ACCOUNTABILITY | RESPECT | PUSHING BEYOND BOUNDARIES | INTEGRITY | PASSION

Annual Report 2004

MUTUAL & FEDERAL

Authorised Financial Services Provider

Mutual & Federal Annual Report 2004

Contents

A Member of the OLD MUTUAL Group

Vision

To be the short-term insurance company of first choice in southern Africa

Corporate mission

Delivery of innovative insurance products and outstanding service that result in real benefit to customers, suppliers, employees and shareholders whilst ensuring commitment to good corporate citizenship and upholding the highest values

Values

Accountability

Being prepared to make commitments and be judged against these. Delivering on commitments. Taking ownership for actions and problems and being responsible for actions.

Respect

Treating others as you would have them treat you. Leveraging the strengths of diversity. Actively listening to others and treating people with dignity.

Pushing beyond boundaries

Playing to the maximum as individuals, teams and as an organisation, across boundaries. Always striving to break new ground with innovation and creativity. Being passionate and committed and always striving for improvement.

Integrity

Being honest, trustworthy, consistent and open. Acting in accordance with the highest ethical standards.

Passion

Giving the best and being dependable in exceeding goals successfully. Having confidence and willingness to take action in order to achieve a recognised benefit. Having a sense of optimism and enthusiasm to spend energy voluntarily.

- Underwriting ratio of 9,8%
- Operating earnings per share up 17%
- 19% increase in net premiums
- R3,9 billion in special dividends over the past six years

Financial highlights

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	2004	2003	% Change
FINANCIAL RESULTS (Rm)			
Net premiums	**6 691**	5 608	19,3
Underwriting surplus	**663**	392	69,1
General Insurance Result	**864**	602	43,5
KEY RATIOS (%)			
Management expense ratio	**8,3**	7,8	
Operating ratio	**90,2**	93,1	

	Target %	2004 %	2003 %	2002 %
PERFORMANCE OBJECTIVES				
Underwriting result as a percentage of earned premium	4,0	**9,8**	6,9	2,4
General Insurance Result as a percentage of earned premium	8,0	**12,8**	10,6	6,5
Return on shareholders' funds	21,0	**23,7**	22,9	17,6

Financial highlights

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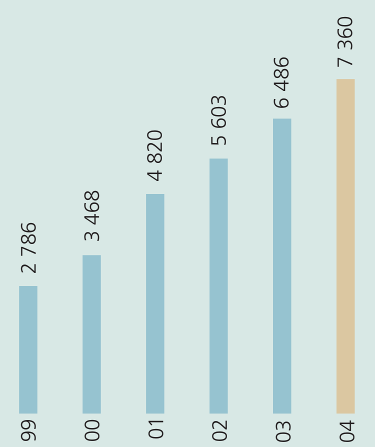
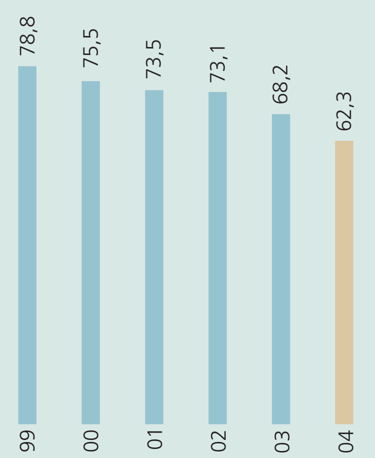
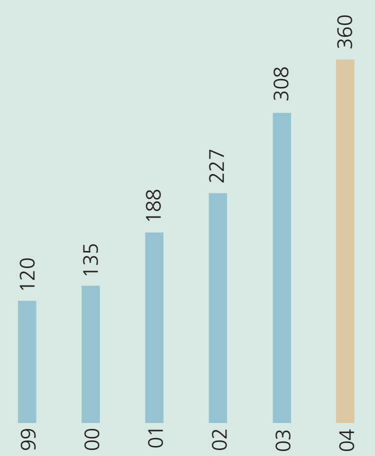


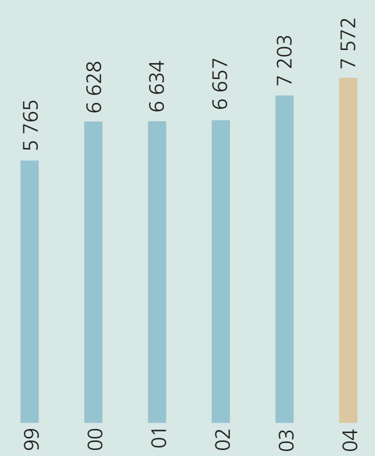
Gross premiums (Rm)



Claims ratio (%)



Operating earnings per share (cents)



Assets (Rm)

Group structure

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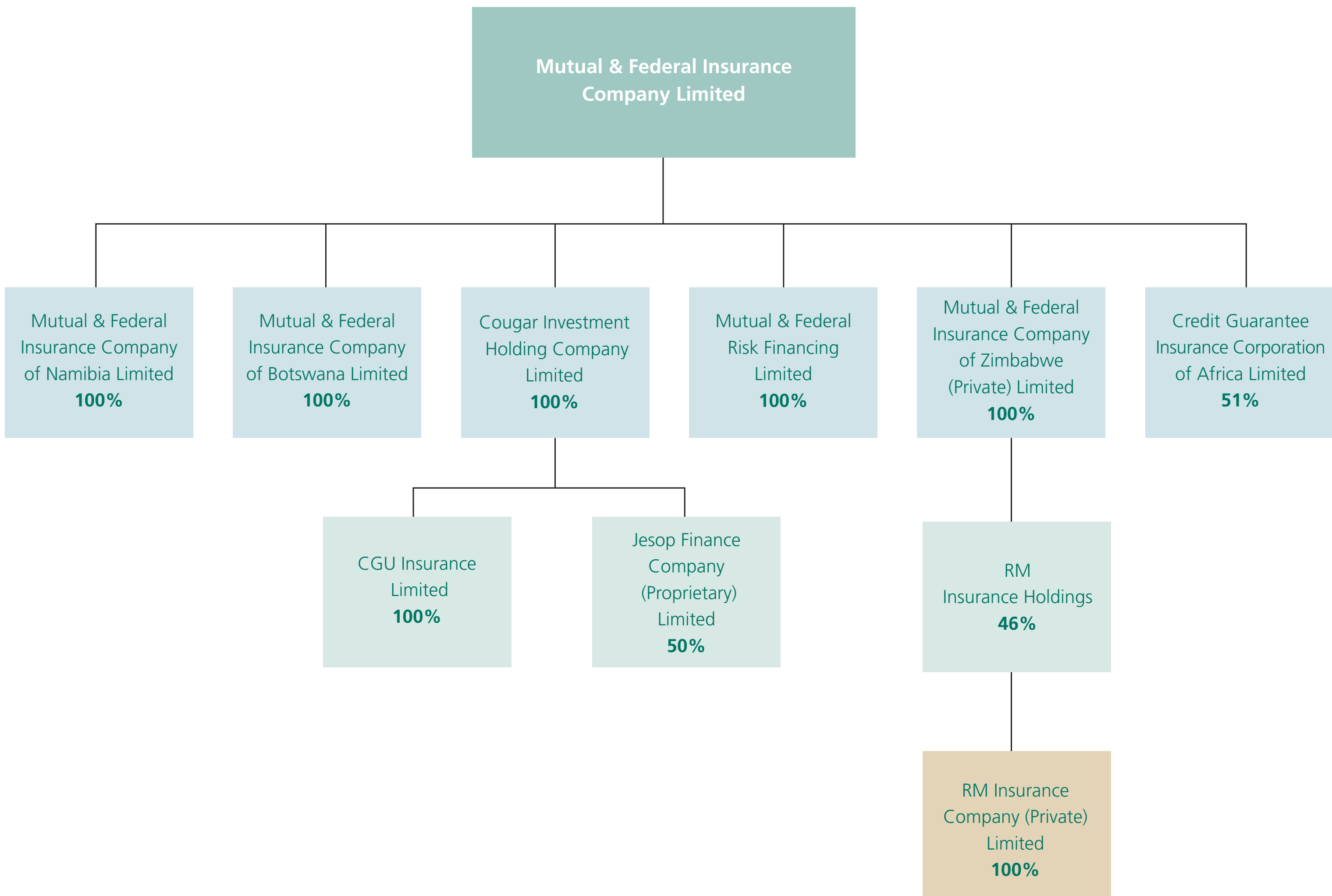

The above represents the operating entities within the group.

Group ancestry

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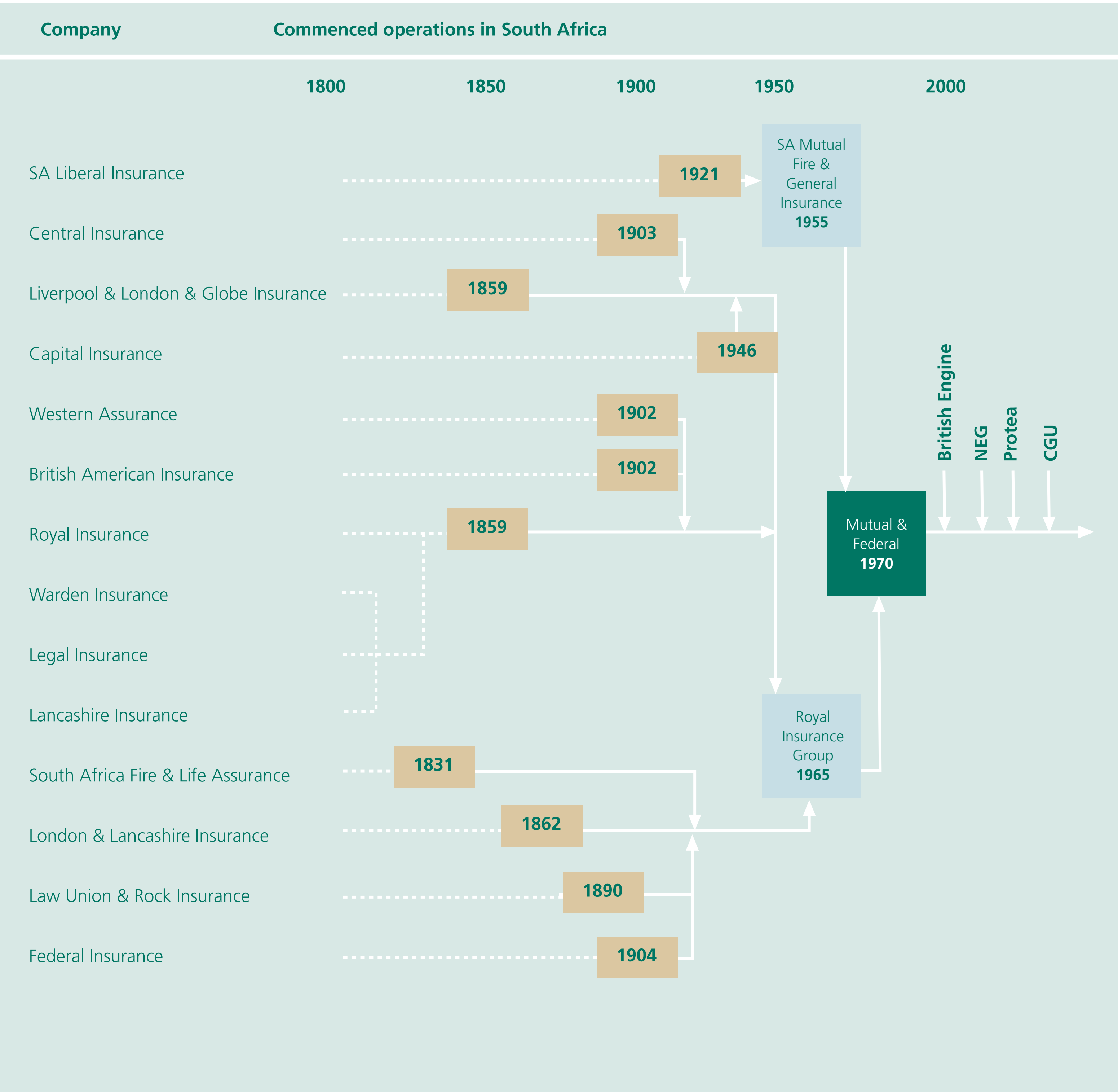

"The underwriting surplus is the highest ever achieved by the company"

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Chairman's statement

K T M Saggers: Chairman

"the group continues to set the pace in terms of innovation"

It gives me pleasure to present this set of financial results for the year ended 31 December 2004. The underwriting surplus is the highest ever achieved by the company and is a credit to the management and staff of Mutual & Federal, all of whom actively supported the group's vision "to be the short-term insurance company of first choice in southern Africa".

The group's mission demands "innovative insurance products and outstanding service that result in real benefit to customers, suppliers, employees and shareholders whilst ensuring commitment to good corporate citizenship and upholding the highest values". Management and staff took this mission to heart and ensured that the promise was matched by delivery. In many ways the group continues to set the pace in terms of innovation and made excellent progress over the last 12 months in its ongoing endeavours to improve customer service.

The short-term insurance industry is highly competitive and there is no room for complacency, particularly in the all-important sphere of customer service. The group is currently involved in a R150 million upgrade of its IT infrastructure aimed at improving business efficiencies, raising service levels and strengthening client retention, with the ultimate goal of moving towards a paperless office environment. This investment will also equip the group with a state-of-the-art data warehouse capable of generating business intelligence and analysis, so as to maintain and enhance market competitiveness.

Economic overview

It is apparent that the South African economy has achieved a situation of relative financial prosperity after 10 years of disciplined economic management under Finance Minister Trevor Manuel's stewardship. Inflation is well controlled within the Reserve Bank's target range and, with that, interest rates have dropped to levels not seen in almost two decades. This in turn has fuelled a consumer and housing boom, propelled largely by a burgeoning middle class. The economy is expected to register annual growth in excess of 3% for the foreseeable future and this will make a meaningful contribution towards reducing South Africa's unacceptably high unemployment levels. The improvement in the country's economic position is reflected in the Rand's continued strength and although this may hamper export industries, it should perhaps be seen as part of the process of economic normalisation. No country can survive forever on the artificial stimulant of currency weakness, and there is some evidence that our export industries are adjusting to this reality.

> "The industry consolidation of recent years has contributed to the reduction of excess capacity in the market"

We support the commitment of Government to increased social spending in an effort to reduce the wealth gap that prevails in South Africa. Such reduction is essential not only for social stability, but for the sustainability of the current economic upturn. Social spending should also be accompanied by large-scale and sustainable employment growth and Government's infrastructure programme, augmented by the investment build-up to the 2010 World Cup Soccer tournament, presents a significant opportunity to reduce unemployment.

Industry overview

The South African short-term insurance industry has enjoyed a positive recovery in underwriting performance since 2001, but it is clear that it has passed the peak of the current cycle. The industry consolidation of recent years has contributed to the reduction of excess capacity in the market, and resulted in a more robust industry. The improved underwriting performance over the previous year was helped by a modest reduction in crime levels and prudent underwriting practices. The industry has been faced with a number of regulatory changes, including the Financial Advisory and Intermediary Services ("FAIS") Act, which came into effect in 2004. The FAIS legislation is intended to provide additional protection for consumers of financial services and products, and will in time replace the Policyholder Protection Rules introduced in 2001. Mutual & Federal took proactive steps to ensure compliance with the FAIS legislation and, although this raises the costs of administration for all market participants, we welcome the goal of improved consumer protection and elevated quality of service levels.

The government has postponed, indefinitely, the proposed deregulation of commission on commercial business, originally planned for late 2004, due to international events that could have a bearing on insurers worldwide.

The group has made reasonable progress in meeting targets in terms of the Financial Services Charter on Black Economic Empowerment ("BEE"). A detailed employment equity plan has been devised, staff training has been accelerated, and plans are in place to ensure all Charter targets are met. A particular opportunity arises within the area of procurement where management is in the process of identifying suitable suppliers and familiarising them with the company's procurement process and quality standards.

Group performance

Gross premium income increased 13% to R7,4 billion during the year under review. If the impact of the strong growth in risk financing and crop premiums is excluded, premium growth was 8%.

Premiums paid to reinsurers reduced by 24% in 2004 following a restructuring of the group's reinsurance programme at the beginning of the year. Net premium income accordingly increased by 19% to R6,7 billion. Claims incurred for the period increased by a relatively modest 8% to R4,2 billion, which was equal to 62% (2003: 68%) of net earned premiums. This healthy improvement in the claims ratio reflects reduced average claims costs and a decline in the severity of fire-related claims.

There was a 36% increase in acquisition expenses to R1,3 billion, as a result of increased business volumes, as well as higher commission levels on inward reinsurances in the Risk Finance division.

General expenses increased 27% to R560 million. This includes non-recurring expenses relating to the aforementioned computer systems development, as well as BEE-related expenses, such as training. Without these items, expenses were contained within inflationary levels.

As a result of the above items there was a 69% increase in the total underwriting surplus and a 79% growth in the underwriting surplus attributable to ordinary shareholders to R609 million from R340 million in 2003.

The General Insurance Result of R864 million was accordingly 44% higher than that achieved in 2003.

There was a reduction in interest income, due largely to lower interest rates, but this was partially offset by improved dividend income. The surpluses on the group's investments portfolio grew strongly as a result of a 27% increase in the value of listed shares following a general improvement on the JSE during 2004.

Dividends and financial position

Following the strong capital position of the group, a special dividend of 350 cents per share was paid in September 2004. This had the effect of returning R860 million to shareholders without negatively impacting the ability of the group to operate effectively.

The net asset value of the group increased during the year, notwithstanding the payment of the special dividend due to the strong underwriting profit and the improvement in the value of listed equities. The solvency margin (being the ratio of net assets to net premiums) at 31 December 2004 was 53% which is well in excess of the group's capital requirements. The group's sound financial position was furthermore confirmed by the "AAA" credit rating assigned to it by Global Credit Rating Company during the year.

Future prospects

The outstanding underwriting success enjoyed by short-term insurers was unquestionably assisted by a number of unusual factors, including deflationary claims costs and reduced severity of large commercial and industrial fires. These conditions cannot be expected to persist and it therefore appears unlikely that the double-digit underwriting ratios enjoyed by the market will continue into the future. The industry has passed the apex of the current underwriting cycle and although market conditions are accordingly likely to be less favourable within the next few years, we nevertheless anticipate an extended period of underwriting profitability.

Global financial markets are entering a period of uncertainty as US interest rates gradually move higher. This will impact international and local share prices, and the JSE Securities Exchange is expected to enter a period of consolidation after two years of strong growth. We nevertheless expect share prices to show modest gains during 2005, aided by a buoyant domestic economy, although changes in the value of the US dollar could significantly impact the JSE. Interest rates may decline slightly but it is likely that they will rise again in due course in line with the international trend.

Changes in shareholdings

During 2004, Royal & Sun Alliance Insurance in the United Kingdom decided to sell the 37% shareholding in Mutual & Federal which it had held for many years. This effectively ended a partnership which had existed since Mutual & Federal was formed and it is with regret that we will no longer be participating in the various insurance initiatives in which we were frequently included. The disposal did, however, present Old Mutual with an opportunity to increase its shareholding from 51% to 88%, thereby providing it with an increased financial interest in Mutual & Federal.

The group has a 51% shareholding in Credit Guarantee Insurance Corporation of Africa Limited ("CGIC") but the results of this subsidiary have not been consolidated, as we were not able to exercise management control during the year as a result of restrictions on voting rights contained in the articles of CGIC. Following the necessary amendments to the articles, however, the results will be consolidated into those of Mutual & Federal with effect from 1 January 2005.

Appreciation

In conclusion, I would like to thank the board of directors for their tireless efforts and wise counsel during this rewarding year. In particular I extend my gratitude to Chris Liebenberg who retired during the year and to Rick Hudson and Simon Lee who resigned from the board in 2004.

I would like to pay special tribute to Mike Levett who will retire from the board in May 2005. Mike first joined Mutual & Federal as a member of general management in 1971 and was appointed managing director in 1980. After returning to Old Mutual he remained on the board and was appointed chairman in 1993. He later stood down as chairman in 1999 and has held the position of deputy chairman since that time. Mike has played an enormous role in the success of Mutual & Federal and his presence will be sorely missed.

The executive team under Bruce Campbell performed admirably in 2004 and I would like to congratulate him and his highly competent and experienced management team on these excellent results. Finally, I would like to express my gratitude to our staff for living up to the group's vision, and to our clients and intermediaries for their continued support.

K. Saggers.

K T M Saggers
Chairman

8 February 2005

"an outstanding commitment by the organisation to the core values"

ACCOUNTABILITY	RESPECT	PUSHING BEYOND BOUNDARIES	INTEGRITY	PASSION

Chief executive's review

B Campbell: Chief Executive

"The improvement reflects the culmination of a number of years of prudent underwriting"

I take pleasure in reporting that the group produced a most creditable financial result during the past year. This success has been achieved largely through the clear identification of the corporate mission and an outstanding commitment by the organisation to the core values of accountability, respect, pushing beyond boundaries, integrity and passion.

The General Insurance Result for the year was R864 million, which was an increase of 44% on the R602 million reported for 2003. The underwriting surplus of R663 million is a record result and was 69% higher than the R392 million in 2003. After excluding the surplus attributable to preference shareholders, the result represents a ratio of 10,1%.

The result was, however, influenced by a highly favourable trading environment. The strengthening Rand moderated the prices of imported goods and automobile parts. In addition there was a reduction in the severity in claims arising from commercial and industrial fires and there were fewer claims related to car thefts and hijackings. These conditions were accompanied by a recovery in the South African economy and investment markets. Consumer spending grew strongly which assisted short-term insurers in terms of new business growth, whilst the value of the group's listed equities grew by some 27% following a strong improvement on the JSE Securities Exchange. There is, however, already evidence of a downward pressure on risk pricing structures and a return to more normal claims levels.

