life Namibia	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Reversionary bonus business</b>												
Retirement annuity business	7.8	8.5	n/a	-	n/a	-	n/a	-	n/a	n/a	8.3	9.1
Individual policyholder business	7.2	7.8	n/a	-	10.6	-	10.6	-	n/a	n/a	8.0	8.7
<b>Individual stable bonus business</b>												
Retirement annuity business	7.5	8.4	n/a	-	n/a	-	n/a	-	n/a	n/a	8.0	9.0
Individual policyholder business	6.9	7.7	n/a	-	n/a	-	n/a	-	n/a	n/a	7.7	8.6
Non-taxable business	8.0	9.0	n/a	-	n/a	-	n/a	-	n/a	n/a	8.0	9.0
Corporate policyholder business	6.7	7.4	n/a	-	n/a	-	n/a	-	n/a	n/a	7.7	8.6

%	Sanlam Life Insurance		African Life Assurance Company		Botswana Life Insurance		Botswana Insurance Fund Management		Merchant Investors Assurance Company		Sanlam Life Namibia	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Individual market-related business</b>												
Retirement annuity business	7.8	8.5	8.8	–	n/a	–	n/a	–	3.9	4.1	8.2	9.1
Individual policyholder business	7.2	7.8	8.3	–	10.6	–	10.6	–	3.1	3.2	7.9	8.7
Non-taxable business	8.2	9.1	n/a	–	n/a	–	n/a	–	3.1	3.2	8.2	9.1
Corporate policyholder business	6.9	7.5	n/a	–	n/a	–	n/a	–	n/a	n/a	7.9	8.7
<b>Participating annuity business</b>	6.6	7.4	n/a	–	n/a	–	n/a	–	n/a	n/a	6.6	7.4
<b>Non-participating annuity business*</b>	7.1	7.6	8.0	–	9.7	–	9.7	–	4.4	4.7	7.1	7.6
<b>Guarantee plans*</b>	6.8	7.4	7.2	–	n/a	–	n/a	–	n/a	n/a	n/a	n/a

\* The calculation of policy liabilities is based on discount rates derived from the zero-coupon yield curve. This is the average rate that produces the same result

## 9. Bonus stabilisation reserves

No portfolio had a negative bonus stabilisation reserve which exceeded 7,5% of the relevant investment accounts at 31 December 2005.

## 10. Result from Financial Services

R Million	Sanlam Life Insurance		African Life Assurance Company		Botswana Life Insurance		Botswana Insurance Fund Management		Merchant Investors Assurance Company		Sanlam Life Namibia	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
A number of changes were made to the valuation methodology and assumptions, with the following effect on the result from operations.	(43)	(103)	–	–	–	–	–	–	1	13	(13)	(2)