The strategy of Mutual & Federal is to apply rating levels that are commensurate with risk levels and market share growth will not be pursued indiscriminately at the expense of profitability. The current financial results are testimony to the merit of that strategy.

Performance objectives versus targets

Management has set a number of financial objectives for the group in pursuit of the corporate mission. All of these have been achieved in 2004 and in a number of cases they have been comfortably exceeded.

- Premium growth is targeted to exceed inflation plus GDP growth and the 13% increase in gross premiums is therefore most pleasing.
- The underwriting objective is to achieve a surplus in excess of 4% over the long term and the total of 10,1% is accordingly very satisfying.
- Management seeks to control expense growth within inflation levels and although management costs for 2004 were some 27% higher than those for 2003, they contain specific amounts in respect of additional IT expenditure and a provision for staff bonuses.
- The return on capital objective, on a long-term investment return basis, is to exceed 20% and the 24% achieved in 2004 is again most pleasing.
- The group seeks to maintain a balance between capital adequacy and the minimum level of shareholders' funds to optimise the return on capital. A special dividend of R860 million was therefore paid in September 2004 which reduced the solvency margin from 60% to approximately 45%. The year-end solvency margin increased to 53%.

Operations

The Personal division maintained its market position despite intensifying competition particularly in the motor sector, whilst the Commercial division increased market share, due primarily to high levels of client service and a strong, decentralised infrastructure.

The substantial improvement in results reflects the culmination of a number of years of prudent underwriting involving corrective action on under-performing portfolios, pricing at levels commensurate with the risks underwritten, improving service levels and a relentless focus on costs. The result of these efforts is a positive underwriting ratio that underpins a solid long-term underwriting performance.

These results are a credit to the executive team and all Mutual & Federal staff whose task it was to execute management strategies. In recent years the organisation has striven to raise service levels and improve claims settlement periods. It was therefore especially pleasing to win the top award in all three categories in the 2004 survey of short-term insurers by the South African Financial Services Intermediaries Association ("SAFSIA"): Mutual & Federal was named by SAFSIA as Corporate Insurer of the Year, Commercial Insurer of the Year and joint winner of the Personal Insurer category. This emphatic validation from the broking community was most gratifying, but the organisation cannot afford to become complacent in a market that is facing ongoing changes and increasing demands. The recognition accordingly encourages us to deliver even higher service levels and to continue to build stronger relationships with our broker partners who are an integral part of our successful business model.

To this end we are in the process of a substantial upgrade to our IT systems that will deliver improved business efficiencies and cost savings to the ultimate benefit of policyholders, intermediaries and others involved in the Mutual & Federal value chain. The IT upgrade that will be commissioned over the next two years will also significantly enhance business intelligence and will provide new insights into our policyholders, claims patterns and market trends.

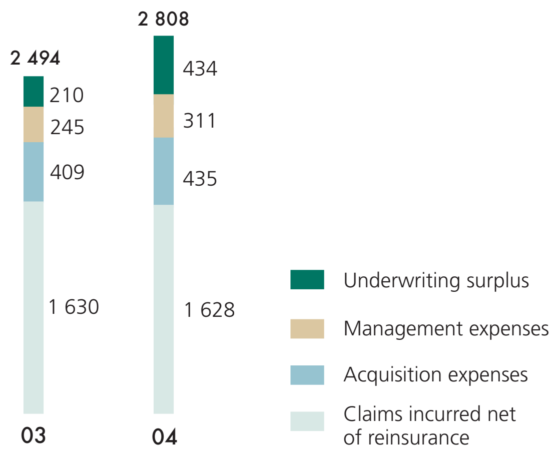
Developments during 2004

During the past year Royal & Sun Alliance Insurance disposed of its shareholding in Mutual & Federal allowing Old Mutual to increase its holding from 51% to 88%. This strengthened relationship with Old Mutual yields a number of synergy benefits, new business opportunities and also a talent management policy that enables staff to enjoy an expanded career path within the wider Old Mutual group and facilitates a larger talent pool for our own human resource requirements.

At the beginning of the year, the branch operation in Malawi was sold. Although this branch was run successfully, it did not enjoy the critical mass required to generate a meaningful return in that market.

Commercial Division

Underwriting result (Rm)

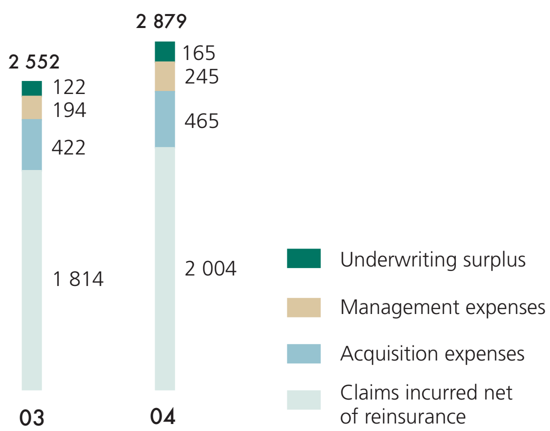


"our broker partners are an integral part of our successful business model"

The majority shareholding of 51% in Credit Guarantee Insurance Corporation of Africa Limited has not only provided Mutual & Federal with a highly profitable return in 2004 but has also assisted the group in providing a comprehensive range of insurance products to clients.

Personal Division

Underwriting result (Rm)



Regulatory issues

The deregulation of insurance commissions, originally planned for implementation in October 2004, has been postponed indefinitely. The implementation of the FAIS act during the year will result in generally improved levels of client service and customer advice and I am pleased that all affected staff have been appropriately registered.

Governance

Mutual & Federal has developed a number of well defined and effective governance structures to ensure that risks are correctly identified, adequately monitored and managed and that all regulatory aspects of the group's affairs are correctly adhered to.

The skill requirements of each governance area has been identified and adequate progress has been made in ensuring that the group has the appropriate level of skills in place to maintain the governance environment.

It is pleasing to note that no significant governance issues have been encountered by the group during the course of the year.

Empowerment

Mutual & Federal is committed to the attainment of broad based empowerment aimed at the development and upliftment of previously disadvantaged sectors of the economy.

This we believe will be achieved by the implementation of sustainable programmes based on sound business principles facilitating the transfer of economic value between a wide range of participants.

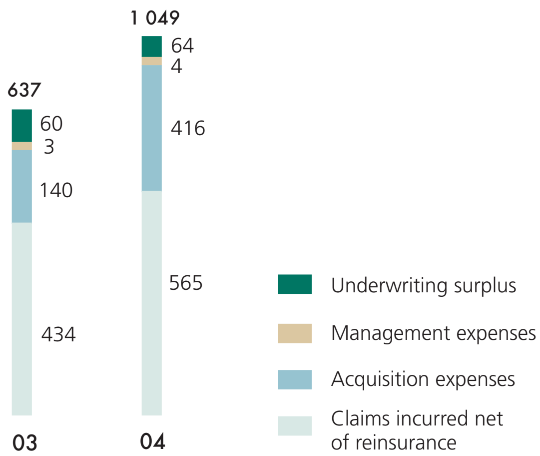
As a signatory to the Financial Sector Charter the company has developed strategies to actively promote transformation in the areas detailed within the Charter. Particular focus will be placed on the development of staff and the attainment of employment equity targets as well as the development of an appropriately empowered procurement structure.

Implementation of these strategies has commenced and reasonable progress has been made in formulating policies and implementing plans to ensure compliance with the Charter targets.

As part of its employment equity initiatives the group has introduced graduate and matriculant training schemes, in addition to existing in-house training and skills upgrade programmes, with the intention of generating a pool of talent and creating opportunities for historically disadvantaged staff to realise their career goals.

Risk Finance Division

Underwriting result (Rm)



It is also particularly pleasing to report that Mutual & Federal staff continue to avail themselves of schemes to undertake study courses, especially those conducted by the Insurance Institute of South Africa. Our staff continue to excel in the related examinations, which is an indication of the success that the group achieves in developing its people.

Conclusion

I would like to thank our management and staff who have contributed so passionately to the excellent performance of the group in 2004. I would also like to thank our many loyal clients for their ongoing support and assure them of our continued commitment to outstanding service.

In conclusion I wish to extend my appreciation to the many intermediaries who continue to promote Mutual & Federal and who are key to our commitment to delivery of insurance products through the intermediary channel.

B Campbell

Managing Director

8 February 2005

"headline earnings per share increased by 67%"

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Chief financial officer's report

P Bezuidenhout: Chief Financial Officer

"The final dividend of 80 cents represents an increase of 67%"

I take pleasure in presenting a financial report in respect of 2004. The year was very successful as the chairman and chief executive have indicated and it is appropriate to elaborate on a number of issues to assist in providing a greater insight into the detail of the results.

Basis of reporting

Policies

The statutory financial statements have been prepared on the basis required by South African Statements of Generally Accepted Accounting Practice.

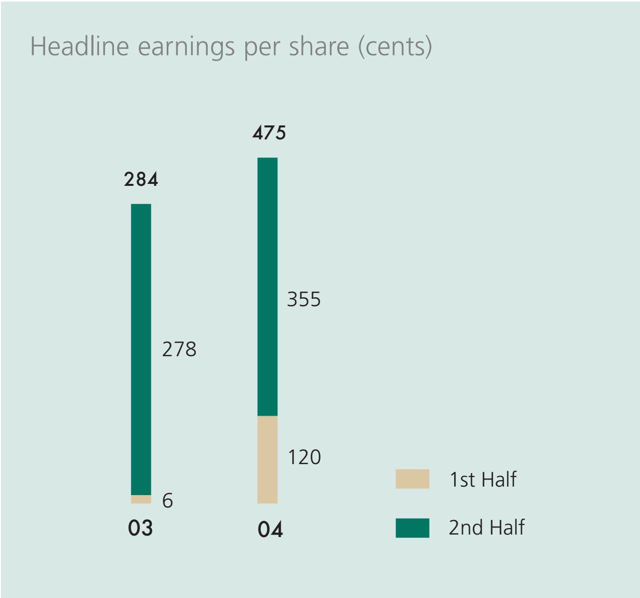
The company conducts underwriting and investment activities and the results are set out in the income statement on page 67 of the annual report and the following policies have been adopted:

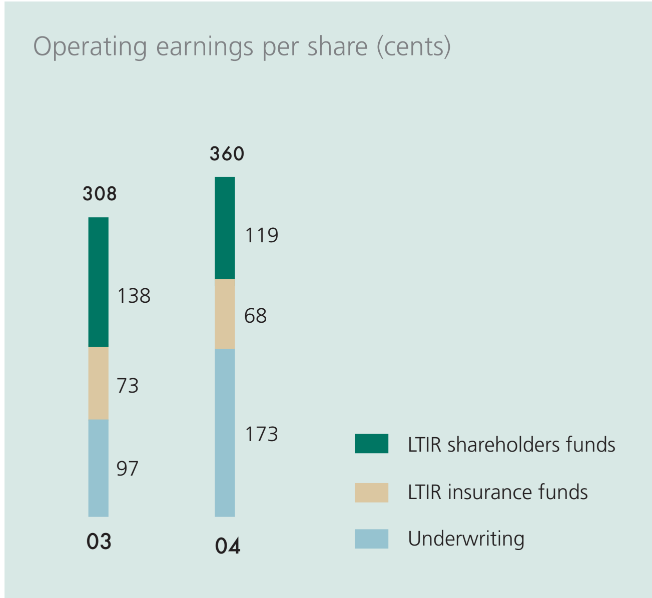
- all investment gains and losses are brought to account,
- the results attributable to preference shareholders in cell captives are included.

On this basis the headline earnings per share increased by 67%.

Supplementary income statement

The policies adopted lead to volatility and accordingly a supplementary income statement is presented on pages 55 to 56.





This removes the volatility from the results by presenting a longer-term view of the sustainable activities and makes analysis and comparison against peers or international benchmarks more meaningful.

Technical account

The technical account in the supplementary income statement reflects:

- the underwriting activities of the group, and
- the investment income earned on insurance funds and shareholders' funds.

The aggregate of these is the long-term operating income which is the basis for calculating operating earnings. The after tax composition of these earnings is reflected above.

Change in long-term investment return ("LTIR")

To remove volatility from the investment income an LTIR is calculated for the relevant category of investments using past performance, current trends and future expectations.

The rate used in 2004 was 12,5% (2003: 13,4%) and is applied to insurance and shareholders funds, smoothed over a three-year period.

Results

General insurance result – overview

A record underwriting surplus for the year under review was achieved following low levels of claims and by adhering to strict underwriting disciplines and stringent cost controls. The consolidated underwriting result for the year was a surplus of R663 million of which R54 million was attributable to preference shareholders in cell captives.

The investment income earned on insurance funds, calculated as explained above, is added to the underwriting result in determining the General Insurance Result ("GIR").

	Cell captives		M&F shareholders		Total	
	Rm	**%***	**Rm**	**%***	**Rm**	**%***
Earned premiums	700		6 036		6 736	
Underwriting surplus	54	7,8	609	10,1	663	9,8
Attributable investment income	5	0,8	196	3,2	201	3,0
General Insurance Result	**59**	**8,4**	**805**	**13,3**	**864**	**12,8**

**As a percentage of net earned premiums*

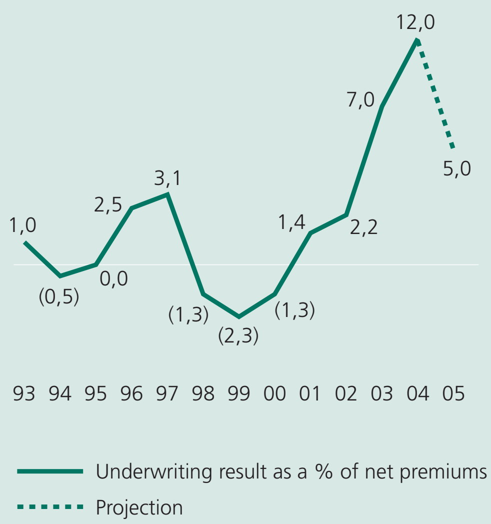
The underwriting surplus as a ratio to earned premiums is 9,8% and compares favourably against prior year of 6,9%. Investment income earned on insurance funds of R201 million is lower than prior year (R210 million) in spite of higher insurance funds and this is due to the reduction in the LTIR referred to earlier.

Underwriting activity

The cyclical nature of the underwriting ratio for the industry over a 13-year period is reflected in the graph below and it appears that the peak of the current cycle has been reached.

Gross premium income increased by 13% to R7 360 million, significantly impacted by growth in the risk financing operations. Reinsurance premiums reduced by 24% to R669 million reflecting a growing appetite for increased risk retention and accordingly net earned premiums increased by 19% to R6 691 million.

Underwriting ratio for the industry



Claims increased by a modest 8% to R4 197 million (2003: R3 878 million). The loss ratio (claims as a percentage of earned premiums) declined from 68% in 2003 to 62% for the 2004 financial year. The loss ratio reflects a reduction in claim numbers and a modest increase in the average cost of claims.

There was a 36% increase in acquisition expenses to R1 316 million (2003: R971 million), the result of higher commissions being paid on increased volumes of business, as well as increased commissions paid on inward reinsurance on the Risk Finance portfolio.

Management expenses increased 27% to R560 million and the ratio to net earned premiums from 7,8% to 8,3%. This is the result of recurring and non-recurring expenses related to computer systems expenditure and staff bonuses as well as higher administration costs (non-recurring) related to the Financial Advisory and Intermediaries Services ("FAIS") Act.

FAIS imposed an additional cost burden on companies operating in the financial services sector, though we expect to see long-term benefits in terms of improved levels of customer satisfaction and client retention. To ensure compliance with this legislation, the group embarked on a substantial logistical exercise to provide training, advice and registration services to our various stakeholders.

Underwriting account – results by class

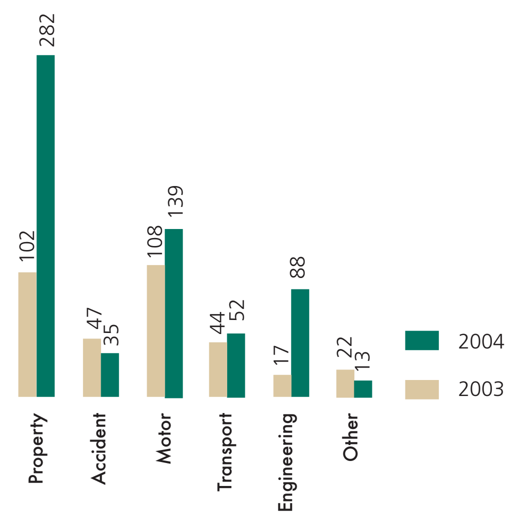
The property portfolio showed an underwriting surplus of R282 million, positively impacted by the relatively low level of fire-related claims on commercial and industrial policies.

The surplus on the motor account was R139 million and, although an improvement on 2003, will require further rate adjustments to strengthen underwriting performance.

The transport and engineering portfolios showed improved results in the 2004 financial year, helped by the relatively low levels of large losses. The accident account posted a satisfactory result, and rate adjustments are being implemented where necessary to improve the underwriting result.

The improvement in the exchange rate of the Rand lowered the costs of imported motor and other parts, which helped contain cost increases related to claims.

Underwriting result by class (Rm)
(attributable to ordinary shareholders)



Investment income

Investment income was positively impacted by a buoyant JSE. Realised and unrealised surpluses on investments increased 215% to R681 million (2003: R216 million). There was a slight reduction in dividend, interest and property income, due largely to lower interest rates in spite of higher funds on deposit.

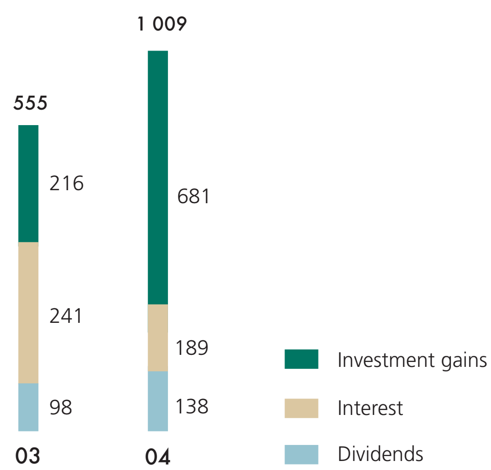
Abnormal items

The abnormal items are analysed on page 91 and are considered to be non-recurring in nature.

Taxation

The effective tax rate of 28,4% (2003: 27,0%) has been impacted by the inclusion in the tax charge of R117 million STC on dividends, following the payment of the special dividend. The tax rate reconciliation is reflected on page 92.

Investment income



Preference shareholders

The after-tax income attributable to preference shareholders in the cell captive subsidiary is based on the GIR of R59 million earned in that subsidiary. As the income ultimately belongs to policyholders it is excluded from group earnings.

Shareholding, associates and subsidiaries

During the year Old Mutual acquired a further 37% of the issued share capital of the company that resulted in the shareholding increasing to 88%.

Although the shareholding in Credit Guarantee Insurance Corporation of Africa Limited ("CGIC") is 51%, the results are not consolidated on the basis that certain voting restrictions impacting effective control were only resolved during January 2005. Accordingly CGIC results will be consolidated in 2005.

The group operates wholly owned subsidiaries in Namibia and Botswana. The group also has an associate in Zimbabwe, the results of which are accounted for on the basis of dividends received. The branch in Malawi was sold during the year.

The group deregistered five dormant, subsidiary companies during the year.

Balance sheet

The solvency ratio (ratio of net assets to net premiums) had risen to over 62% by 30 June 2004. Accordingly, a special dividend of 350 cents per share was declared during July 2004, returning R860 million to shareholders. At year end solvency was 53% (2003: 62%) and net asset value per share was R14,47 (2003: R14,10).

Financial and regulatory

IFRS

With effect from 1 January 2005 the company will commence reporting financial results in accordance with International Financial Reporting Standards ("IFRS"). South African Statements of Generally Accepted Accounting Practice ("GAAP") are closely aligned to IFRS in many respects and the transition is therefore not expected to materially impact the results when they are reported in terms of IFRS for the first time in July 2005.

The changes which are expected to have a financial impact on Mutual & Federal are the:

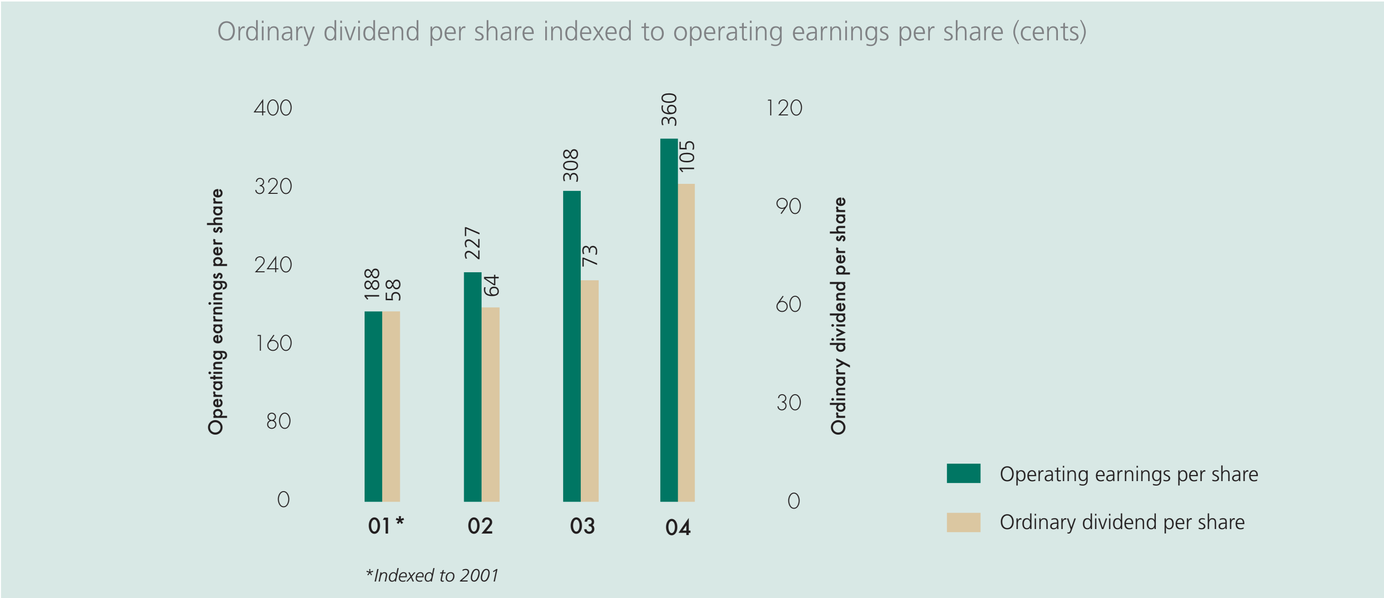
- requirement to fair-value owner-occupied properties,
- cessation of amortisation of goodwill and the application of impairment in its place, and
- need to account for the cost of share-based payments.

The first phase of the IFRS statement for short-term insurers will also require companies to provide significantly greater degrees of disclosure to financial statements both with regard to the:

- amounts arising from insurance contracts, and
- amount, timing and uncertainty of future cash flows from insurance contracts.

This will be provided when the financial statements for the year ended 31 December 2005 are issued in early 2006.

The second phase of the short-term insurance statement could necessitate a substantial change to the basis on which short-term insurers present their financial statements and may require companies to fair-value all insurance liabilities – which has occasioned much controversy within the industry. Given this controversy, it is expected that it will not be applicable until approximately 2010.



Investment income in cell captives

For the first time in 2004, investment income earned on insurance funds in the cell captives are reflected in the group income statement. As this portion of the investment income is attributable to outside shareholders, the after-tax effect is shown as an appropriation to preference shareholders.

Change in accounting policy

During the period the company changed its accounting policy with regard to deferred tax on STC credits in terms of AC 501. The cumulative effect of this change amounted to R7 million and has been added to the opening balance of retained income.

Dividends

The final dividend of 80 cents represents an increase of 67% on the 48 cents paid in the prior year and brings the total dividend to 105 cents compared to 73 cents in respect of the 2003 year.

Ordinary dividends per share over three years have been indexed to operating earnings per share in 2001 in the graph above.

Outlook

Investment income on insurance funds is expected to reduce as a ratio to total GIR in the light of expected long-term low inflation and low interest rates.

Although it is expected that the underwriting cycle will soften, the group remains committed to achieving positive underwriting results. There is a likelihood that underwriting results will be less volatile and conditions remain conducive to profitability.

Synergies in the wider Old Mutual group will be pursued in an endeavour to maximise profitability through cost reductions and improved efficiencies.

"Service excellence is a vital differentiator"

Operational report

ACCOUNTABILITY | RESPECT | PUSHING BEYOND BOUNDARIES | INTEGRITY | PASSION

Commercial business

Commercial business was pleased to produce premium income of R2,8 billion in 2004 representing a 12% growth over 2003. This income constitutes 38% of the total premium income of Mutual & Federal and the strong growth in recent years follows an active focus on enhancing relationships with intermediaries, particularly those in the small to medium sector of the market.

There has been a continued growth in market share due to this focus and a continued commitment to customer service. The growth achieved was a result of premium increases which were necessary on a number of portfolios and an increase in policy numbers, which have grown at a rate of 10% per annum for the last three years. This is a key measurement in determining the real success of the division.

Commercial business produced a highly satisfactory result during 2004 following the favourable trading conditions. It is inevitable, however, that rates will soften during 2005, but the division will continue to exercise sound underwriting and rating practices. There is already evidence of competitors seeking to achieve greater market share and this inevitably leads to aggressive rate cutting and poor underwriting. Mutual & Federal will, however, maintain its strategy of good risk selection and fair premiums rather than pursuing market share at the expense of profitability. Our growth strategy of client retention and new business acquisition will therefore be focused on exemplary service levels rather than opportunistic price reductions.

A major project for 2005 will be the rollout of a new IT infrastructure involving a substantial re-engineering of business processes. The ultimate goal of this project is a paperless environment which will also lead to improved management controls and better interaction with intermediaries and clients.

Corporate business

Corporate business addresses the insurance needs of the top two hundred companies in South Africa, and counts roughly one-fifth of these companies amongst its clients. Our clients are heavily weighted towards the heavy industrial and mining sectors whilst the specialist classes of marine and engineering are also underwritten in this area.

The underwriting result was satisfactory, but it must be borne in mind that underwriting returns in the corporate insurance market tend to be volatile. This is largely due to the small policy base and the relatively large size of individual risks. There is accordingly a lack of critical mass in the market in general.

During 2004, there was a trend towards reduced premium rates. The peak of the underwriting cycle appeared to be reached towards the second half of the year and the market saw softer rates with competitors bidding for increased market share. Management's response to the ongoing softening in the underwriting cycle is to maintain a conservative and disciplined underwriting stance and to focus on quality business. We remain confident of maintaining a positive underwriting result in the year ahead. We would note, however, that weather and fire related claims have been abnormally low over the last two years and the profit achieved in 2004 is unlikely to be repeated in 2005.

Conditions remain competitive in the marine insurance market due to oversupply of capacity. The engineering sector performed very well in providing its best result in more than 10 years. This was due to the lower incidence of high value type claims.

Risk finance

Mutual & Federal provides facilities to clients allowing them to carry some of their own risk and effectively operate as autonomous insurance entities. This is done through what are often referred to as "rent-a-captive" and "cell captive" arrangements.

Net premiums written under these two facilities increased by 87% to just over R1,0 billion and followed the acquisition of new accounts and organic growth in the portfolio. The majority of the new accounts are in respect of furniture retail business and the organic growth was substantially impacted by the exceptional increase in consumer retail spending which resulted from the upturn in the South African economy.

An underwriting profit of R64 million was made by the division of which R54 million was attributable to preference shareholders who own cells.

During 2004 IFRS 4, the international accounting practice statement on insurance was released. This statement provides clarity in regard to risk transfer requirements in respect of captive insurance contracts. Mutual & Federal is working together with its clients to provide long-term viable risk financing solutions that comply with the new accounting standard and that provide cost effective premiums. It is expected that the growth in premium experienced in 2004 will to some extent be tempered in 2005 by the effects of IFRS 4 and the downturn in the insurance cycle, as certain traditional captive programmes may be more effectively written into conventional insurance products.

Personal non-schemes business

The personal non-schemes portfolio consists of two major product groupings being Allsure and Houseowners insurance.

Allsure is the group's in-house branded product providing comprehensive personal insurance to the personal insurance market. This premium product has been positioned at the upper end of the personal insurance market and is characterised by an extremely wide range of cover and exceptional levels of flexibility and client service. 2004 was another excellent year for Allsure, and premium income grew by 21%. This growth was achieved through rate increases and a 5% growth in client numbers.

A further improvement to the product was launched towards the end of the financial year, with the implementation of a new product rating system. This system allows for a more "lifestyle" related approach to policy rating, allowing Allsure policies to be priced more accurately taking into account the lifestyle of the policyholder and the associated level of risk. This new system will also pave the way for the introduction of a wider range of niche products.

Another highlight of the year was the substantial strengthening of the highly skilled actuarial team within the division, resulting in a further improvement in underwriting methodologies.

To supplement the product offering of the division and to make insurance available to a broader range of the community, plans are in place for the rollout of a new range of products targeting the lower income market. These products will offer limited insurance cover at affordable prices and will appeal to many households which had previously not been in a position to enjoy such protection.

The second section of the portfolio comprises the houseowners' section which provides comprehensive insurance policies on properties. This section achieved premium growth of 14% and generated a satisfactory underwriting return despite substantial storm-related losses in the last quarter of the year. Policy sales were boosted by the residential housing boom, and this trend is expected to continue to benefit from the stimulatory effects of low interest rates.

Personal group schemes business

The group schemes portfolio comprises a range of intermediary branded products available to groups of individuals. These group schemes each generate annual premium income of between R5 million and R250 million, and are typically offered to their clients by affinity groups, banks and brokers. Premium income for the year grew by 7%, in a highly competitive market building on the continuing positive growth trend of 2003. This growth was achieved despite the cancellation of certain poorly performing schemes.

Underwriting results continued to improve as a result of more accurate rate setting and better selection criteria and the success of this portfolio is built around strong intermediary relationships.

Stringent management control over underwriting standards and continuous attention to pricing and operating expenses remain the focus of management in their strategy to sustain profitability.

Claims

Mutual & Federal processed approximately 420 000 claims during the year, representing a total payment of R4,2 billion, approximately half of which is motor-related. There was a reduction in the ratio of claims as a percentage of premiums (excluding preference shareholders) from 65% to 58% as a result of the favourable trading conditions as well as a number of initiatives undertaken by the company that are aimed at containing claims costs. These are detailed below and will continue to have a favourable impact on the control of claims costs.

The most important of these initiatives was the Vehicle Accident Management Process ("VAMP") project. This entailed signing service level agreements ("SLAs") with some 390 tow-truck operators and 790 panelbeaters throughout the country in July 2004. These SLAs establish quality and cost parameters that will restrict claims costs and assist in delivering improved levels of service. SLAs have also been signed with all the company's other major motor and non-motor suppliers of goods and services, in order to continue to improve levels of service.

Sophisticated software and fraud detection measurements are also in place to improve the company's ability to proactively detect fraudulent claims and during the year the payment of fraudulent claims in excess of R100 million was prevented.

The decentralised structure of the claims operation provides a key competitive advantage to the organisation as it expedites claims payouts and builds stronger relationships at local levels. The claims division employs some 900 staff members in more than 50 branches and local offices throughout the country. The company also benefits from the presence of in-house specialist expertise in areas such as motor and non-motor claims assessment, procurement, legal advice and specialist fraud investigation.

In terms of the Financial Services Sector Charter on Black Economic Empowerment ("BEE"), the procurement policies of companies are required to start reflecting the demographic composition of the country. In terms of this charter insurance companies will be obliged to source 50% of their procurement needs from black-owned companies by 2008 and 70% by 2014. The challenge for insurers is accordingly to integrate BEE suppliers into the formal sector and familiarise them with the quality standards and business processes of insurance companies. Mutual & Federal is working closely with industry associations in setting benchmarks for quality standards and familiarising BEE firms with the business process. Significant progress has already been made by Mutual & Federal in identifying BEE suppliers and familiarising them with the company's business processes and quality standards.

Management believes that service excellence is a vital differentiator between Mutual & Federal and its competitors. A key objective for 2005 is therefore the continued roll-out to branches and local offices of a new claims workflow system that will allow claims to be processed and settled in a paperless environment, resulting in faster turnaround times and improved service levels.

Services

This division provides administrative, IT and accounting support to the group. A major initiative is currently underway to upgrade the group IT systems at a cost of R150 million over two years. Roughly half of this investment is earmarked for business re-engineering, with the ultimate aim of migrating the group towards a paperless environment. We expect to recoup this investment over time through improved business efficiencies, elevated service levels and enhanced client retention.

A second element of the IT upgrade involves the implementation of a data warehouse supported by cutting edge business intelligence systems that will give us new insights into customer behaviour, claims patterns and other aspects of our business. This will yield important benefits, such as improved actuarial ratings on policies written, and this in turn will strengthen the group underwriting disciplines.

The finance unit falling within the Services division is tasked with providing prompt, meaningful and accurate information to the group to facilitate effective decision-making. It furnishes the various operations with historical performance reviews as well as forward financial planning, credit control and costing input. The IT upgrade currently underway will allow the finance unit to provide improved financial analysis and more pro-active forward planning. Improved credit control has reduced debtor days outstanding to 69 from the previous year's 73, and further improvements are anticipated in the coming year.

The finance unit is also responsible for managing the group's R4,5 billion investment portfolio, with advice from Old Mutual Asset Managers. The portfolio is predominantly invested in blue chip stocks, with a cash float sufficient to meet projected liabilities.

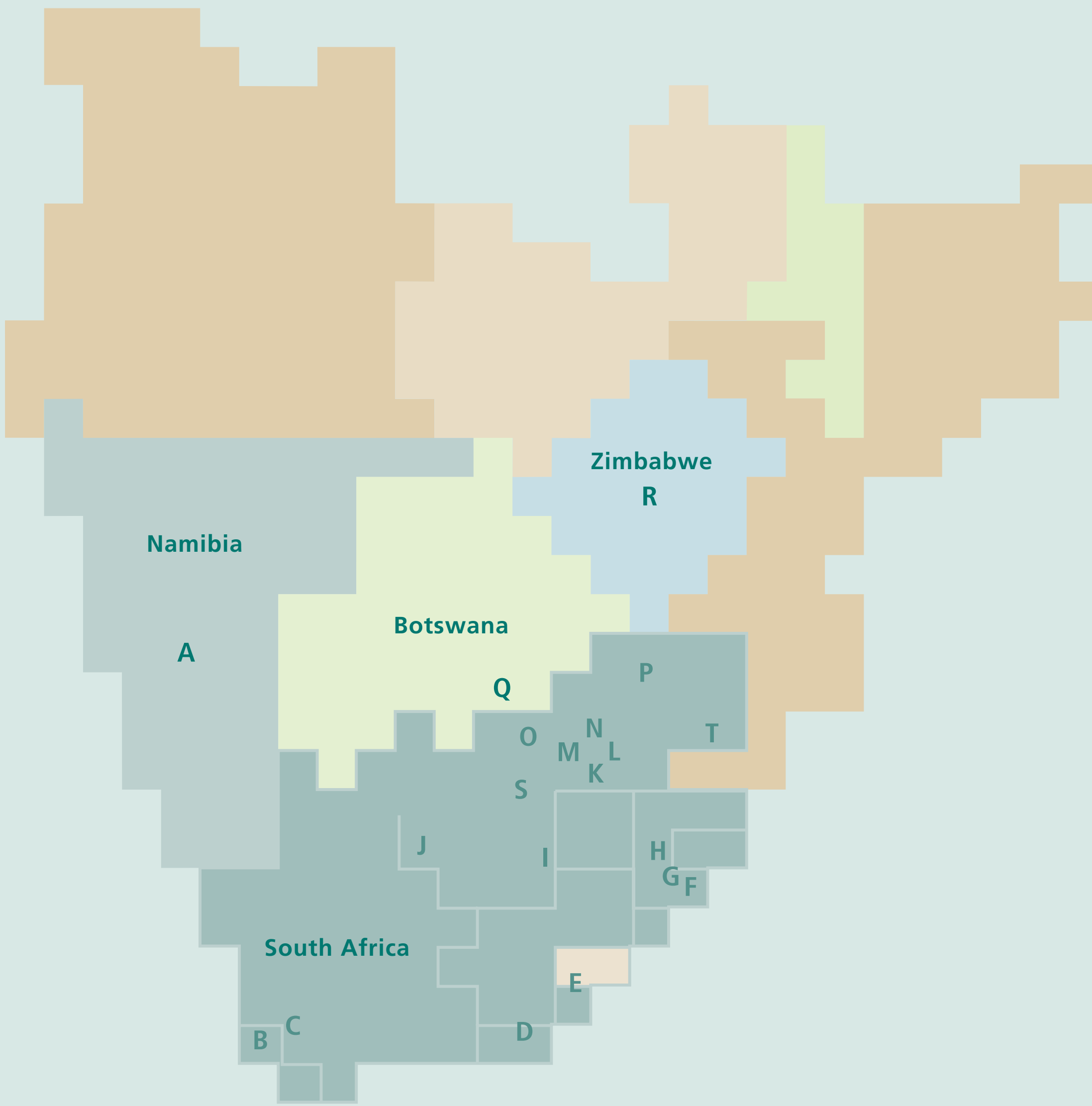
The Forensic Auditing unit located within the Services division has had considerable success in reducing fraud over the last year. Several new staff have joined the unit, which now boasts a formidable and experienced team of investigators and forensic auditors. Several cases of insurance fraud were successfully prosecuted during the year, and a much improved fraud detection rate sends a powerful message of deterrence to fraudsters.

Branch organisation

ACCOUNTABILITY | RESPECT | PUSHING BEYOND BOUNDARIES | INTEGRITY | PASSION

CITIES

A Windhoek
B Cape Town
C Paarl
D Port Elizabeth
E East London
F Durban
G Pinetown
H Pietermaritzburg
I Bloemfontein
J Kimberley
K Johannesburg/Randburg
L Benoni
M Roodepoort
N Pretoria
O Rustenburg
P Polokwane
Q Gaborone
R Harare
S Klerksdorp
T Nelspruit



Board of directors

ACCOUNTABILITY	RESPECT	PUSHING BEYOND BOUNDARIES	INTEGRITY	PASSION

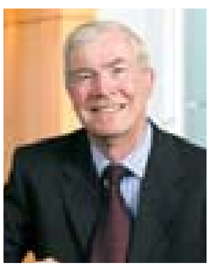


Ken Saggers
Bruce Campbell
Mike Levett
(from right to left)





Bob Head
Mick Hyatt
Philani Jones Vilakazi
Len Konar
Rick Menell
(from right to left)




Lot Ndlovu
Julian Roberts
Eddie Theron
Robbie Williams
(from right to left)

Executive management

ACCOUNTABILITY	RESPECT	PUSHING BEYOND BOUNDARIES	INTEGRITY	PASSION

Cornel Fourie

Group Human Resources



Chris Grieve
Steve Legge
Merrick Oeschger
(from right to left)

Commercial Division


Ian Jurgensen
Bradley Kuhn
(from right to left)

Business Support Division



Howard Cohen
Mariette Hendriks
Keith Kennedy
(from right to left)

Claims Division

Jonathan Golding

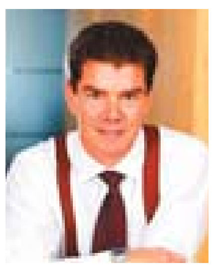
Chief Information Officer



Henry Appleby
Brian Johnson
Jono Soames
(from right to left)

Personal Division



Pieter Bezuidenhout
Chris Kemp
Gary Benton
Brian Laird-Smith
(from right to left)

Services Division

Directorate and executive team

ACCOUNTABILITY	RESPECT	PUSHING BEYOND BOUNDARIES	INTEGRITY	PASSION

BOARD OF DIRECTORS

Chairman

K T M Saggers (68)[1 3]

Is non-executive Chairman, having previously held the role of Managing Director from 1987 until 1998. He is currently Chairman of Credit Guarantee Insurance Corporation of Africa Limited. He is also a director of Mutual & Federal Insurance Company of Namibia Limited.

Executive

B Campbell (54)

B.A., M.B.L., F.C.I.I., joined the short-term insurance industry through Royal Insurance Company in 1972 shortly before it merged with Mutual & Federal. He was appointed Managing Director of Mutual & Federal on 1 July 1998. He serves as director on the boards of the South African Insurance Association ("SAIA") as well as RM Company (Private) Limited, incorporated in Zimbabwe, Mutual & Federal Risk Financing and Mutual & Federal Insurance Company of Namibia.

Non-executive

M J Levett (65)

B.Com., D.Econ. Sc.(h.c.), F.I.A., F.F.A., F.A.S.S.A., is deputy Chairman, having previously held the role of Chief Executive Officer from 1980 to 1985. He is a non-executive director of Barloworld Limited, Central Africa Building Society, SABMiller plc, Old Mutual plc, Old Mutual South Africa Trust plc and Nedcor Limited.

R M Head (46)*[1 2]

MA(Oxon), A.C.A., A.C.I.I., F.I.C.B., joined as a non-executive director of the company in September 2004. He is Group Strategy and Human Resource Director of Old Mutual plc. He is also a non-executive director of Nedcor Limited. He was formerly Chief Executive Officer of Smile plc and a director of Egg plc.

A M Hyatt (67)[3]

B.A., F.I.V. (S.A.), has been a non-executive director since 1996. He is currently executive director of Marriott Holdings Limited Group and serves on the Board of Marriott Holdings Limited and its subsidiaries. He is currently also Chairman of the Mangosutho Technikon Foundation and was a past Chairman of the KwaZulu Natal Conservation Trust.

P D Jones Vilakazi (Mrs) (55)**[3]

B.A., M.Ed., was appointed as a non-executive director in 2003. She is presently General Manager of Exegesis Consulting. She was President and Executive Director of Madison Park Development Corporation in Boston. She was appointed as Special Assistant to the Chief Executive Office for Administration Finance in the Commonwealth of Massachusetts, and as Director of Public Affairs for the Greater Boston Chamber of Commerce.

D Konar (51)[2 3]
B.Com., H.Dip. Acc., MAS Cert Tax Law, D.Com., C.A.(S.A.), was appointed as a non-executive director in 2003. He is Patron of the Institute of Internal Auditors South Africa, and a member of the King Committee on Corporate Governance, the Securities Regulation Panel, the Corporate Governance Forum and the Institute of Directors. He is also Chairperson of the Ministerial Panel for the review of the regulation of accountants and auditors. He is a non-executive Director of Old Mutual SA, the SA Reserve Bank, JD Group, SAPPI, Kumba Resources and Steinhoff International Holdings.