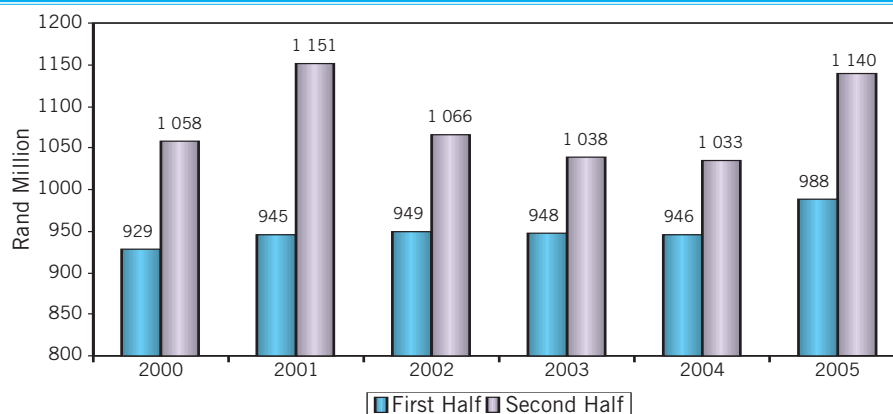
# Sanlam Group Businesses



## Life

## Life Cluster

Admin Costs including share option costs from 2004



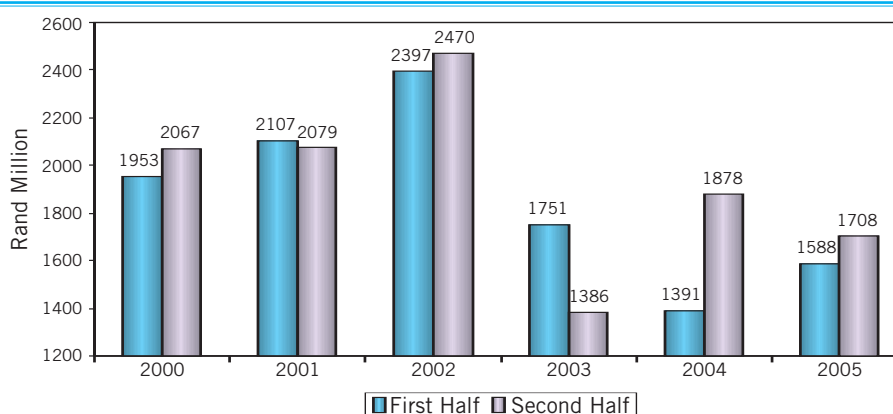
## Life Cluster: Sanlam Personal Finance

Profitability: Analysis per category

	2005 R Million	2004 R Million
Admin income	201	264
Risk income	552	435
Market related income	759	610
Operating profit before tax & minorities	1 512	1 309
Minorities	(7)	(1)
Operating profit before tax	1 505	1 308
Admin Ratio (excluding restructuring)	38,7%	39,4%

## Life Cluster: Sanlam Personal Finance

Surrenders including Namibia



## Life Cluster: Employee Benefits

### Profitability: Analysis per product

	2005 R Million	2004 R Million
Administration	(21)	(10)
Underwriting	155	105
Investment	161	148
Contribution	295	243
Overhead expenditure	(63)	(44)
Project expenditure	(15)	(15)
<b>Operating profit</b>	<b>217</b>	<b>184</b>



## Investment Management

## Income Statement per division

R Million	Total Investment Cluster		Total SA operation		Total International operation	
	2005	2004	2005	2004	2005	2004
Income	1 425	992	1 058	840	367	152
Administration costs	(726)	(573)	(593)	(497)	(133)	(76)
Profit before tax	699	419	465	343	234	76
Tax and minorities	(171)	(118)	(139)	(112)	(32)	(6)
Operating profit after tax	528	301	326	231	202	70

## Split in Assets under Management

Rand Billion	2005	2004
<b>Wholesale</b>	<b>267.6</b>	<b>243.0</b>
○ Sanlam (SA assets)	145.0	138.2
○ Sanlam (International assets)	33.1	30.8
○ Segregated	72.1	60.8
○ Sanlam Properties	3.3	1.8
○ Sanlam Collective Investments	14.1	11.4
<b>Retail</b>	<b>59.2</b>	<b>42.9</b>
○ Sanlam Private Investments	26.7	19.1
○ Sanlam Collective Investments	26.5	19.5
○ Sanlam Multi Manager (SP <sup>2</sup> ) *	6.0	4.3
<b>Total AUM (Consolidated)</b>	<b>326.8</b>	<b>285.9</b>

\* The rest of Sanlam Multi Manager assets are included in Sanlam and Segregated assets.





## Capital Markets

### Operating Result

R Million	2005	2004
<b>Total Revenue</b>	<b>331</b>	<b>225</b>
Debt & Equity Structuring	157	114
Market Activity	174	111
Expenses	(180)	(139)
<b>Profit before tax</b>	<b>151</b>	<b>86</b>
Tax	(25)	(7)
<b>Profit after tax</b>	<b>126</b>	<b>79</b>
Return on Equity	31,4%	19,9%
Cost to income ratio	54,4%	61,8%

## Sanlam Independent Financial Services Operating Result

	2005 R Million	2004 R Million
Sanlam Financial Services UK	28	41
Gensec Property Services <sup>(1)</sup>	6	9
Sanlam Consultants and Actuaries <sup>(2)</sup>	3	6
Simeka Consultants and Actuaries <sup>(3)</sup>	(1)	–
Thebe Community Financial Services	2	–
Cluster overheads	(6)	(6)
Total cluster result from operations before tax	32	50
Included in Sanlam Life	–	(6)
Total cluster result from operations as per income statement	32	44

(1) Consolidated for the first six months in 2004 and equity-accounted for the last six months of 2004 and the full year of 2005 at 35%

(2) Consolidated profit for 2004 and first six months of 2005. Sold to Simeka with effect 1 July 2005.

(3) Equity accounted for last quarter of 2004 and the full year of 2005



## Consolidated Income Statement

	2005 R Million	2004 R Million
<b>Gross written premium</b>	<b>11 355</b>	<b>9 735</b>
Less: reinsurance premium	2 011	2 012
<b>Net premium</b>	<b>9 344</b>	<b>7 723</b>
Less: change in unearned premium		
Gross amount	371	(102)
Reinsurers' share	102	180
<b>Net insurance premium revenue</b>	<b>8 871</b>	<b>7 645</b>
Investment income	482	479
Income from reinsurance contracts ceded	404	487
Net realised gains on financial assets	263	202
Net fair value gains on assets at fair value through income	742	596
Other operating income	-	-
<b>Net income</b>	<b>10 762</b>	<b>9 409</b>
Insurance claims and loss adjustment expenses	6 905	5 015
Insurance claims and loss adjustment expenses recovered from reinsurers	(1 112)	(653)
<b>Net insurance benefits and claims</b>	<b>5 793</b>	<b>4 362</b>
Expenses for the acquisition of insurance contracts	1 586	1 429
Expenses for marketing and administration	1 121	1 216
Expenses for asset management services	42	41
Goodwill impairment	4	2
<b>Expenses</b>	<b>8 546</b>	<b>7 050</b>
<b>Results of operating activities</b>	<b>2 216</b>	<b>2 359</b>
Finance costs	(12)	(14)
Share of profit of associates	117	37
<b>Profit before tax</b>	<b>2 321</b>	<b>2 382</b>
Income tax expense	(520)	(604)
<b>Profit for the year</b>	<b>1 801</b>	<b>1 778</b>
<b>Attributable to:</b>		
- equity holders of the Company	1 778	1 754
- minority interest	23	24
	<b>1 801</b>	<b>1 778</b>

	2005 R Million	2004 R Million
<b>Earnings attributable to equity shareholders</b>		
Earnings per share		
Basic earnings per share	1 535	1 531
Diluted earnings per share	1 506	1 509
Headline earnings per share	1 540	1 548
Diluted headline earnings per share	1 512	1 527
<b>Weighted average number of shares - millions</b>	<b>115.82</b>	<b>114.63</b>

<b>Ratios</b>	2005 %	2004 %
Net claims ratio	65.3	57.1
Net acquisition cost ratio	26	28.2
Net underwriting ratio	8.7	14.7
Net insurance result margin on net earned premium	11.4	17.4



## Economic Review

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

Inflation, as measured by the CPIX, at one stage threatened to break the lower bound of the South African Reserve Bank's targeting range, and the repo rate was cut yet again. The yield on government bonds continued its relentless downward spiral that was initiated in 1999, with the ten-year generic yield declining to approximately 7,5% by year-end. The reduction in government's borrowing requirement and net debt announced in the 2006/07 budget resulted in a further fall to 7,1%, its lowest level since 1970.

Global investor interest in emerging markets, in particular listed equities, reached unprecedented levels, as reflected in record net foreign purchases of JSE-listed shares totalling R52 billion in 2005. Net foreign purchases in the first seven weeks of 2006 already amounted to almost 50% of the total for 2005. This was complemented by the single largest foreign direct investment transaction in South Africa's history with the acquisition of a controlling interest in banking group ABSA by Barclays plc, all of which saw South Africa's foreign exchange reserves continue to rise month by month.

Government finances have surprised because of a huge overrun in revenue collection generated by the buoyancy in the economy, and the budget deficit of 0,5% of GDP for the current fiscal year is the lowest since 1981.

International rating agencies upgraded South Africa to a level bordering on a coveted A-rating.

And yet there is a feeling of uneasiness about all of this as positive developments outlined above are counterbalanced by a growing deficit on the current account of the balance of payments, which, at 4,7% of GDP in Q3 2005, reached its highest level since 1983, implying a growing dependence on foreign capital.