R P Menell (49)[1 3]
B.A. (Hons.), M.A., M.Sc., joined the company in 1996 as a non-executive director. He is currently Chairman of Anglovaal Mining Limited and Avgold Limited and Deputy Chairman of Assmang Limited. He serves on a number of other boards as non-executive director including Standard Bank Group, Telkom SA Limited and the National Business Trust and is Chairman of the parastatal South African Tourism Board.

M L Ndlovu (53)
Dip. L.R., M.A.P., E.D.P., A.M.P. (Harvard), D. Tech. (h.c)., joined the company as a non-executive director in 2004. He is a director of Nedcor and Chief Executive Officer of Peoples Bank Limited. He is a non-executive chairman of Lafarge South Africa (Proprietary) Limited, the Community Growth Management Company Limited and the Environmental & Infrastructure Development Trust. He is the Patron of Midrand Graduate Institute and The Milpark Business School and deputy Chairman of the Council of the Technikon Witwatersrand. He is a non-executive director of Nampak Limited and the South African National Roads Agency.

J V F Roberts (47)*
B.A., F.C.A., M.C.T., has been a non-executive director of the company since August 2000. He is Group Finance Director of Old Mutual plc. He is also a non-executive director of Nedcor Limited. He was formerly Group Finance Director of Sun Life & Provincial Holdings plc, he was a director and Chief Financial Officer of Aon UK Holdings Limited.

E P Theron (63)[2 3]
B.Com., LL.B., has been a non-executive director of the company since 1996. He was formerly Group Chief Executive of Standard Bank Group Limited and currently also holds non-executive directorships on the boards of Barloworld Limited and Pretoria Portland Cement Company Limited.

R A Williams (64)[1 2 3]
B.A., LL.B., has been a non-executive director of the company since 1995. He is currently Chairman of Tiger Brands Limited and Illovo Sugar Limited. He also serves on the board of First Rand Limited and Oceana Group Limited. He was previously Chief Executive Officer of Tiger Oats Limited and then appointed as Chairman. He was also Chairman of CG Smith Foods Limited and was appointed to the board of Barlow Rand Limited.

Legend:
* *British*
** *American*
[1] *Member of the Remuneration and Nomination Committee*
[2] *Member of the Audit, Risk and Compliance Committee*
[3] *Independent director*

EXECUTIVE

Managing Director

B Campbell (54)

B.A., M.B.L., F.C.I.I., joined the short-term insurance industry through Royal Insurance Company in 1972 shortly before it merged with Mutual & Federal. He was appointed Managing Director of Mutual & Federal on 1 July 1998. He serves as director on the boards of the South African Insurance Association as well as RM Insurance Company (Private) Limited, incorporated in Zimbabwe, Mutual & Federal Risk Financing and Mutual & Federal Insurance Company of Namibia.

Executive General Managers

H J C Appleby (56)

F.C.I.I., became Executive General Manager, Personal Group Schemes in 2000 and Executive General Manager Personal Business in March 2005. He joined the short-term insurance industry through the Royal Insurance Company in 1968, and filled various posts within the group, including Regional Manager, Kimberley and Regional Manager, Benoni. He was promoted to Assistant General Manager, Commercial Business in 1997. He is currently an alternate director on the board of Mutual & Federal, Namibia.

P Bezuidenhout (44)

H.C.I.L., C.I.S.A., B.Compt. (Hons.), C.A.(S.A.), joined Mutual & Federal in October 1999. As Executive General Manager: Services, he assumes responsibility for Financial Services, Secretarial Services, Compliance and Risk Finance. He serves as director on the board of Credit Guarantee Insurance Corporation of Africa Limited.

I Jurgensen (55)

F.C.I.I., was appointed to General Management in 1997. He has been with the company since 1968 when he joined London and Lancashire. He was appointed Executive General Manager in March 2005 and is responsible for the Business Support area. He is currently Chairman of the SAIA Insurance Data Sharing committee and sits on the South African Insurance Institute Membership committee.

K N Kennedy (53)

F.C.I.S., F.C.M.A., A.C.I.I., joined Mutual & Federal in June 2000 to head up the Commercial Business Division. In 2002 he was appointed Executive General Manager Claims. He has more than 20 years' experience in the short-term insurance industry and serves on the board of Nedinsurance Company Limited.

M W Oeschger (39)

Became Executive General Manager, Commercial in 2002. He serves as Chairman of the board of Mutual & Federal Insurance Company of Botswana Limited and is a director of Sentrasure Insurance Company Limited and Credit Guarantee Insurance Corporation of Africa Limited.

General Managers

G M Benton (53)

B.A. Hons., C.A.(S.A.), F.C.A. (U.K.). Joined Mutual & Federal in November 2000 as Group Secretary. He has responsibility for all secretarial, administration and governance functions within the group.

H T Cohen (53)

B.A., LL.B., became General Manager: Claims in 1998. He joined Mutual & Federal in the legal department in 1980 having previously worked for the Department of Justice.

C Fourie (43)
B.A (Hons.), A.E.P. (Unisa), joined Mutual and Federal in February 2005 as General Manager Human Resources from Nedbank, where he held the position of Head: Specialised Solutions.

J A Golding (54)
M.C.S.S.A., was appointed Chief Information Officer in December 2004. He joined Old Mutual's IT department in 1969 and transferred to Mutual & Federal in 1990 as IT Manager. He was appointed to the Executive in 1997 and spent two years as General Manager Personal Business immediately prior to being appointed CIO.

C G Grieve (44)
Joined Mutual & Federal in 1980 and was promoted in November 2000 to General Manager Personal Lines and subsequently moved to Corporate Business in April 2002. He is currently responsible for all Commercial Business National Brokers and Reinsurance. He served as a director of The Fire Protection Association of Southern Africa for the last three years.

M Hendriks (Ms) (46)
B.A., M.B.L., A.C.I.I., was appointed General Manager Claims in 2000. She joined Mutual & Federal in 1983, and serves on the board of the Ombudsman for Short-term Insurance.

B D Johnson (45)
F.I.I.S.A., appointed General Manager Personal in March 2005 and is responsible for Personal Group Schemes. He joined Mutual & Federal in 1983 and has served as a Regional Manager since 1997 in various operations in South Africa.

C P Kemp (52)
B.Com., C.A.(S.A.), F.I.R.M.S.A., A.I.I.S.A., joined the company as a General Manager in January 1998. He is responsible for risk financing and internal audit. He is the Chairperson of the Insurance Sectoral Training Authority and The Intermediaries Guarantee Facility Limited. He has specialised in insurance industry accounting and risk financing insurance since 1979, firstly as an auditor and subsequently in the industry itself.

B J Kuhn (43)
Was appointed to the position of General Manager Commercial in 2002 and was appointed General Manager Business Support in March 2005. He started his insurance career with Commercial Union Insurance in 1983 and joined Mutual & Federal at the merger of CGU and Mutual & Federal in 2000.

B R Laird-Smith (51)
B.Com., C.A.(S.A.), has been General Manager Finance since 1995 having previously held the role of Group Financial Manager from 1989. Prior to joining Mutual & Federal he spent 13 years with KPMG and presently sits on the board of City Deep Salvage Company.

S Legge (49)
F.I.I.S.A., F.C.I.I., was appointed General Manager Commercial Business, Independent Brokers in March 2005. He joined Royal Insurance U.K. in 1973 and was seconded to Mutual & Federal South Africa from 1984 to 1988 and joined the permanent staff of Mutual & Federal in 1989.

J C Soames (43)
Appointed General Manager Personal in March 2005 and is responsible for the Allsure and House-owners portfolios in southern Africa. He was previously General Manager Personal Group Schemes from 2000. He joined Mutual & Federal in 1981 and served in a number of locations as Regional Manager.

"Committed to fair dealing, integrity, openness and accountability"

ACCOUNTABILITY | RESPECT | PUSHING BEYOND BOUNDARIES | INTEGRITY | PASSION

Corporate governance

Mutual & Federal is committed to achieving high standards of corporate governance and internal control as well as to fair dealing, integrity, openness and accountability to all stakeholders. Directors and employees are expected to conduct themselves and the business in a manner which reflects this long-term commitment to ethical behaviour.

Compliance with King Report on Corporate Governance (King II Report)

The company endorses the Code of Corporate Practices and Conduct contained in the King II Report ("the Code") and has a number of mechanisms in place to monitor conduct and ensure compliance. The company complies in all material respects with the provisions of the Code.

A summary of current compliance with the Code is as follows:

Board of directors and board committees

The company has a unitary board structure, which comprises one executive director, four connected non-executive directors and seven independent non-executive directors. The positions of Chairman and Chief executive are separate. The Chairman of the board is an independent non-executive director.

Non-executive directors complement the skills and experience of the executive director contributing to the formulation of policy and decision making through their knowledge and experience.

An induction process for newly appointed directors has been introduced to apprise them, where required, of their fiduciary duties and to acquaint them with the operations of the company.

Details of the directors appear on pages 34 to 35.

The board has adopted formal written terms of reference, which determine the responsibilities, and authority of the board and its committees. These terms of reference have been drafted in compliance with best practice and the Code.

The main functions of the board are:

- determining the overall strategy and objectives for the company,
- formulating company policies,
- monitoring and evaluating the performance of the company,

- rating the performance of the directors and executive management of the company,
- establishing and ensuring that the company complies with appropriate corporate governance principles,
- assessing and monitoring the risk profile of the company, and
- performing succession planning.

The board meets four times per annum plus additionally as required to deal with any specific matters requiring board attention. It is responsible for the strategic direction of the company, the monitoring of operational performance and decision making on major issues.

The board and its committees are supplied full and timely information by management to enable them to discharge their duties. A Company Secretary is in place to provide information, services and advice to all members of the board. They may also seek independent professional advice on the affairs of the company, should this be considered appropriate.

All directors are subject to retirement and re-election by the shareholders every three years. Details of directors who are available for election or re-election to the board at the next annual general meeting are included on page 64.

The board has established a number of standing committees. These committees operate with written terms of reference and comprise non-executive directors.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises four non-executive directors, three of whom are independent non-executive directors, and determines the terms of employment and remuneration of company executives and approves overall remuneration levels of other grades of staff. In addition it is responsible for making recommendations to the board on the appointment of directors and the structure of the board. The committee is chaired by Mr Saggers and met four times in 2004.

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee, which met twice during the year, comprises four non-executive directors, three of whom are independent directors, and is chaired by Dr Konar. The role of the Audit, Risk and Compliance Committee is to assist the board by performing an objective and independent review of the functioning of the finance, risk and accounting mechanisms. This is achieved through close co-operation and communication with management and the internal and external auditors, who have unrestricted access to members of this committee.

The Group Risk Management committee is chaired by Mr Campbell. It reports to the Audit, Risk and Compliance Committee and comprises three members of executive management. It reviews risk management and compliance procedures throughout the group to ensure that appropriate controls are in place to address those risks.

Accountability and audit

Internal control environment

The board has overall responsibility for the system of internal control of the group and for reviewing its effectiveness. The role of executive management is to implement board policies on risk and control.

The internal control structures of the group are designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the annual financial statements, that assets are adequately safeguarded against material loss and that transactions are properly authorised and recorded. Such controls are based on established written policies and procedures, which are monitored and applied by skilled personnel with an appropriate segregation of duties through clearly defined lines of accountability and delegation of authority. Nothing has come to the attention of the directors to indicate that any material breakdown of the key internal controls and systems occurred during the period under review.

Internal audit

The group's internal audit department carries out regular risk focused reviews of the system of internal control. It operates independently of executive management, reporting to the General Manager responsible for internal audit on a functional basis. Internal audit has unrestricted access to the Audit, Risk and Compliance committee and the board of directors. An internal audit charter, reviewed and approved by the Audit, Risk and Compliance committee, governs internal audit activity within the company and this activity is conducted in accordance with an annual audit plan. Progress against the audit plan is reported to the Audit, Risk and Compliance Committee.

Risk management

Risk management is a board responsibility and the objective is to identify, assess, manage and monitor the risks to which the business is exposed. A comprehensive risk management profile has been developed for the group and specific responsibility for the management of these risks has been assigned to executive management. Risk profiles are reviewed on a bi-annual basis. Operational and financial risks are managed through detailed systems of operating and financial controls. The development of disaster recovery and business continuity plans to ensure the provision of ongoing information technology services and other essential facilities in the event of a disaster, continues on an on-going basis.

Reinsurance

Reinsurance plays an extremely important role in the management of risk and exposure at Mutual & Federal. The group makes use of a combination of proportional and non-proportional reinsurance to limit the impact of both individual and event losses on the balance sheet of the company and to build up capacity. Involvement in any property catastrophe loss is limited to R69 million for any one event. The amount of catastrophe cover purchased is based on estimated maximum loss scenarios and is in keeping with accepted market norms.

Code of ethics

The group has a formal code of ethics that has been approved and adopted by the board of directors. Employees of the group are issued a copy of the code and are required to signify their acceptance of the code provisions. The code is consistent with the principles of integrity, honesty, ethical behaviour and compliance with all laws and regulations. All employees are also required to adhere to the provisions of the group's internet, intranet and electronic mail policies.

A summary of the group's code of ethics is presented on pages 46 to 47 of this report.

Financial statements

Management of the company is responsible for the preparation of annual financial statements and related financial information in a manner that is accurate and fairly presents the performance and financial position of the company. Financial statements are prepared in accordance with South African statements of Generally Accepted Accounting Practice based on appropriate accounting policies, and any changes to these policies are fully disclosed. The statements are supported by reasonable and prudent judgements and estimates that not only provide insight into performance over the past year, but also give an indication of company expectations for the year ahead.

Going concern

The directors have no reason to believe that the operations of the group will not continue as a going concern in the year ahead.

Stakeholder involvement

Investor relations

The company is committed to a process of continuing communication with its stakeholders. Following results declarations and major corporate actions the company makes appropriate contact with investors and intermediaries.

HIV/AIDS awareness programme

An awareness and prevention programme has been established for employees of the group.

HIV/AIDS does not have a substantial impact on the operations of the group, and we do not expect this to change significantly. The group nevertheless takes the threat of illness very seriously and addresses its potential impact on the welfare of its staff through its awareness and prevention programme, with counselling for those affected.

Closed period of trading

During periods of corporate action, which could result in the availability of information of a price sensitive nature, the company imposes on management and directors, a closed period for trading in its shares. This also applies for an appropriate period in advance of the publication of its interim and final results.

This closed period extends from the close of the financial period to the date of publication of the results.

Black Economic Empowerment

Mutual & Federal is a signatory to the Financial Sector Charter on Black Economic Empowerment, and was actively involved in its drafting. Targets set by the Charter became effective on 1 January 2004 and the company is fully conversant with the criteria and the targets and is committed to their attainment.

The Charter covers every aspect of the business and subjects participating companies to annual audit by the Charter Council, which is representative of a broad range of stakeholders including Government and the Congress of South African Trade Unions.

The company is rapidly implementing policies to meet these objectives and the following issues are being addressed:

- control,
- ownership,
- human resource development and employment equity,
- procurement and enterprise development,
- empowerment financing, and
- social responsibility investment.

Progress in each area is as follows:

Control

Control as defined by the charter falls into the categories of board membership and executive management.

The target is to achieve 33% black membership of the board by 2008. Currently the Mutual & Federal board comprises 12 members of whom 25% are black.

The target for executive management is 25% by 2008. A detailed employment equity plan is being introduced to achieve this target.

Ownership

The group remains committed to the requirement of 25% black ownership by 2010.

Human resource development and employment equity

Mutual & Federal is on course to attain its targets for designated employees by 2005 in terms of the Employment Equity Act.

The Financial Sector Charter imposes more stringent requirements on transformation within the managerial component of the workforce and the employment equity plan of the company has been revised to ensure the attainment of these targets.

Learnership programmes to give an insight into the insurance industry for matriculants, a graduate training programme, and a variety of in-house and external training initiatives for existing staff have been introduced.

Procurement and enterprise development

Procurement within the short-term insurance industry includes substantial expenditure on claims, excluding cash settlements.

The existing supplier base has been analysed and new BEE accredited sources of supply investigated.

The attainment of procurement targets of 50% by 2008 and 70% by 2014 is subject to the implementation of charters in the industries detailed in the Charter. The position is due to be reviewed in 2005 and, depending on the success of these industries to introduce charters, the targets will be amended as appropriate.

As an alternative, in the event that charters are not introduced or are delayed in the selected industries, Mutual & Federal has committed itself to attain 30% BEE accredited procurement spend by 2008 and 50% by 2014.

The current levels attained are 19% in the area of MRO (maintenance, repairs and operating costs) and 7% in claims purchases. Target attainment is monitored on a monthly basis.

Empowerment financing

Although the nature of the short-term industry does not lend itself to the accumulation of funding for infrastructural and empowerment financing, the Charter does commit the industry to make a contribution. Industry task groups have been formed to develop plans for empowerment financing as a whole and Mutual & Federal is contributing to those discussions.

Social responsibility investment ("SRI")

The Charter requires participating companies to contribute 0,5% of post tax profit to SRI ventures. Plans are in hand to ensure that this is achieved.

Conclusion

Mutual & Federal is fully committed to the attainment of the targets set by the Financial Sector Charter and has implemented appropriate structures and plans to ensure that it becomes a significant contribution to Black Economic Empowerment.

Financial Services Sector Charter Employment Equity Statistics[#]

	Other staff			Junior management			Middle management			Senior management			Executive			Totals		
Category	**2003**	**2004**	**Target 2008**	**2003**	**2004**	**Target 2008**	**2003**	**2004**	**Target 2008**	**2003**	**2004**	**Target 2008**	**2003**	**2004**	**Target 2008**	**2003**	**2004**	**Target 2008**
Asian females	146	**154**	135	9	**12**	14	2	**3**	7	–	**–**	–	–	**–**	–	157	**169**	156
Black females	220	**237**	380	4	**6**	37	1	**1**	20	1	**1**	4	–	**1**	1	226	**246**	442
Coloured females	185	**230**	218	11	**12**	16	1	**2**	5	–	**–**	1	–	**–**	–	197	**244**	240
White females	923	**830**	606	157	**158**	114	63	**65**	54	8	**10**	12	1	**1**	1	1 152	**1 064**	787
Asian males	82	**80**	87	19	**19**	22	3	**5**	7	–	**1**	2	–	**–**	–	104	**105**	118
Black males	214	**221**	417	9	**13**	51	1	**2**	24	–	**1**	6	1	**–**	4	225	**237**	502
Coloured males	112	**148**	163	3	**3**	15	9	**10**	6	1	**–**	2	–	**–**	–	125	**161**	186
White males	259	**228**	117	117	**119**	75	108	**102**	64	50	**49**	35	18	**17**	12	552	**515**	303
Total	2 141	**2 128**	2 123	329	**342**	344	188	**190**	187	60	**62**	62	20	**19**	18	2 738	**2 741**	2 734

[#]*South Africa only*

"The group's reputation is one of its most important assets"

Code of ethics

ACCOUNTABILITY	RESPECT	PUSHING BEYOND BOUNDARIES	INTEGRITY	PASSION

Preamble

The group maintains the highest ethical standards in carrying out its business activities. The group's reputation is one of its most important assets.

Maintaining trust and confidence of all those whom the group deals with is accordingly one of its most vital responsibilities, and in all of the group's operations its set of core values must be used to guide and direct the way the group does business.

The Mutual & Federal group recognises its obligation to those with whom it has dealings and applies the following principles and guidelines:

Customers, suppliers and intermediaries:

- integrity in all dealings,
- avoidance of untruths, concealment and overstatement in all publications and advertising, and
- absolute confidentiality of information received.

Shareholders and other investors:

- protection of the interests of all shareholders,
- accounting statements true and timely,
- aim to generate an attractive long-term return to investors, and
- communicate business policies, achievements and prospects honestly.

Employees:

- respect for the dignity of the individual,
- recruit and promote employees on the basis of their suitability for the job with no discrimination,
- provision of a healthy and safe work environment,
- recognition of the efforts of an individual,
- encouragement and assistance for employees to develop relevant skills and competencies, and
- effective communication with all employees.

Government and the local community:

- serving the community by providing services efficiently and profitably and by providing good employment opportunities and conditions,
- supporting the communities in which the group operates, with charitable donations as well as educational and cultural contributions,
- conservation of the environment and responsible use of finite resources, and
- meeting tax obligations.

Competitors:

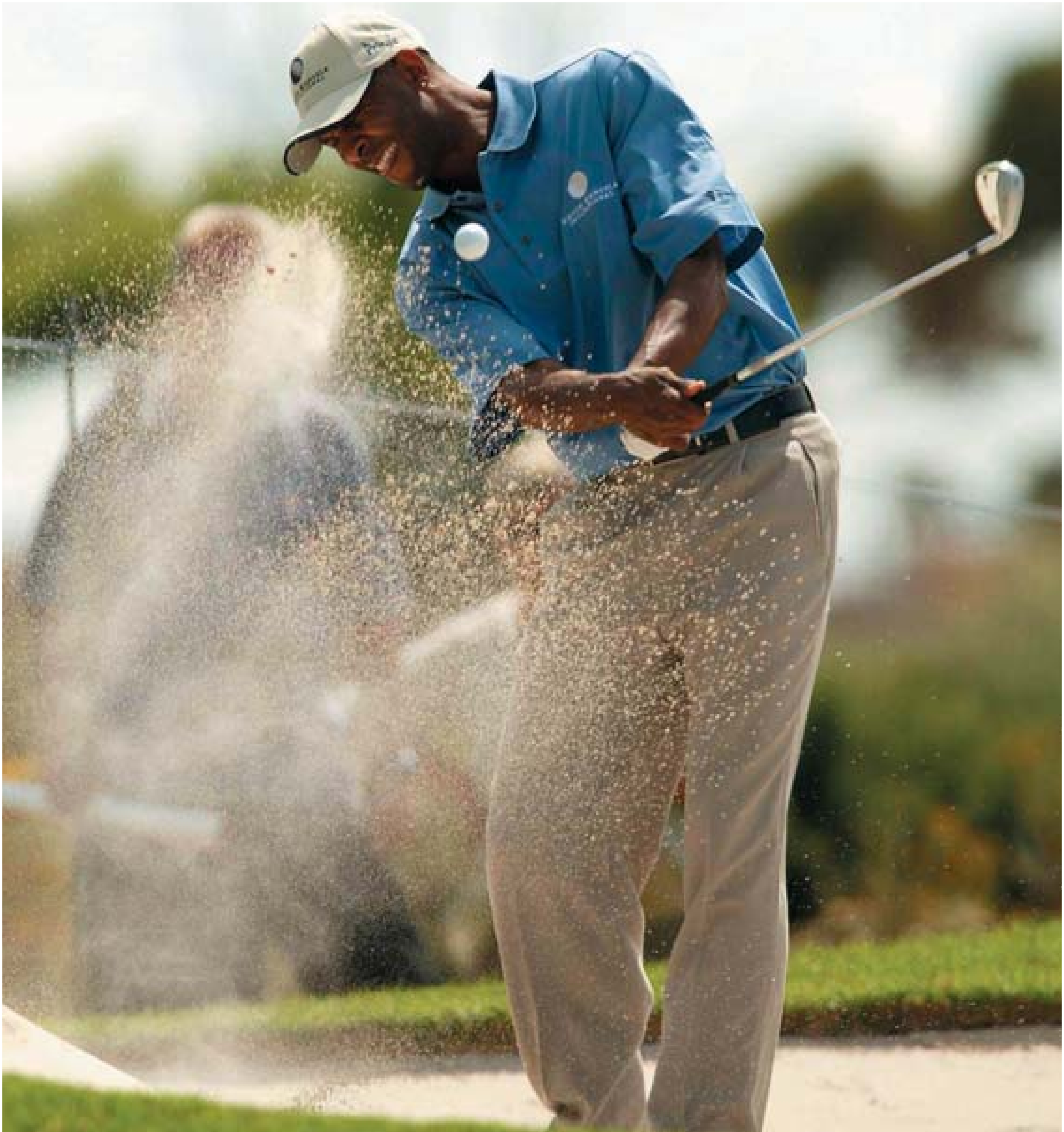
- no unfair damage to the reputation of competitors,
- no attempt to acquire information regarding a competitor's business by disreputable means, and
- no engagement in unrestrictive trade practices or abuse of any position of market dominance.

Scope

Strict adherence to the provisions of this code is a condition of employment within the group. The group Company Secretary is responsible for initiating and supervising the investigation of all reports of breaches of this code and ensuring that appropriate disciplinary action is taken when required.

The group aims to create the climate and opportunity for its employees to voice concerns about behaviours or decisions that they perceive to be unethical.

"Mutual & Federal is committed to making a difference"



ACCOUNTABILITY | RESPECT | PUSHING BEYOND BOUNDARIES | INTEGRITY | PASSION

Corporate social investment

The corporate social investment ("CSI") policy of Mutual & Federal is to support community-based projects that contribute towards the creation of a stable and prosperous society. CSI is directed towards projects of a non-profit nature without regard to race, gender, disability, religion, ethnicity, age or sexual orientation.

The CSI programme supports some 25 organisations in the following areas:

- Education
- Health and welfare
- Road traffic safety
- Crime prevention
- Conservation & environment

Funds are allocated to each of these categories for the specific projects the company supports.

Mutual & Federal supports projects that create conditions of social stability, improvements in quality of life and economic prosperity. Each of these has been identified as a national priority by the South African government.

The company's CSI programme benefits thousands of disadvantaged South Africans, including homeless children, youth involved with crime, unemployed rural women and men, AIDS orphans, prisoners, those who travel on national roads, sea rescue crews and victims and people involved in conservation and conservation education.

The CSI strategy involves the funding of a limited number of well-established organisations, with suitable grants that will offer measurable support. Projects are generally supported for a period of years in order to establish longstanding relationships and achieve meaningful results. This strategy has proved to be more effective than the funding of many different projects with small donations that offer limited results.

Education

Mutual & Federal supports the following education initiatives:

- Thusenang Training & Development
- Rally to Read
- Read Educational Trust
- Southern Cross Schools
- Inseta Awards
- President's Award

The Thusenang Training & Development Project, which has been supported since 1996, was established in 1982 in Bothaville in the Free State as a community project to address the plight of illiterate and unemployed rural women. It strives to help people help themselves through basic courses such as knitting, needlework, embroidery, cooking and nutrition. It also offers advanced courses such as business skills, life guidance and AIDS guidance and supports this with job creation projects, including bakeries, vegetable gardens and sewing groups. Today Thusenang is an accredited (by the Services Seta) non-profit organisation, rated amongst others like CANSA & Education Africa.

Health and Welfare

The projects and organisations involved in Health and Welfare initiatives that are supported are:

- Orientation & Mobility School
- Cluny Farm
- Tikkun Food Gardens
- Cheshire Homes
- Cotlands
- JAFTA
- AIDS Foundation
- National Sea Rescue Institute
- Meals on Wheels
- Nelson Mandela Children's Fund
- SOS Children's Villages (support for a home at SOS Children's Village in Pietermaritzburg)

Since 1974 the Orientation & Mobility School has functioned as the training centre for the SA Guide Dogs Association, where guide dogs are bred and trained for Visually Impaired People. The school also trains people as guides who visit rural areas to teach blind people orientation and mobility skills. These skills allow people to be active in their communities and to take part in religious, social and cultural activities. It offers a better chance of maintaining a productive role in society as an employer, employee or volunteer. Mutual & Federal funds the training of these guides who in turn offer blind people the opportunity to lead fuller lives.

Road Traffic Safety

The company supports the Drive Alive Trust, which promotes safe and responsible driving on our roads. The Drive Alive's road safety awareness campaigns, which are particularly visible during holiday seasons, have resulted in a steady reduction in road accident and fatality rates in recent years. Stricter enforcement of traffic regulations by traffic police around the country, in coordination with Drive Alive, has also contributed to the improvement. Drive Alive is engaged in ongoing discussions with government to address unsafe driving conditions such as unroadworthy taxis and pedestrian visibility.

Crime Prevention

Crime prevention organisations supported include the National Institute for Crime Prevention and the Reintegration of Offenders ("Nicro") and Business Against Crime ("BAC").

Nicro helps young offenders and communities rise above the effects of crime. Nicro's Diversion Programme diverts youth in conflict with the law from the criminal justice system and courses such as Drug Abuse Prevention, Anger

Management, Parenting Skills and Life Skills offer guidance in problem areas the family and community may face. In 2004 Mutual & Federal supported more than 100 young offenders who completed the Journey Programme. This programme helps offenders become constructive members of society by creating an awareness of personal and societal consequences of crime, and is based on a life skills educational model.

Conservation and Environment

Conservation and environmental organisations supported include:

- World Wildlife Fund
- SA Conservation Education Trust
- Animals in Distress
- SPCA
- Endangered Wildlife Fund
- KZN Wildlife

These organisations, through their educational and other programmes, contribute greatly to the protection of the natural heritage of the country and the preservation of this valuable resource.

The SA Conservation Education Trust generates income to provide funding for education and training in nature conservation management at the South African Wildlife College, or other institutions with similar objectives. The College trains as many as 250 students a year, with the support of Mutual & Federal, and aims to provide managers of natural resources and wildlife populations to ensure sustainability of the whole region.

Mutual & Federal is committed to making a difference where it is able and the CSI partners are regularly reviewed in order to address changing needs and new challenges.

Financial review

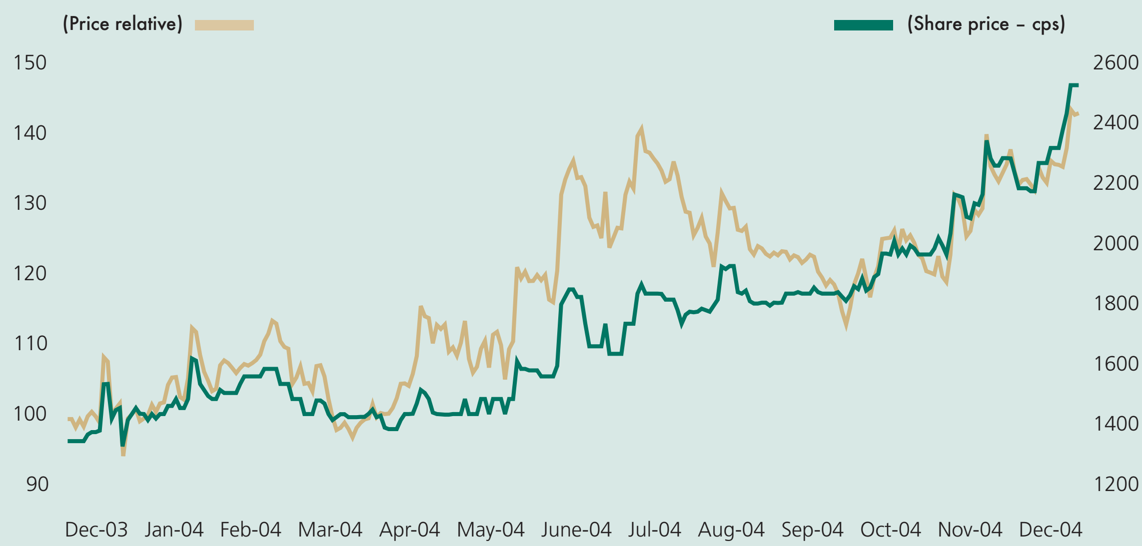
	2004 Rm	2003 Rm	2002 Rm	2001 Rm	2000 Rm	1999 Rm
BALANCE SHEETS						
ASSETS						
Property and equipment	**177**	159	157	153	138	117
Intangible assets	**52**	37	–	–	–	–
Investments	**4 058**	3 819	2 417	3 515	4 045	3 442
Interest in associated companies	**213**	190	96	101	125	97
Goodwill	**121**	142	163	179	143	–
Deferred taxation	**–**	–	5	–	–	32
Technical assets	**898**	1 006	884	627	580	278
Trade and other receivables	**625**	654	865	856	631	353
Cash and cash equivalents	**1 428**	1 196	2 070	1 203	966	1 446
Total assets	**7 572**	7 203	6 657	6 634	6 628	5 765
EQUITY AND LIABILITIES						
Capital and reserves	**3 579**	3 458	2 944	3 180	3 489	3 991
Interest of outside shareholders in subsidiaries	**–**	2	2	3	128	4
Preference shareholders' interest	**78**	36	–	–	–	–
Interest bearing loans	**2**	27	100	150	–	–
Non-current provisions	**100**	97	93	101	117	54
Deferred taxation	**125**	58	40	162	45	81
Technical provisions	**3 288**	3 169	2 898	2 557	2 480	1 470
Current liabilities	**400**	356	580	481	369	165
Total equity and liabilities	**7 572**	7 203	6 657	6 634	6 628	5 765
INCOME STATEMENTS						
Gross premiums	**7 360**	6 486	5 603	4 820	3 468	2 786
Net premiums	**6 691**	5 608	4 886	4 306	3 152	2 482
Underwriting surplus/(loss)	**663**	392	116	85	(2)	(60)
Investment return on insurance funds	***201***	*210*	*195*	*161*	*144*	*140*
General Insurance Result	**864**	602	311	246	142	80
Long-term investment return on shareholders' funds	***348***	*395*	*387*	*393*	*381*	*492*
Operating income based on long-term investment return	**1 212**	997	698	639	523	572
Short-term investment fluctuations	**459**	(50)	(700)	299	2	1 714
Goodwill	**(21)**	(21)	(21)	(18)	(4)	–
Abnormal items	**(30)**	–	(16)	–	(7)	–
Income/(loss) before taxation	**1 620**	926	(39)	920	514	2 286
Taxation	**(460)**	(250)	(60)	(279)	(166)	(223)
Income/(loss) after taxation	**1 160**	676	(99)	641	348	2 063
Income attributable to preference shareholders	**(42)**	(36)	–	1	(1)	–
Share of associated companies' retained income	**30**	33	(6)	25	11	3
Net income/(loss) for the year	**1 148**	673	(105)	667	358	2 066

	2004 Rm	2003 Rm	2002 Rm	2001 Rm	2000 Rm	1999 Rm
CASH FLOW STATEMENTS						
Cash generated by operations	**1 002**	555	176	220	231	(21)
Investment income	**327**	339	306	341	361	296
Taxation paid	**(412)**	(261)	(105)	(287)	(30)	(233)
Dividends paid	**(1 041)**	(163)	(140)	(988)	(863)	(1 583)
Cash (utilised in)/generated by operating activities	**(124)**	470	237	(714)	(301)	(1 541)
Cash generated by/(utilised in) investing activities	**342**	(1 359)	621	939	(182)	2 624
Decrease/(increase) in funding requirements	**218**	(889)	858	225	(483)	1 083
Cash effects of financing activities	**14**	15	9	12	3	3
Increase/(decrease) in cash and cash equivalents	**232**	(874)	867	237	(480)	1 086
Cash and cash equivalents at beginning of year	**1 196**	2 070	1 203	966	1 446	360
Cash and cash equivalents at end of year	**1 428**	1 196	2 070	1 203	966	1 446

	2004	2003	2002	2001	2000	1999
KEY RATIOS						
Claims ratio (%)	**62,3**	68,2	73,1	73,5	75,5	78,8
Management expense ratio (%)	**8,3**	7,8	8,5	9,1	8,8	8,4
Operating ratio (%)	**90,2**	93,1	97,6	98,0	100,0	102,1
Five-year compound return on shareholders' funds (%)	**15,6**	15,3	11,2	10,9	10,7	13,8
Return on total assets (%)	**15,2**	9,3	(1,6)	10,1	5,4	35,8
Solvency margin (%)	**53,5**	61,7	60,3	73,9	110,7	160,8
PERFORMANCE PER ORDINARY SHARE						
Operating earnings per share (cents)	**360**	308	227	188	135	120
Headline earnings per share (cents)	**475**	284	(37)	283	150	84
Basic earnings per share (cents)	**467**	276	(45)	276	149	84
Dividends per share (cents)						
Ordinary	**105**	73	64	58	58	58
Special	**350**	–	–	350	300	600
Dividend cover (times)	**4,5**	3,9	(0,6)	4,9	2,6	1,4
Net asset value per share (cents)	**1 447**	1 410	1 207	1 312	1 447	1 668
OTHER STATISTICS						
Number of employees at year-end	**3 121**	3 277	3 038	3 344	3 653	2 278
Gross premium per employee (R000)	**2 358**	1 979	1 844	1 441	949	1 223

	2004	2003	2002	2001	2000	1999
STOCK EXCHANGE STATISTICS						
Market price per share (cents)						
Closing	**2 450**	1 710	1 475	1 590	1 600	1 480
Highest	**2 451**	1 750	1 840	2 200	2 000	2 200
Lowest	**1 469**	1 150	1 400	1 575	1 290	1 100
Number of shares traded (000)	**15 475**	6 569	9 075	13 988	12 716	16 717
Value of shares traded (Rm)	**271 109**	94 348	151 876	266 219	379 866	280 971
Number of shares traded as a percentage of total issued shares (%)	**6,3**	2,7	3,7	5,8	5,3	6,9
Dividend yield at year-end (%)	**3,0**	3,9	3,9	3,6	3,6	3,9
Earnings yield at year-end (%)	**19,4**	16,5	(2,5)	17,8	9,4	5,7
Price earnings ratio at year-end (%)	**5,2**	6,0	(39,9)	5,6	10,7	17,6
Market capitalisation (Rm)	**6 062**	4 193	3 589	3 852	3 857	3 562

Mutual & Federal share price performance relative to JSE ALSI for the period 01/01/2004 to 31/12/2004
(Adjusted for special dividend declared July 2004)



Supplementary income statements

for the year ended 31 December 2004
(Reflecting long-term rate of return adjustment)

	GROUP		COMPANY	
	2004 Rm	2003 Rm	**2004 Rm**	2003 Rm
TECHNICAL ACCOUNT				
Gross premiums	**7 360**	6 486	**6 190**	5 138
Less: Reinsurance premiums	**669**	878	**512**	623
Net premiums	**6 691**	5 608	**5 678**	4 515
Change in provision for unearned premiums	**45**	75	**21**	(69)
Gross amount	**140**	107	**100**	(79)
Reinsurers' share	**(95)**	(32)	**(79)**	10
Earned premiums net of reinsurance	**6 736**	5 683	**5 699**	4 446
Claims incurred net of reinsurance	**4 197**	3 878	**3 570**	3 047
Acquisition expenses	**1 316**	971	**1 034**	737
Management expenses	**560**	442	**527**	414
Underwriting surplus	**663**	392	**568**	248
Attributable to ordinary shareholders	**609**	340	**568**	248
Attributable to preference shareholders in subsidiary	**54**	52		
Investment return on insurance funds	***201***	*210*	***156***	*152*
General Insurance Result	**864**	602	**724**	400
Long-term investment return on shareholders' funds	***348***	*395*	***335***	*380*
Operating income based on long-term investment return	**1 212**	997	**1 059**	780
NON-TECHNICAL ACCOUNT				
Short-term investment fluctuations	**459**	(50)	**585**	49
Dividends, interest and property income	**327**	339	**329**	236
Realised surplus on investments	**99**	56	**89**	51
Unrealised surplus on investments	**582**	160	**658**	294
Allocated investment return transferred to technical account	***(549)***	*(605)*	***(491)***	*(532)*
Goodwill	**(21)**	(21)		
Abnormal items	**(30)**	–	**17**	–
Income before taxation	**1 620**	926	**1 661**	829
Taxation	**(460)**	(250)	**(397)**	(178)
Income after taxation	**1 160**	676	**1 264**	651
Income attributable to preference shareholders	**(42)**	(36)		
Share of associated companies' retained income	**30**	33	**30**	33
Net income for the year	**1 148**	673	**1 294**	684
Operating earnings per share (cents)				
Basic	**360**	308		
Diluted	**357**	307		

Explanation:
The supplementary income statements are presented to provide a clear understanding of the underwriting and investment activities of the group. In addition a smoothed investment return is shown to provide an indication of the long-term sustainable investment result.

The supplementary income statements are separated into:

(a) A technical account
The technical account includes a long-term investment return of 12,5% (2003: 13,4%) on both:
(i) funds generated by the insurance activities, and
(ii) shareholders' funds.

(b) A non-technical account
The non-technical account includes all non-insurance related activities including investments, and above mentioned allocated investment returns transferred to the technical account.

The investment return on investments supporting insurance activities is allocated to the technical account in determining the General Insurance Result. In addition, the long-term investment return on investments supporting shareholders' funds is allocated from the non-technical account to the technical account in determining an operating income based on the long-term investment return. The allocations accordingly negate one another in the determination of income before tax.

The long-term investment return on shareholders' funds is an estimate of the long-term trend investment return for the relevant category of investments having regard to past performance, current trends and future expectations.

Operating earnings per share

Operating earnings per share are calculated on net income adjusted for goodwill, abnormal items, associated company earnings, short-term investment fluctuations net of taxation, amounts due to preference shareholders and secondary tax on companies of R885 million (2003: R753 million). The calculation is based on a weighted average of 245 855 173 (2003: 244 051 045) shares in issue during the period.

Reconciliation of operating earnings per share

	GROUP	
	2004 Rm	2003 Rm
Net income	**1 148**	673
Goodwill	**21**	21
Abnormal items	**30**	–
Share of associated companies' retained income	**(30)**	(33)
Short-term investment fluctuations	**(459)**	50
Preference shareholders' share of short-term investment fluctuations	**(4)**	–
Taxation effect of short-term investment fluctuations	**62**	34
Secondary tax on companies	**117**	8
	885	753

Diluted operating earnings per share

Diluted operating earnings per share are calculated on net income adjusted for goodwill, abnormal items, associated company earnings, short-term investment fluctuations net of taxation, amounts due to preference shareholders and secondary tax on companies of R885 million (2003: R753 million). The calculation is based on a diluted weighted average of 248 034 988 (2003: 244 941 380) shares in issue during the period.