South Africa's manufacturing base is being hollowed out because of a too strong currency, and evidence of infrastructure bottlenecks is the order of the day.

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

The extent to which the boom conditions of 2005 can be ascribed to an improving structural domestic economic background, rather than extremely favourable international tailwinds resulting from a commodities boom and the accompanying capital flows to emerging markets, which is bound to eventually subside, still needs to be tested.

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

The outlook for 2006 is positive, although not at the same blistering pace as in 2005. The most important caveat is the continuation of global capital flows to emerging markets, which depends on a buoyant global economy and sustained high commodity prices. But is it possible that a turning point will be reached in 2006?

## 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](http://www.sanlamltd.co.za)

### Corporate Office

#### Group Chief Executive

Johan van Zyl

Tel. : +27 21 947-4448

Fax : +27 21 947-5551

E-mail : [johan.vanzyl@sanlam.co.za](mailto:johan.vanzyl@sanlam.co.za)

#### Financial Director

Flip Rademeyer

Tel. : +27 21 947-6801

Mobile : +27 82 554-5573

Fax : +27 21 947-3670

E-mail : [flip.rademeyer@sanlam.co.za](mailto:flip.rademeyer@sanlam.co.za)

#### Chief Executive: Finance

Kobus Möller

Tel. : +27 21 947-9201

Fax : +27 21 947-3670

E-mail : [kobus.moller@sanlam.co.za](mailto:kobus.moller@sanlam.co.za)

#### Chief Actuary

André Zeeman

Tel. : +27 21 947-3490

Fax : +27 21 947-3670

E-mail : [andre.zeeman@sanlam.co.za](mailto:andre.zeeman@sanlam.co.za)

#### Investor Relations

Helet Malherbe

Tel. : +27 21 947-4092

Fax : +27 21 957-1331

E-mail : [helet.malherbe@sanlam.co.za](mailto:helet.malherbe@sanlam.co.za)

### Businesses

#### CEO: Sanlam Personal Finance

Lizé Lambrechts

Tel : +27 21 947-3439

Fax : +27 21 957-1840

E-mail : [lize.lambrechts@sanlam.co.za](mailto:lize.lambrechts@sanlam.co.za)

#### CEO: Employee Benefits

Themba Gamedze

Tel. : +27 11 778-6511

Fax : +27 11 339-1352

E-mail : [themba.gamedze@sanlam.co.za](mailto:themba.gamedze@sanlam.co.za)

#### CEO: Investment Cluster

Johan van der Merwe

Tel. : +27 21 950-2945

Fax : +27 21 950-2850

E-mail : [johanvdm@sim.sanlam.com](mailto:johanvdm@sim.sanlam.com)

#### CEO: Santam

Steffen Gilbert

Tel. : +27 21 915-7193

Fax : +27 21 915-7570

E-mail : [steffen.gilbert@santam.co.za](mailto:steffen.gilbert@santam.co.za)

#### CEO: Independent Financial Services

Nick Christodoulou

Tel : +27 21 947 6779

Fax : +27 21 947 3670

E-mail : [nick.christodoulou@sanlam.co.za](mailto:nick.christodoulou@sanlam.co.za)

#### CEO: Sanlam Capital Markets

Mark Murning

Tel : +27 11 778-6155

Fax : +27 11 778-6912

E-mail : [markm@scm.sanlam.co.za](mailto:markm@scm.sanlam.co.za)

### Independent Non-Executive Directors

RC (Roy) Andersen (*Board Chairman*); MMM (Manana) Bakane-Tuoane; DC (Dave) Brink; AS (Attie) du Plessis; FA (Fran) du Plessis; W (Wilmot) James; V (Vali) Moosa; P (Patrice) Motsepe (*Board Deputy Chairman*); M (Maria) Ramos; GE (George) Rudman; ZB (Bernard) Swanepoel; RV (Rejoice) Simelane; E (Eugene) van As; JJM (Boetie) van Zyl

### Executive Directors

J (Johan) van Zyl (*Group Chief Executive*) and PdeV (Flip) Rademeyer (*Financial Director*)