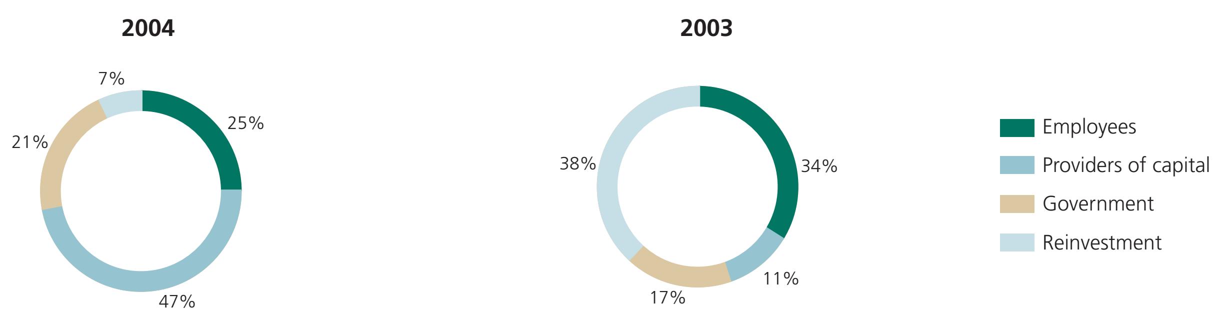
Comparison of the aggregate actual return to calculated long-term return

	2004 Rm	2003 Rm	2002 Rm	2001 Rm	2000 Rm
Actual returns	**1 008**	555	(118)	853	527
Long-term returns	**549**	605	582	554	525
Excess/(shortfall) aggregate short-term fluctuations	**459**	(50)	(700)	299	2

Cash value added statements

for the year ended 31 December 2004

	GROUP	
	2004 Rm	2003 Rm
Value added is a measure of the wealth the group has been able to create. The following statement shows how this wealth has been distributed.		
VALUE ADDED		
Gross premiums	**7 360**	6 486
Reinsurance premiums	**(669)**	(878)
Claims paid, reserve movements and cost of other services	**(5 515)**	(4 739)
	1 176	869
Investment income (including associates)	**1 038**	588
Total wealth created	**2 214**	1 457
VALUE DISTRIBUTED		
Employee benefits	**550**	488
Government	**461**	251
Direct and deferred taxation on income	**343**	242
Secondary tax on companies	**117**	8
Regional Service Council levies	**1**	1
Shareholders	**1 041**	163
	2 052	902
Retained for investment and future support of business	**162**	555
Depreciation	**55**	45
Retained (deficit)/profit after transfer to reserves	**(27)**	410
Compulsory transfer to contingency reserve	**134**	100
	2 214	1 457



Gross and reinsurance underwriting results

for the year ended 31 December 2004

	GROUP		COMPANY	
	2004 Rm	2003 Rm	**2004 Rm**	2003 Rm
GROSS ACCOUNT				
Gross premiums	**7 360**	6 486	**6 190**	5 138
Change in provision for unearned premiums	**140**	107	**100**	(79)
Earned premiums	**7 500**	6 593	**6 290**	5 059
Claims incurred	**4 516**	4 404	**3 844**	3 372
Acquisition expenses	**1 485**	1 101	**1 161**	843
Management expenses	**560**	442	**527**	414
Gross underwriting surplus	**939**	646	**758**	430
REINSURANCE ACCOUNT	**(276)**	(254)	**(190)**	(182)
Premiums paid	**(669)**	(878)	**(512)**	(623)
Change in provision for unearned premiums	**(95)**	(32)	**(79)**	10
Earned premiums	**(764)**	(910)	**(591)**	(613)
Claims recovered	**319**	526	**274**	325
Commission received	**169**	130	**127**	106
Net underwriting surplus	**663**	392	**568**	248
Attributable to ordinary shareholders	**609**	340	**568**	248
Attributable to preference shareholders	**54**	52		

Convenience statements

GROUP 2004 £m	GROUP 2003 £m		GROUP 2004 Rm	GROUP 2003 Rm
		BALANCE SHEETS AT 31 DECEMBER 2004		
		ASSETS		
422	364	Non-current assets	**4 621**	4 347
16	13	Property and equipment	**177**	159
5	3	Intangible assets	**52**	37
368	316	Investments at fair value	**4 022**	3 777
3	4	Loans advanced	**36**	42
19	16	Interest in associated companies	**213**	190
11	12	Goodwill	**121**	142
82	85	Technical assets	**898**	1 006
188	155	Current assets	**2 053**	1 850
692	604		**7 572**	7 203
		EQUITY AND LIABILITES		
327	290	Capital and reserves	**3 579**	3 458
–	–	Interest of outside shareholders in subsidiaries	**–**	2
7	3	Interest of preference shareholders in subsidiary	**78**	36
21	15	Non-current liabilities	**227**	182
300	265	Technical provisions	**3 288**	3 169
37	31	Current liabilities	**400**	356
692	604		**7 572**	7 203
		INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004		
622	525	Gross premiums	**7 360**	6 486
566	454	Net premiums	**6 691**	5 608
56	32	**Underwriting surplus**	**663**	392
17	*17*	*Investment return on insurance activities*	***201***	*210*
73	49	**General Insurance Result**	**864**	602
29	*32*	*Long-term investment return on shareholders' funds*	***348***	*395*
102	81	Operating income based on long-term investment return	**1 212**	997
39	(4)	Short-term investment fluctuations	**459**	(50)
(2)	(2)	Goodwill	**(21)**	(21)
(2)	–	Abnormal items	**(30)**	–
137	75	Income before taxation	**1 620**	926
(39)	(20)	Taxation	**(460)**	(250)
98	55	Income after taxation	**1 160**	676
(4)	(3)	Income attributable to preference shareholders	**(42)**	(36)
3	3	Share of associated companies' retained income	**30**	33
97	55	**Net income for the year**	**1 148**	673
0,08456	0,08098	Average rate	**1,00000**	1,00000
0,09134	0,08378	Closing rate	**1,00000**	1,00000

Contents of the annual financial statements

A Member of the OLD MUTUAL Group

Statement of responsibility by the board of directors

The directors are responsible for the preparation, integrity and fair presentation of the annual financial statements of the group. The annual financial statements presented on pages 63 to 97 have been prepared in accordance with Statements of Generally Accepted Accounting Practice ("GAAP") in South Africa, and include amounts based on judgments and estimates made by management.

The directors consider that in preparing the annual financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that all Statements of GAAP that they consider to be applicable have been followed. The directors are satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the group at year end. The directors also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the annual financial statements.

The directors have responsibility for ensuring that accounting records are kept. The accounting records should disclose with reasonable accuracy the financial position of the companies to enable the directors to ensure that the financial statements comply with the relevant legislation.

Mutual & Federal and its subsidiaries operated in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that the risks facing the business are being controlled.

The going concern basis has been adopted in preparing the annual financial statements. The directors have no reason to believe that the group or any company within the group will not be going concerns in the foreseeable future, based on forecasts and available cash resources. These annual financial statements support the viability of the company and the group.

The Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance has been adhered to.

The group's external auditors, KPMG Incorporated, audited the annual financial statements, and their report is presented on page 62.

The financial statements were approved by the board of directors on 8 February 2005 and are signed on its behalf:

K. Saggers.

K T M Saggers
Chairman

B Campbell
Managing Director

8 February 2005

Report of the independent auditors

To the members of Mutual & Federal Insurance Company Limited.

We have audited the annual financial statements and group annual financial statements of Mutual & Federal Insurance Company Limited as set out on pages 63 to 97 for the year ended 31 December 2004. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group at 31 December 2004 and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

KPMG Inc.

KPMG Inc.
Registered Accountants and Auditors

Johannesburg
8 February 2005

Certificate by company secretary

In my capacity as Company Secretary, I hereby confirm, in terms of the Companies Act, 1973, that for the year ended 31 December 2004, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

G M Benton

G M Benton
Company Secretary

8 February 2005

Directors' report

On 8 February 2005, the directors approved the accompanying financial statements set out on pages 63 to 97 and take pleasure in presenting their report.

Nature of business

Mutual & Federal Insurance Company Limited transacts all classes of short-term insurance business.

Share capital

The authorised share capital remained unchanged at 350 000 000 shares of 10 cents each. During the year 2 233 600 shares were issued at a premium of R14 million.

Premium income

Gross premiums for the year totalled R7 360 million (2003: R6 486 million). After deduction of reinsurance premiums of R669 million (2003: R878 million), net premiums amounted to R6 691 million (2003: R5 608 million).

Underwriting results

There was an underwriting surplus of R663 million for the year compared to R392 million for the previous year.

Contingency reserve

The current year's financial statements include a transfer of R134 million (2003: R100 million) to the contingency reserve as provided by the Short-term Insurance Act, 1998. The group's contingency reserve now stands at R657 million (2003: R523 million) which fully meets the requirements of the Act.

Investment income

Dividends, interest and property income net of expenses amounted to R327 million for the year (2003: R339 million), whilst the realised and unrealised surplus on investments amounted to R681 million (2003: R216 million).

Dividends

An interim dividend of 25 cents per share was declared payable in September 2004 (2003: 25 cents). A special dividend of 350 cents per share was declared in July 2004. A final dividend of 80 cents per share (2003: 48 cents) has been declared payable on or about 22 March 2004. The total ordinary dividend for the year is therefore 105 cents (2003: 73 cents).

Profits and dividends

	2004 Rm	2003 Rm
Income before taxation	**1 620**	926
Taxation	**(460)**	(250)
Current	**(280)**	(211)
Deferred	**(63)**	(31)
Secondary tax on companies	**(117)**	(8)
	1 160	676
Income attributable to preference shareholders	**(42)**	(36)
Share of associated companies' retained income	**30**	33
Net income for the year	**1 148**	673
Retained income from previous year	**2 796**	2 386
	3 944	3 059
Appropriations:		
Transfer to contingency reserve	**134**	100
Dividends paid	**1 041**	163
Retained income at the end of the year	**2 769**	2 796
	3 944	3 059

Directors' report

Directors

Mr C F Liebenberg retired on 4 May 2004 and Messrs S P G Lee and R O Hudson resigned from the board on 4 May 2004. Mr M L Ndlovu was appointed on 10 February 2004 and Mr R M Head on 1 September 2004. The names of the directors appear on pages 34 to 35 and that of the secretary of the company, together with his business and postal addresses, on page 108.

In terms of the company's articles of association, the following directors retire by rotation at the thirty-fourth annual general meeting but, being eligible, offer themselves for re-election:

B Campbell, R M Head, R P Menell, E P Theron, R A Williams.

Directors' shareholdings

Details of shareholdings of directors are shown below. No material change in these holdings has taken place since 31 December 2004.

	Non-beneficial		**Beneficial**	
Director	**2004**	2003	**2004**	2003
B Campbell	**500**	500	**166 800**	62 300
R M Head	**500**	–	**–**	–
R O Hudson	**–**	500	**–**	–
A M Hyatt	**500**	500	**–**	–
P D Jones Vilakazi	**500**	500	**–**	–
D Konar	**500**	500	**–**	–
S P G Lee	**–**	500	**–**	–
M J Levett	**500**	500	**–**	863 600
C F Liebenberg	**–**	500	**–**	40 000
R P Menell	**500**	500	**–**	–
M L Ndlovu	**500**	–	**–**	–
J V F Roberts	**500**	500	**–**	–
K T M Saggers	**500**	500	**259 100**	259 100
E P Theron	**500**	500	**–**	–
R A Williams	**500**	500	**–**	–
	6 000	6 500	**425 900**	1 225 000

Board meetings

The Board meets at least four times per annum. Attendance of directors at Board meetings for the year was as follows:

	10 Feb 2004	2 Mar 2004	3 Mar 2004	8 Mar 2004	4 May 2004	23 Jul 2004	21 Sept 2004	9 Nov 2004
Executive director								
B Campbell	✓	✓	✓	✓	✓	✓	✓	✓
Non-executive directors								
R M Head	*	*	*	*	*	*	✓	✓
R O Hudson	✓	✓	✓	✓	✗	*	*	*
A M Hyatt	✓	✓	✓	✓	✓	✓	✓	✓
P D Jones Vilakazi	✓	✗	✗	✗	✓	✓	✓	✓
D Konar	✓	✓	✓	✓	✓	✓	✗	✓
S P G Lee	✗	✓	✓	✓	✗	*	*	*
M J Levett	✓	✓	✓	✓	✓	✓	✗	✓
C F Liebenberg	✓	✓	✓	✓	✓	*	*	*
R P Menell	✗	✓	✓	✓	✓	✓	✗	✓
M L Ndlovu	*	✓	✓	✓	✓	✓	✓	✓
J V F Roberts	✓	✓	✓	✓	✓	✓	✗	✓
K T M Saggers	✓	✓	✓	✓	✓	✓	✓	✓
E P Theron	✓	✓	✓	✓	✓	✓	✓	✓
R A Williams	✗	✓	✓	✓	✓	✓	✗	✓

Legend

** Not applicable*

✗ Absent with apology

✓ Present

Holding companies

The immediate holding company is Mutual & Federal Investments Limited and the ultimate controlling shareholder is Old Mutual plc, incorporated in the United Kingdom.

K T M Saggers
Chairman

B Campbell
Managing Director

8 February 2005

Balance sheets

at 31 December 2004

	Notes	GROUP 2004 Rm	GROUP 2003 Rm	COMPANY 2004 Rm	COMPANY 2003 Rm
ASSETS					
Non-current assets		**4 621**	4 347	**5 148**	4 716
Property and equipment	2	**177**	159	**175**	157
Intangible assets	3	**52**	37	**52**	37
Investment property	4	**7**	6	**7**	5
Available-for-sale investments	5	**4 015**	3 771	**3 156**	2 992
Loans advanced	6	**36**	42	**35**	40
Interest in subsidiary companies	7			**1 510**	1 301
Interest in associated companies	8	**213**	190	**213**	184
Goodwill	9	**121**	142		
Technical assets		**898**	1 006	**795**	796
Reinsurers' share of provision for unearned premiums		**156**	254	**139**	218
Reinsurers' share of outstanding claims		**593**	601	**542**	450
Deferred acquisition costs		**149**	151	**114**	128
Current assets		**2 053**	1 850	**1 157**	1 000
Current investments	5	**52**	16	**–**	–
Agents' and reinsurers' balances		**379**	394	**312**	325
Other receivables		**190**	238	**139**	115
Deposits with reinsurers		**1**	1	**1**	1
Taxation paid in advance		**3**	5	**–**	–
Cash and cash equivalents	10	**1 428**	1 196	**705**	559
Total assets		**7 572**	7 203	**7 100**	6 512
EQUITY AND LIABILITIES					
Capital and reserves		**3 579**	3 458	**3 618**	3 351
Share capital and share premium	11	**153**	139	**153**	139
Non-distributable reserve					
Contingency reserve		**657**	523	**569**	455
Distributable reserve					
Retained income		**2 769**	2 796	**2 896**	2 757
Interest of outside shareholders in subsidiaries		**–**	2		
Interest of preference shareholders in subsidiary		**78**	36		
Non-current liabilities		**227**	182	**316**	320
Interest bearing loans	12	**2**	27	**2**	–
Non-current provisions	13	**100**	97	**100**	97
Amounts due to subsidiaries	7			**132**	198
Deferred taxation	14	**125**	58	**82**	25
Technical provisions		**3 288**	3 169	**2 856**	2 574
Gross provision for unearned premiums		**832**	982	**637**	737
Gross outstanding claims		**2 407**	2 121	**2 176**	1 773
Deferred reinsurance commission revenue		**49**	66	**43**	64
Current liabilities		**400**	356	**310**	267
Agents' and reinsurers' balances		**99**	81	**58**	56
Deposits by reinsurers		**77**	92	**77**	83
Other payables		**114**	91	**70**	67
Current provisions	13	**97**	58	**94**	58
Taxation payable		**13**	34	**11**	3
Total equity and liabilities		**7 572**	7 203	**7 100**	6 512

Income statements

for the year ended 31 December 2004

		GROUP		COMPANY	
	Notes	**2004 Rm**	2003 Rm	**2004 Rm**	2003 Rm
Gross premiums		**7 360**	6 486	**6 190**	5 138
Less: Reinsurance premiums		**669**	878	**512**	623
Net premiums		**6 691**	5 608	**5 678**	4 515
Change in provision for unearned premiums		**45**	75	**21**	(69)
Gross amount		**140**	107	**100**	(79)
Reinsurers' share		**(95)**	(32)	**(79)**	10
Earned premiums net of reinsurance		**6 736**	5 683	**5 699**	4 446
Claims incurred net of reinsurance	15	**4 197**	3 878	**3 570**	3 047
Acquisition expenses	16	**1 316**	971	**1 034**	737
Management expenses	17	**560**	442	**527**	414
Underwriting surplus		**663**	392	**568**	248
Attributable to ordinary shareholders		**609**	340	**568**	248
Attributable to preference shareholders in subsidiary	18	**54**	52		
Investment income		**1 008**	555	**1 076**	581
Dividends, interest and property income	19	**327**	339	**329**	236
Realised surplus on investments		**99**	56	**89**	51
Unrealised surplus on investments	19	**582**	160	**658**	294
Goodwill	9	**(21)**	(21)		
Abnormal items	20	**(30)**	–	**17**	–
Income before taxation		**1 620**	926	**1 661**	829
Taxation	21	**(460)**	(250)	**(397)**	(178)
Income after taxation		**1 160**	676	**1 264**	651
Income attributable to preference shareholders	18	**(42)**	(36)		
Share of associated companies' retained income		**30**	33	**30**	33
Net income for the year		**1 148**	673	**1 294**	684
Headline earnings per share (cents)	22				
– Basic		**475**	284		
– Diluted		**471**	283		
Earnings per share (cents)	22				
– Basic		**467**	276		
– Diluted		**463**	275		
Dividend per share (cents)		**105**	73		
Special dividend per share (cents)		**350**	–		

Statements of changes in equity

for the year ended 31 December 2004

	Notes	Share capital and share premium Rm	Contingency reserve Rm	Retained income Rm	Total Rm
GROUP					
Balance at 31 December 2002		124	423	2 379	2 926
Change in accounting policy	23			7	7
Restated balance at 31 December 2002		124	423	2 386	2 933
Net income for the year				673	673
Transfer to contingency reserve			100	(100)	–
Dividends paid				(163)	(163)
Issue of share capital		15			15
Balance at 31 December 2003		139	523	2 796	3 458
Net income for the year				1 148	1 148
Transfer to contingency reserve			134	(134)	–
Dividends paid				(1 041)	(1 041)
Issue of share capital		14			14
Balance at 31 December 2004		**153**	**657**	**2 769**	**3 579**
COMPANY					
Balance at 31 December 2002		124	381	2 307	2 812
Change in accounting policy	23			3	3
Restated balance at 31 December 2002		124	381	2 310	2 815
Net income for the year				684	684
Transfer to contingency reserve			74	(74)	–
Dividends paid				(163)	(163)
Issue of share capital		15			15
Balance at 31 December 2003		139	455	2 757	3 351
Net income for the year				1 294	1 294
Transfer to contingency reserve			114	(114)	–
Dividends paid				(1 041)	(1 041)
Issue of share capital		14			14
Balance at 31 December 2004		**153**	**569**	**2 896**	**3 618**

Cash flow statements

for the year ended 31 December 2004

	Notes	GROUP 2004 Rm	GROUP 2003 Rm	COMPANY 2004 Rm	COMPANY 2003 Rm
Cash generated by operations	24	**1 002**	555	**948**	641
Investment income		**327**	339	**329**	236
Taxation paid		**(412)**	(261)	**(332)**	(148)
Dividends paid		**(1 041)**	(163)	**(1 041)**	(163)
Cash (utilised in)/generated by operating activities		**(124)**	470	**(96)**	566
Cash generated by/(utilised in) investing activities		**342**	(1 359)	**228**	(1 407)
Net purchases of property and equipment		**(70)**	(47)	**(69)**	(46)
Net development expenditure on intangible assets		**(15)**	(37)	**(15)**	(37)
Net sales/(purchases) of investments		**427**	(1 275)	**312**	(1 324)
Disposal of branch of subsidiary	25	**1**	–	**–**	–
Pre-acquisition dividends received				**2**	–
Deregistration of subsidiary companies				**2**	76
Ordinary shares		**209**	(309)	**181**	(408)
Government securities		**16**	(1)	**–**	–
Investment in associated companies		**4**	(68)	**–**	(68)
Money market instruments and other		**193**	(900)	**200**	(900)
Investment property		**–**	3	**–**	–
Loans advanced		**4**	–	**4**	–
Repayments to subsidiary companies		**–**	–	**(77)**	(24)
Increase/(decrease) in funding requirements		**218**	(889)	**132**	(841)
Cash effects of financing activities					
Proceeds from issue of shares		**14**	15	**14**	15
Increase/(decrease) in cash and cash equivalents		**232**	(874)	**146**	(826)
Cash and cash equivalents at beginning of year		**1 196**	2 070	**559**	1 385
Cash and cash equivalents at end of year		**1 428**	1 196	**705**	559

Accounting policies

The accounting policies are set out below and are in all material respects consistent with those of the previous financial year except for the adoption of the accounting statement on Accounting for Secondary Tax on Companies ("STC") (AC 501), which became effective for financial years commencing on or after 1 January 2004. The effect of this change is set out in note 23.

i Statement of compliance

The financial statements and group financial statements comply with South African Statements of Generally Accepted Accounting Practice and with the requirements of the South African Companies Act, 1973. The financial statements are prepared on the historical-cost basis, modified by the revaluation of investment properties and certain financial instruments to fair value and the application of the equity method of accounting for investments in associate companies.

ii Consolidated financial statements

The consolidated financial statements include the assets and liabilities of the company, special purpose entities and all of its subsidiary companies, except for the Zimbabwean subsidiary, at the balance sheet date and the results of their operations for the period then ended. The company's subsidiary in Zimbabwe is not consolidated due to economic and political uncertainty in that country resulting in severe long-term restrictions on the repatriation of funds. Income is, therefore, accounted for on a dividends received basis.

The results of subsidiaries acquired during a financial year are included from the effective dates of acquisition. The results of subsidiaries disposed of during the financial year are included to the effective date of disposal. Any excess or deficit of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiary at the date of acquisition is recognised respectively as goodwill or negative goodwill and accounted for as described in policy note ix.

Outside shareholders' interest is stated at the outside shareholders' proportion of the fair values of the identifiable assets and liabilities recognised.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the group's interest in the enterprises.

iii Subsidiary companies

Subsidiaries are those entities over whose financial and operating policies the group has the power to exercise control, so as to obtain benefits from their activities.

Investments in subsidiary companies are classified as available-for-sale financial instruments and are carried at fair value which is calculated using a discounted earnings model or shown as net asset value, whichever is appropriate.

iv Associated companies

An associated company is an enterprise in which the group has significant influence and which is neither a subsidiary nor a joint venture of the group. Significant influence is determined based primarily on percentage voting rights, together with other factors such as board participation and participation in the policy making process.

Investments are accounted for under the equity method of accounting. Under this method, the company's share of the post-acquisition profits or losses of associates and movements in reserves are recognised in the income statement. These cumulative post-acquisition movements are adjusted against the cost of the investment.

Goodwill arising on acquisition of associates is included in the carrying amount of the associate and is treated in accordance with the group's accounting policy for goodwill.

When the group's share of losses in an associate equals or exceeds its interest in the associate, the group does not recognise further losses, unless the group has incurred obligations, issued guarantees, or made payments on behalf of the associate.

v Foreign currency translation

Measurement currency

Items included in the financial statements of each entity in the group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ('the measurement currency'). The consolidated financial statements are presented in South African Rand, which is the measurement currency of the parent.

Transactions and balances

Assets and liabilities in foreign currencies are translated into South African Rand at the rates of exchange ruling at the end of the financial period. Income statement items are translated at the rates ruling at the time of the transactions and exchange profits and losses are included in the underwriting results.

Translation differences on non-monetary items such as equities available-for-sale are reported as part of the fair value gain or loss.

Group companies

Foreign subsidiaries are regarded as foreign operations. Assets and liabilities are translated at rates of exchange ruling at the financial year-end. Income statement items are translated at the appropriate weighted average rates for the period. Translation gains and losses are taken to income for the period. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

vi Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on the straight-line basis to write off the cost of assets over their expected useful lives as follows:

Furniture and equipment	16% – 50%
Land and buildings	5%
Motor vehicles	20%
Computer equipment	33,3%
Computer software	33,3% – 50%

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the underwriting result.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the group. Major renovations are depreciated over the remaining useful life of the asset.

vii Investment properties

Investment properties are stated at fair value. The fair value is determined by external valuers at least once every three years using the capitalisation of income approach.

Any surpluses on revaluation, in excess of net book value, are included in net profit or loss in the period in which the change arises.

Accounting policies

viii Intangible assets

Expenditure associated with research activities, regarding developing computer software programmes, are recognised as an expense when incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially new processes, that are clearly associated with an identifiable and unique process, which will be controlled by the group, which are technically and commercially feasible and where sufficient resources are available to complete development, are recognised as an intangible asset. Other development expenditure is recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.

ix Goodwill and negative goodwill

Goodwill is the excess of the purchase consideration over the fair value of the group's share of the attributable net identifiable assets at the date of acquisition in a business combination. Goodwill is carried at cost, less accumulated amortisation and accumulated impairment losses. Goodwill arising on acquisitions is amortised on a straight-line basis over 10 years, which is the expected useful life. Goodwill is assessed for impairment annually. Amortisation and impairment is charged directly to the income statement. The remaining useful life of goodwill is assessed annually.

Negative goodwill is the excess of the group's share of the fair value of the attributable net identifiable assets at the date of acquisition over the purchase consideration in a business combination. Negative goodwill that relates to expectations of future losses and expenses that are identified in the acquirer's plan for the acquisition and can be measured reliably, but do not represent identifiable liabilities at the date of acquisition, is recognised as income when the future losses and expenses occur. Thereafter, the portion of negative goodwill not exceeding the fair value of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets. Any amount of negative goodwill in excess of the fair value of the acquired identifiable non-monetary assets is recognised immediately as income.

Where goodwill arises on the acquisition of a foreign operation, it is treated as a non-monetary item of the acquiring entity and is recorded at the exchange rate at the date of the transaction.

x Impairment

The carrying amounts of the group's assets are reviewed at balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset is impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount than would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

xi Financial instruments

Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

xi Financial instruments (continued)

Investments

Listed investments, classified as available-for-sale financial assets, are carried at fair value, which is calculated by reference to stock exchange quoted ruling prices at the close of business on the balance sheet date. Unlisted investments are shown at fair value, with reference to the lower of dividend yield, price earnings yield or net asset values.

Loans advanced

Loans advanced, as originated by the group are classified as held for trading financial assets and are valued at fair value which is calculated by reference to discounted cash flows.

Trade and other receivables

Trade and other receivables originated by the group are stated at cost less provision for cancellations and lapses.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

Financial liabilities

Financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisations.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments are included in net profit or loss in the period in which the change arises.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

xii Contingency reserve

Provision is made for the full amounts of the contingency reserve in terms of the Short-term Insurance Act, 1998. Transfers to and from this reserve are treated as appropriations of net income.

xiii Income taxes

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Secondary tax on companies ("STC") is charged to the income statement when the related dividend is declared. Unused STC credits are recognised as a deferred tax asset.

Accounting policies

xiv Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The provision for employee entitlements to salaries, annual and sick leave represent the amount which the group has a present obligation to pay, as a result of employees' services provided up to the balance sheet date. The provision has been calculated at undiscounted amounts based on current salary rates.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed either to terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in current provisions when there is no realistic alternative but to settle the liability, and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or
- past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Equity compensation benefits

The group grants share options to certain employees under an employee share plan. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning three years from the date of the grant, at one third per year, and have a contractual option term of six years. When the options are exercised, the proceeds received are credited to share capital (nominal value) and share premium.

Retirement benefits

The company and its subsidiaries contribute to defined benefit and defined contribution retirement plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of age, years of service or compensation. The defined benefit pension funds are actuarially valued at intervals of up to three years and the cost of providing for any deficit is charged against income when determined.

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. Current contributions and the cost of securing increased benefits paid to the group's pension funds operated for employees are charged against income as incurred.

The group provides post-retirement medical benefits to qualifying employees by way of medical aid funds. The expected costs of these benefits are assessed in accordance with advice of qualified actuaries, using the projected unit credit method, and the movement in valuation is charged to the income statement.

xv Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

Where the group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

xvi Underwriting results

The underwriting results are determined in accordance with generally accepted practice for insurance companies. The basic principles are as follows:

(a) A provision for unearned premiums is carried forward. This provision constitutes the estimated proportion of the current year's net premiums which relates to the period of risk in the following years. An additional provision for unexpired risk is created when it is anticipated that operational losses will occur during the unexpired period of the risk.

(b) Full provision is made for the estimated costs of:

(i) claims net of anticipated recoveries under reinsurances, notified but not settled at the end of the year; and
(ii) claims net of anticipated recoveries under reinsurances, incurred during the financial year but only reported thereafter.

(c) Acquisition expenses, which represent commission, are deferred over the period in which the related premiums are earned.

(d) General expenses less recoveries.

xvii Revenue recognition

Interest income
Interest income is recognised on a yield to maturity basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the group.

Dividend income
Dividends are recognised when the right to receive payment is established.

xviii Dividends payable

Dividends payable and the related taxation thereon are recorded in the group's financial statements in the period in which they are declared.

xix Leases

Operating leases
Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Finance leases
Leases of equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased equipment or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, are included in other non-current liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for the period. The equipment acquired under the finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

xx Reporting by segment

The principal segments of the group have been identified on a primary basis by market segment, being commercial, risk finance and personal lines, and on a secondary basis, by significant geographical region. The basis is representative of the internal structure for management purposes. Segment results include revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis, whether from external transactions or from transactions with other group segments.

xxi Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and bank balances, all of which are available for use by the group unless otherwise stated.

xxii Contingencies and commitments

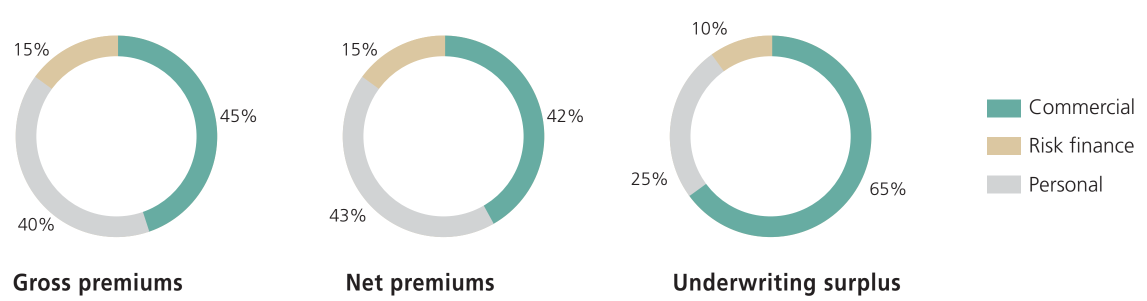
Transactions are classified as contingencies where the group's obligations depend on uncertain future events. Items are classified as commitments where the group commits itself to future transactions with external parties.

Notes to the annual financial statements

for the year ended 31 December 2004

	Commercial Rm	Risk finance Rm	Personal Rm	Unallocated Rm	Total Rm
1. Segmental analysis					
1.1 Divisional segments					
2004					
Gross premiums	3 306	1 116	2 938	–	7 360
Net premiums	2 786	1 016	2 889	–	6 691
Change in provision for unearned premiums	22	33	(10)	–	45
Earned premiums net of reinsurance	2 808	1 049	2 879	–	6 736
Claims incurred net of reinsurance	1 628	565	2 004	–	4 197
Acquisition expenses	435	416	465	–	1 316
Management expenses	311	4	245	–	560
Underwriting surplus	434	64	165	–	663
Segment assets					
Property and equipment	100	1	76	–	177
Intangible assets	30	–	22	–	52
Technical assets	822	27	49	–	898
Net agents' and reinsurers' balances	175	13	92	–	280
Other assets	109	57	83	5 817	6 066
Total assets	1 236	98	322	5 817	7 473
Segment liabilities					
Technical reserves	2 129	274	885	–	3 288
Non-current liabilities	56	1	43	127	227
Current liabilities	163	2	122	14	301
Total liabilities	2 348	277	1 050	141	3 816
Other segment items					
Depreciation	31	–	24	–	55

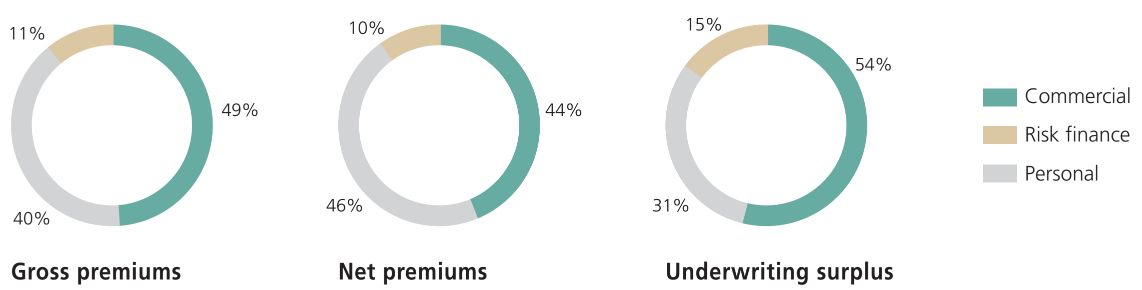
2004



	Commercial Rm	Risk finance Rm	Personal Rm	Unallocated Rm	Total Rm
1. Segmental analysis (continued)					
1.1 Divisional segments (continued)					
2003					
Gross premiums	3 146	728	2 612	–	6 486
Net premiums	2 493	544	2 571	–	5 608
Change in provision for unearned premiums	1	93	(19)	–	75
Earned premiums net of reinsurance	2 494	637	2 552	–	5 683
Claims incurred net of reinsurance	1 630	434	1 814	–	3 878
Acquisition expenses	409	140	422	–	971
Management expenses	245	3	194	–	442
Underwriting surplus	210	60	122	-	392
Segment assets					
Property and equipment	89	1	69	–	159
Intangible assets	20	–	17	–	37
Technical assets	661	55	290	–	1 006
Net agents' and reinsurers' balances	169	46	98	–	313
Other assets	133	72	105	5 297	5 607
Total assets	1 072	174	579	5 297	7 122
Segment liabilities					
Technical reserves	1 840	234	1 095	–	3 169
Non-current liabilities	53	1	42	86	182
Current liabilities	134	1	106	34	275
Total liabilities	2 027	236	1 243	120	3 626
Other segment items					
Depreciation	25	–	20	–	45

There are no transactions between the business segments. Income arising from non-insurance related activities cannot be allocated to a segment on a reasonable basis and is therefore not presented.

2003



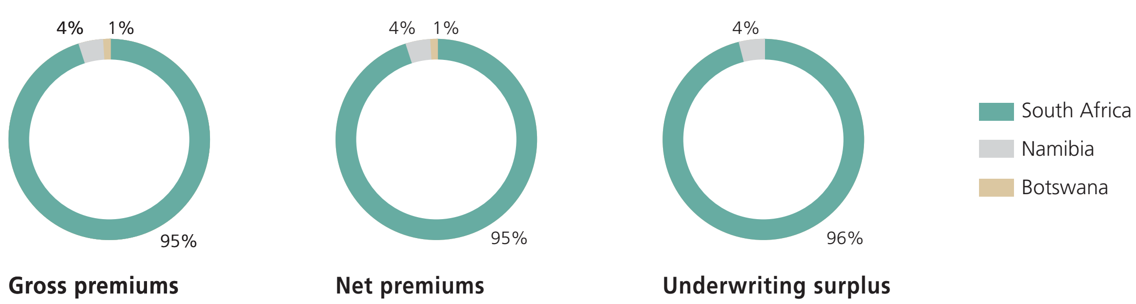
Notes to the annual financial statements

for the year ended 31 December 2004

	South Africa Rm	Namibia Rm	Botswana Rm	Total Rm
1. Segmental analysis (continued)				
1.2 Geographical segments				
2004				
Gross premiums	6 973	293	94	7 360
Net premiums	6 362	254	75	6 691
Change in provision for unearned premiums	46	2	(3)	45
Earned premiums net of reinsurance	6 408	256	72	6 736
Claims incurred net of reinsurance	3 980	167	50	4 197
Acquisition expenses	1 269	37	10	1 316
Management expenses	527	26	7	560
Underwriting surplus	632	26	5	663
Investment income/(loss)	995	14	(1)	1 008
Goodwill	(17)	(4)	–	(21)
Abnormal items	(30)	–	–	(30)
Income before taxation	1 580	36	4	1 620
Taxation	(444)	(14)	(2)	(460)
Income after taxation	1 136	22	2	1 160
Segment assets				
Non-current assets	4 363	185	73	4 621
Technical assets	810	41	47	898
Current assets	1 947	56	50	2 053
Total assets	7 120	282	170	7 572
Segment liabilities				
Non-current liabilities	219	8	–	227
Technical provisions	3 042	146	100	3 288
Current liabilities	391	8	1	400
Total liabilities	3 652	162	101	3 915
Other segment items				
Depreciation	54	1	–	55

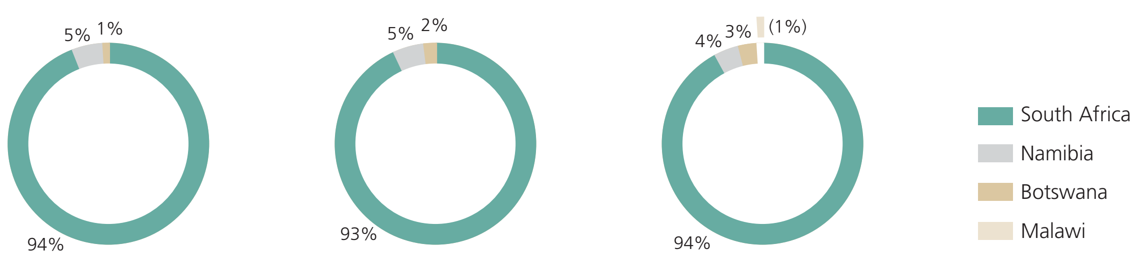
South Africa is the home country of the parent company, which is also the main operating company. The operations in Malawi were sold with effect from 1 January 2004. Transactions between segments are eliminated on consolidation.

2004



	South Africa Rm	Namibia Rm	Botswana Rm	Malawi Rm	Total Rm
1. Segmental analysis (continued)					
1.2 Geographical segments (continued)					
2003					
Gross premiums	6 076	298	95	17	6 486
Net premiums	5 241	273	86	8	5 608
Change in provision for unearned premiums	63	11	1	–	75
Earned premiums net of reinsurance	5 304	284	87	8	5 683
Claims incurred net of reinsurance	3 614	201	55	8	3 878
Acquisition expenses	910	45	15	1	971
Management expenses	410	24	5	3	442
Underwriting surplus/(deficit)	370	14	12	(4)	392
Investment income	524	18	10	3	555
Goodwill	(17)	(4)	–	–	(21)
Income/(loss) before taxation	877	28	22	(1)	926
Taxation	(234)	(10)	(5)	(1)	(250)
Income/(loss) after taxation	643	18	17	(2)	676
Segment assets					
Non-current assets	4 022	230	88	7	4 347
Technical assets	862	39	98	7	1 006
Current assets	1 779	35	29	7	1 850
Total assets	6 663	304	215	21	7 203
Segment liabilities					
Non-current liabilities	172	10	–	–	182
Technical provisions	2 852	161	141	15	3 169
Current liabilities	347	6	1	2	356
Total liabilities	3 371	177	142	17	3 707
Other segment items					
Depreciation	45	–	–	–	45

2003



Gross premiums **Net premiums** **Underwriting surplus/(deficit)**

Notes to the annual financial statements

for the year ended 31 December 2004

	Land and buildings Rm	Furniture and equipment Rm	Motor vehicles Rm	Computer equipment Rm	Computer software Rm	Total Rm
2. Property and equipment						
2.1 GROUP						
Cost						
Balance at 31 December 2002	85	37	51	136	52	361
Additions	–	4	13	10	24	51
Disposals	–	(2)	(12)	(5)	(1)	(20)
Balance at 31 December 2003	**85**	**39**	**52**	**141**	**75**	**392**
Additions	**2**	**3**	**13**	**28**	**31**	**77**
Disposals	**–**	**(9)**	**(6)**	**(52)**	**–**	**(67)**
Disposal of branch	**–**	**(1)**	**(1)**	**–**	**–**	**(2)**
Balance at 31 December 2004	**87**	**32**	**58**	**117**	**106**	**400**
Accumulated depreciation						
Balance at 31 December 2002	(18)	(27)	(22)	(107)	(30)	(204)
Depreciation	(4)	(4)	(9)	(14)	(14)	(45)
Disposals	–	1	9	5	1	16
Balance at 31 December 2003	**(22)**	**(30)**	**(22)**	**(116)**	**(43)**	**(233)**
Depreciation	**(4)**	**(3)**	**(10)**	**(17)**	**(21)**	**(55)**
Disposals	**–**	**9**	**4**	**51**	**–**	**64**
Disposal of branch	**–**	**–**	**1**	**–**	**–**	**1**
Balance at 31 December 2004	**(26)**	**(24)**	**(27)**	**(82)**	**(64)**	**(223)**
Net book value						
Balance at 31 December 2002	67	10	29	29	22	157
Net additions	–	3	10	10	24	47
Depreciation	(4)	(4)	(9)	(14)	(14)	(45)
Balance at 31 December 2003	**63**	**9**	**30**	**25**	**32**	**159**
Net additions	**2**	**2**	**11**	**27**	**31**	**73**
Depreciation	**(4)**	**(3)**	**(10)**	**(17)**	**(21)**	**(55)**
Balance at 31 December 2004	**61**	**8**	**31**	**35**	**42**	**177**

	Land and buildings Rm	Furniture and equipment Rm	Motor vehicles Rm	Computer equipment Rm	Computer software Rm	Total Rm
2. Property and equipment (continued)						
2.2 COMPANY						
Cost						
Balance at 31 December 2002	85	34	49	134	51	353
Additions	–	3	13	9	24	49
Disposals	–	–	(12)	(4)	–	(16)
Balance at 31 December 2003	**85**	**37**	**50**	**139**	**75**	**386**
Additions	**2**	**2**	**14**	**27**	**31**	**76**
Disposals	**–**	**(9)**	**(6)**	**(52)**	**–**	**(67)**
Balance at 31 December 2004	**87**	**30**	**58**	**114**	**106**	**395**
Accumulated depreciation						
Balance at 31 December 2002	(18)	(25)	(21)	(105)	(29)	(198)
Depreciation	(4)	(3)	(9)	(14)	(14)	(44)
Disposals	–	–	9	4	–	13
Balance at 31 December 2003	**(22)**	**(28)**	**(21)**	**(115)**	**(43)**	**(229)**
Depreciation	**(4)**	**(3)**	**(11)**	**(16)**	**(21)**	**(55)**
Disposals	**–**	**9**	**4**	**51**	**–**	**64**
Balance at 31 December 2004	**(26)**	**(22)**	**(28)**	**(80)**	**(64)**	**(220)**
Net book value						
Balance at 31 December 2002	67	9	28	29	22	155
Net additions	–	3	10	9	24	46
Depreciation	(4)	(3)	(9)	(14)	(14)	(44)
Balance at 31 December 2003	**63**	**9**	**29**	**24**	**32**	**157**
Net additions	**2**	**2**	**12**	**26**	**31**	**73**
Depreciation	**(4)**	**(3)**	**(11)**	**(16)**	**(21)**	**(55)**
Balance at 31 December 2004	**61**	**8**	**30**	**34**	**42**	**175**

The land and buildings consist of an office block situated on Erf 5230, 75 President Street, Johannesburg, Gauteng.

The carrying amount of assets under finance leases included in computer equipment is R2 million (2003: R0).

Notes to the annual financial statements

for the year ended 31 December 2004

	GROUP		COMPANY	
	2004 Rm	2003 Rm	**2004 Rm**	2003 Rm
3. Intangible assets				
Computer software developments				
Cost	**72**	37	**72**	37
Balance at beginning of year	**37**	–	**37**	–
Current year developments	**35**	37	**35**	37
Expensed in current year	**(20)**	–	**(20)**	–
Balance at end of year	**52**	37	**52**	37
4. Investment property				
Balance at beginning of year	**6**	5	**5**	5
Sale of Malawi branch	**(1)**	–		
Fair value gains	**2**	1	**2**	–
Balance at end of year	**7**	6	**7**	5

A register of investment properties at 31 December 2004 is available for inspection at the company's registered office.

The last valuation of investment properties, at 31 August 2004, was done using the capitalisation of income approach.

Investment properties are not mortgaged as security for any liabilities.

	GROUP		COMPANY	
	2004 Rm	2003 Rm	**2004 Rm**	2003 Rm
5. Available-for-sale investments				
5.1 Non-current				
5.1.1 At cost				
Preference shares – listed	**2**	1	**1**	1
Ordinary shares	**1 575**	1 639	**1 211**	1 304
Listed	**1 539**	1 635	**1 175**	1 302
Unlisted	**36**	4	**36**	2
Unit trusts	**41**	43	**–**	–
Government securities	**41**	55	**–**	–
Corporate bonds	**–**	32	**–**	–
Public body stock	**–**	3	**–**	–
Money market instruments	**736**	930	**700**	900
	2 395	2 703	**1 912**	2 205
5.1.2 At fair value				
Preference shares – listed	**2**	2	**2**	2
Ordinary shares	**3 163**	2 643	**2 454**	2 060
Listed	**3 157**	2 634	**2 453**	2 058
Unlisted	**6**	9	**1**	2
Unit trusts	**65**	64	**–**	–
Government securities	**48**	64	**–**	–
Corporate bonds	**–**	35	**–**	–
Public body stock	**–**	3	**–**	–
Money market instruments	**737**	960	**700**	930
	4 015	3 771	**3 156**	2 992

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	Rm	Rm	**Rm**	Rm
5. Available-for-sale investments (continued)				
5.2 Current				
5.2.1 At cost				
Government securities	**14**	14	**–**	–
Corporate bonds	**32**	–	**–**	–
Public body stock	**3**	–	**–**	–
	49	14	**–**	–
5.2.2 At fair value				
Government securities	**15**	16	**–**	–
Corporate bonds	**34**	–	**–**	–
Public body stock	**3**	–	**–**	–
	52	16	**–**	–
Non-current government securities mature between one and five years. Interest rates on government securities vary between 9,5% – 12,5% (2003: 9,5% – 38,0%).				
Included in the above amounts are investments, at fair value, in fellow subsidiary companies in respect of:				
Listed ordinary shares	**73**	106	**63**	91
Included in the above amounts are investments, at fair value, in the ultimate holding company arising from the acquisition of CGU:	**23**	18		
5.3 Listed ordinary shares by sector				
Resources	**927**	990	**740**	795
Financial	**1 096**	840	**870**	530
Real estate	**60**	45	**46**	35
Industrial	**1 074**	759	**797**	698
	3 157	2 634	**2 453**	2 058

5.4 Major equity investments

The group's most significant listed equity investments at 31 December 2004 are set out below and comprise in aggregate 29,7% of total assets and 71,2% of the equity portfolio. The analysis shown reflects the percentage of the total market value at 31 December 2004 of the equity investments.

Name of company	Fair value Rm	% of equity portfolio
Anglo American plc	378	12,0
BHP Billiton plc	211	6,7
South African Eagle Insurance Company Limited	204	6,5
Sasol Limited	186	5,9
Sanlam Limited	183	5,8
Richemont Securities AG	181	5,7
Standard Bank Investment Corporation Limited	168	5,3
Rembrandt Group Limited	149	4,7
SABMiller plc	125	4,0
Barlow Limited	87	2,8
RMB Holdings Limited	86	2,7
Impala Platinum Mines Limited	76	2,4
Nedcor Limited	73	2,3
First Rand Limited	72	2,3
Imperial Holdings Limited	68	2,1

A register of investments at 31 December 2004 is available for inspection at the company's registered office.

Notes to the annual financial statements

for the year ended 31 December 2004

	GROUP		COMPANY	
	2004 Rm	2003 Rm	**2004 Rm**	2003 Rm
6. Loans advanced				
Loans advanced comprise mortgages to staff and are granted at interest rates varying from 1% – 11% (2003: 1% – 11,5%).				
Personal loans are included in other receivables.				
Mortgages:				
At cost	**48**	53	**48**	52
At fair value	**36**	42	**35**	40
7. Interest in subsidiary companies				
Shares at cost less amounts written off			**998**	1 003
Adjustment to fair value			**378**	175
			1 376	1 178
Amounts due from subsidiaries			**134**	123
			1 510	1 301
Amounts due to subsidiaries			**(132)**	(198)
			1 378	1 103
Refer page 98 for details of the interest in subsidiary companies.				
The position and results of the unconsolidated Zimbabwean subsidiary company are as follows:				
Assets and liabilities				
Investments			**–**	1
Investment in associated companies			**26**	7
Net asset value			**26**	8
Results for the year				
Investment income			**1**	1
Share of associated companies' retained income			**27**	5
Unrealised loss on translation			**(10)**	(3)

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	Rm	Rm	**Rm**	Rm
8. Interest in associated companies				
Investment at cost	**105**	109	**105**	105
Share of post acquisition income	**98**	68	**98**	68
Share of post acquisition reserve movements	**10**	13	**10**	11
	213	190	**213**	184
Balance at beginning of year	**190**	96	**184**	88
Loan to associate	**–**	2	**–**	–
Share of net income after tax	**30**	33	**30**	33
(Disposal)/acquisition of associated companies	**(6)**	68	**–**	68
Share of reserve movements	**(1)**	(9)	**(1)**	(5)
Balance at end of year	**213**	190	**213**	184

		% held		% voting
Details of associated companies	**Nature of business**	**2004**	2003	**power**
Credit Guarantee Insurance Corporation of Africa Limited ("CGIC")	Short-term insurance	**51,0**	51,0	25,0*
IGI House Investments (Proprietary) Limited (incorporated in Namibia) ("IGI House")	Property	**–**	33,3	–

**The results of the company are not consolidated as the group does not exercise management control (refer to note 30: Post-balance sheet events).*

The investment in IGI House was sold with effect from 22 September 2004.

	CGIC		**IGI House**
	2004	2003	2003
	Rm	Rm	Rm
Post acquisition retained earnings of associates			
Share of opening retained earnings	**68**	35	–
Current year: Share of associates' income after tax	**30**	33	–
Share of closing retained earnings	**98**	68	–
Summarised financial statements of associates			
Property and equipment	**15**	16	18
Investments	**532**	434	–
Current assets	**305**	352	–
Total assets	**852**	802	18
Share capital	**3**	3	–
Reserves	**415**	358	6
Non-current liabilities	**25**	22	12
Deferred tax	**20**	14	–
Technical provisions	**281**	287	–
Current liabilities	**108**	118	–
Total equity and liabilities	**852**	802	18
Gross premiums written	**448**	504	–
Profit/(loss) before taxation	**203**	88	(17)
Taxation	**63**	15	–
Profit/(loss) after taxation	**140**	73	(17)

There are no contingent liabilities relating to the group's and company's interest in the associates.

Notes to the annual financial statements

for the year ended 31 December 2004

	GROUP		COMPANY	
	2004 Rm	2003 Rm	**2004 Rm**	2003 Rm
9. Goodwill				
Cost	**205**	205		
Accumulated amortisation	**(84)**	(63)		
Balance at beginning of year	**(63)**	(42)		
Current year amortisation	**(21)**	(21)		
Balance at end of year	**121**	142		
Goodwill arising from the acquisition of:				
Cougar Investment Holding Company Limited	**84**	99		
Sentrasure Limited	**12**	15		
Fedsure General Insurance Namibia Limited	**25**	28		
	121	142		
10. Cash and cash equivalents				
Cash at bank and in hand	**1 239**	1 007	**705**	559
Short-term bank deposits	**189**	189	**–**	–
	1 428	1 196	**705**	559
11. Share capital and share premium				
11.1 Authorised				
350 000 000 shares of 10 cents each	**35**	35	**35**	35
11.2 Issued				
247 414 424 (2003: 245 180 824) shares of 10 cents each	**25**	25	**25**	25
Share premium	**128**	114	**128**	114
	153	139	**153**	139

11.3 Reconciliation of outstanding share options

	Group and Company	
	2004 Number	2003 Number
Balance at beginning of year	**6 393 600**	7 212 400
Issued during the year (refer note 27.3)	**1 196 400**	1 183 400
Exercised during the year (refer note 27.3)	**(2 233 600)**	(1 840 300)
Lapsed during the year	**(245 100)**	(161 900)
Balance at end of year	**5 111 300**	6 393 600

The remaining 94 893 776 (2003: 94 893 776) unissued shares were placed under the control of the directors at the annual general meeting held on 4 May 2004 until the commencement of the next annual general meeting.

	GROUP		COMPANY	
	2004 Rm	2003 Rm	**2004 Rm**	2003 Rm
12. Interest bearing loans				
Secured interest bearing loan, with interest payable monthly, at 2,4% below prime. There are no fixed repayment terms.#	**–**	27	**–**	–
Finance lease liability*	**2**	–	**2**	–
	2	27	**2**	–
#This loan relates to a consolidated special purpose entity, Jesop Finance Company (Proprietary) Limited, operating as a finance company.				
**Finance lease liabilities relating to computer equipment, are effectively secured as the rights to the leased assets revert to the lessor in the event of default.*				
Finance lease liabilities – minimum lease payments				
Not later than 1 year	**1**	–	**1**	–
Later than 1 year and not later than 5 years	**1**	–	**1**	–
	2	–	**2**	–
Present value of finance lease liabilities	**2**	–	**2**	–
The present value of finance lease liabilities is as follows:				
Not later than 1 year	**1**	–	**1**	–
Later than 1 year and not later than 5 years	**1**	–	1	–
	2	–	**2**	–
13. Provisions				
13.1 Non-current provisions				
Post-retirement medical aid benefits				
Balance at beginning of year	**97**	93	**97**	63
Provisions raised during the year	**3**	4	**3**	34
Balance at end of year	**100**	97	**100**	97
(Refer to note 27.2 for more detail on the group's medical aid fund.)				
13.2 Current provisions				
Leave and bonus provision				
Balance at beginning of year	**58**	41	**58**	40
Provisions raised during the year	**39**	17	**36**	18
Balance at end of year	**97**	58	**94**	58

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for the year ended 31 December 2004

	GROUP		COMPANY	
	2004 Rm	2003 Rm	**2004 Rm**	2003 Rm
14. Deferred taxation				
Balance at beginning of year	**58**	37	**25**	(10)
Change in accounting policy (refer note 23)	**–**	(7)	**–**	(3)
Charge to income statement	**67**	28	**57**	38
Balance at end of year	**125**	58	**82**	25
Analysis of major temporary differences				
Provisions	**(59)**	(56)	**(68)**	(56)
Prepaid pension fund contributions	**–**	10	**–**	–
Contingency reserve	**9**	10	**–**	–
Capital gains tax	**181**	104	**153**	84
STC credits	**(6)**	(10)	**(3)**	(3)
	125	58	**82**	25
15. Claims incurred net of reinsurance				
Claims paid	**3 927**	3 739	**3 290**	2 853
Gross amount	**4 235**	4 132	**3 474**	3 120
Reinsurers' share	**(308)**	(393)	**(184)**	(267)
Change in provision for outstanding claims	**270**	139	**280**	194
Gross amount	**281**	272	**370**	252
Reinsurers' share	**(11)**	(133)	**(90)**	(58)
	4 197	3 878	**3 570**	3 047
Claims include:				
Claims incurred	**3 897**	3 657	**3 287**	2 840
Claims administration expenses	**300**	221	**283**	207
	4 197	3 878	**3 570**	3 047
16. Acquisition expenses				
Acquisition expenses paid	**1 331**	959	**1 041**	733
Gross amount	**1 484**	1 101	**1 147**	862
Reinsurers' share	**(153)**	(142)	**(106)**	(129)
Change in provision for deferred acquisition costs	**(15)**	12	**(7)**	4
Gross amount	**1**	–	**14**	(19)
Reinsurers' share	**(16)**	12	**(21)**	23
	1 316	971	**1 034**	737

	GROUP		COMPANY	
	2004 Rm	2003 Rm	**2004 Rm**	2003 Rm
17. Management expenses				
17.1 Management and claims administration expenses include:				
Staff costs	**550**	488	**531**	466
Salaries	**451**	395	**434**	374
Employer contribution to retirement fund	**39**	34	**37**	33
Other	**60**	59	**60**	59
Audit fees – audit services	**4**	4	**4**	4
Depreciation	**55**	45	**55**	44
Profit on sale of property and equipment	**(4)**	(2)	**(4)**	(3)
Loss on foreign exchange	**2**	3	**2**	3
Repairs and maintenance on property and equipment	**3**	2	**3**	2
Rentals under operating leases	**33**	31	**29**	29
Office equipment	**9**	11	**8**	10
Property	**24**	20	**21**	19
Directors' emoluments				
Executive directors – for managerial remuneration			**3**	3
Non-executive directors – for services as directors			**2**	1

Notice periods in respect of the executive director do not exceed one year. Non-executive directors are not bound by service contracts.

17.2 Directors' emoluments

2004 R000	**Fees**	**Basic salary**	**Other**	**Bonus**	**Pension contri-bution**	**Total**
K T M Saggers	**165**		**497**			**662**
M J Levett#	**132**					**132**
B Campbell*	**66**	**2 160**		**832**	**188**	**3 246**
Salary		**1 734**				
Long leave encashment		**426**				
R M Head	**40**					**40**
R O Hudson#	**30**					**30**
A M Hyatt	**66**					**66**
P D Jones Vilakazi	**66**					**66**
D Konar	**99**					**99**
S P G Lee#	**23**					**23**
C F Liebenberg	**34**					**34**
R P Menell	**88**					**88**
M L Ndlovu	**43**					**43**
J V F Roberts#	**103**					**103**
E P Theron	**99**					**99**
R A Williams	**138**					**138**
	1 192	**2 160**	**497**	**832**	**188**	**4 869**

 # Remuneration payable to the company by whom the director is employed, and not to the individual.
**Executive director.*

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17. Management expenses (continued)

17.2 Directors' emoluments (continued)

2003 R000	Fees	Basic salary	Other	Bonus	Pension contri-bution	Total
K T M Saggers	150		456			606
M J Levett#	120					120
B Campbell*	60	1 526		786	172	2 544
R J Gunn	15					15
R O Hudson	80					80
A M Hyatt	60					60
P D Jones Vilakazi	8					8
D Konar	8					8
S P G Lee#	26					26
C F Liebenberg	90					90
R P Menell	80					80
J V F Roberts#	110					110
E P Theron	90					90
R A Williams	140					140
	1 037	1 526	456	786	172	3 977

#Remuneration payable to the company by whom the director is employed, and not to the individual.
**Executive director.*

17.3 Executive director's share options

	Date of issue	Number	Strike price (R)	Date exercised
B Campbell				
Balance at 31 December 2003		769 900		
Share options exercised during the current financial year		415 200		
	01/07/1998	50 000	8,06	28/05/2004
	01/07/1998	157 600	8,06	11/06/2004
	17/11/1998	207 600	3,52	27/10/2004
Share options issued during the current financial year		95 000		
	10/11/2004	95 000	20,00	
Outstanding share options at 31 December 2004		**449 700**		

	Date of issue	Number	Strike price (R)	Exercisable before
Outstanding share options consisting of:	16/11/1999	74 600	4,33	15/11/2005
	01/01/2001	61 700	9,00	31/12/2006
	12/11/2001	61 700	11,50	11/11/2007
	12/11/2002	61 700	11,70	10/11/2008
	11/11/2003	95 000	12,50	10/11/2009
	10/11/2004	95 000	20,00	09/11/2010
		449 700		

	GROUP 2004 Rm	GROUP 2003 Rm	COMPANY 2004 Rm	COMPANY 2003 Rm
18. Preference shareholders				
The group operates an insurance subsidiary offering cell captive facilities to clients. Income accruing in respect of these arrangements ultimately belongs to the clients and is therefore excluded from group earnings.				
Underwriting surplus	**54**	52		
Interest income	**6**	–		
Taxation	**(18)**	(16)		
	42	36		
19. Investment income				
19.1 Dividends, interest and property income				
Dividends – listed investments	**96**	93	**76**	66
– subsidiary companies			**88**	8
– associated companies	**42**	5	**42**	5
Total dividends	**138**	98	**206**	79
Interest and rentals received	**191**	256	**123**	172
Interest paid	**(2)**	(15)	**–**	(15)
	327	339	**329**	236
19.2 Unrealised surplus on investments				
Relating to current year disposals	**110**	69	**97**	60
Current year fair value changes	**487**	88	**561**	234
Unrealised foreign exchange (losses)/gains	**(15)**	3	**–**	–
	582	160	**658**	294
20. Abnormal items				
Retrenchment costs	**(21)**	–	**(21)**	–
Contingent asset not previously recognised	**26**	–	**26**	–
Pension fund asset impaired	**(35)**	–	**12**	–
	(30)	–	**17**	–
21. Taxation				
21.1 South African and foreign				
Current	**280**	211	**228**	129
Current year	**275**	224	**223**	143
Prior year	**5**	(13)	**5**	(14)
Deferred	**63**	31	**57**	38
Secondary tax on companies	**117**	8	**112**	11
Paid	**113**	11	**112**	11
Deferred	**4**	(3)	**–**	–
	460	250	**397**	178

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	GROUP		COMPANY	
	2004	2003	**2004**	2003
	%	%	**%**	%
21. Taxation (continued)				
21.2 Reconciliation of tax rate				
Standard rate	**30,0**	30,0	**30,0**	30,0
Non-taxable income	**(9,4)**	(3,7)	**(13,2)**	(8,9)
Disallowed expenditure	**0,3**	0,1	**0,3**	0,7
Goodwill	**0,4**	0,7		
Secondary tax on companies and withholding tax	**7,2**	1,2	**6,7**	1,4
Foreign tax rate differential	**(0,2)**	0,1	**–**	–
Prior year adjustment	**0,1**	(1,4)	**0,1**	(1,7)
Effective rate	**28,4**	27,0	**23,9**	21,5

22. Earnings per share

22.1 Basic earnings per share

Basic earnings per share are calculated on the net income of R1 148 million (2003: R673 million). The weighted average number of shares in issue during the period was 245 855 173 (2003: 244 051 045).

22.2 Diluted earnings per share

Diluted earnings per share is determined by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has only one category of dilutive potential ordinary shares, namely share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

	GROUP	
	2004	2003
Reconciliation of diluted weighted average number of shares		
Weighted average number of ordinary shares in issue	**245,9**	244,1
Adjustment for share options	**2,1**	0,9
Diluted weighted average number of ordinary shares	**248,0**	245,0

22.3 Headline earnings per share

Headline earnings per share are calculated on the net income, adjusted for goodwill, of R1 169 million (2003: R694 million). The weighted average number of shares in issue during the period was 245 855 173 (2003: 244 051 045).

Reconciliation of headline earnings	**2004**	2003
Net income	**1 148**	673
Goodwill	**21**	21
Headline earnings	**1 169**	694

22.4 Diluted headline earnings per share

Headline earnings per share are calculated on the net income, adjusted for goodwill, of R1 169 million (2003: R694 million). The diluted weighted average number of shares in issue during the period was 248 034 988 (2003: 244 941 380).

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	Rm	Rm	**Rm**	Rm
23. Change in accounting policy				
During the year the company changed its accounting policy with regard to deferrred tax on STC credits in terms of AC501. The change was effected to bring the accounting policy in line with the new accounting statement on "Accounting for Secondary Tax on Companies" (STC).				
STC credits which were not previously recognised as a deferred tax asset are now recognised as a deferred tax asset to the extent that it is probable that they will be utilised against future dividend declarations.				
The new accounting policy has been applied retrospectively by adjusting opening retained income for 2003. Comparative figures have been restated.				
The change in accounting policy had the following impact:				
Retained income as previously reported		2 379		2 307
Adjustment relating to periods before 31 December 2002		7		3
Restated retained income		2 386		2 310
Adjustment relating to the year ended 31 December 2003		3		–
24. Cash generated by operations				
Underwriting surplus	**663**	392	**568**	248
Adjusted for:				
Abnormal items	**5**	–	**17**	–
Increase in technical provisions	**235**	149	**283**	329
Depreciation of property and equipment	**55**	45	**55**	44
Profit on sale of property and equipment	**(4)**	(2)	**(4)**	(3)
Changes in working capital:				
Decrease/(increase) in net agents' and reinsurers' balances	**27**	22	**15**	(27)
Decrease/(increase) in other receivables	**12**	23	**(24)**	(45)
Decrease in other payables	**22**	12	**3**	8
Net (decrease)/increase in deposits with/by reinsurers	**(15)**	(34)	**(6)**	35
(Decrease)/increase in interest bearing loans	**(25)**	(73)	**2**	–
Increase in non-current provisions	**3**	4	**3**	34
Increase in current provisions	**39**	17	**36**	18
Effect of foreign exchange translation on working capital	**(15)**	–	**–**	–
	1 002	555	**948**	641
25. Disposal of branch of subsidiary				
With effect from 1 January 2004, CGU Insurance Limited sold its branch operations in Malawi and all related assets and liabilities.				
Assets and liabilities disposed of:				
Non-current assets	**7**			
Technical reserves	**7**			
Current assets	**8**			
Total assets	**22**			
Technical liabilities	**15**			
Total other liabilities	**3**			
Net assets	**4**			

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for the year ended 31 December 2004

	GROUP		COMPANY	
	2004 Rm	2003 Rm	**2004 Rm**	2003 Rm
25. Disposal of branch of subsidiary (continued)				
The profit on disposal was determined as follows:				
Net assets sold	**4**			
Proceeds from sale	**4**			
Profit on disposal	**–**			
Tax thereon	**–**			
After-tax profit on disposal	**–**			
The net cash inflow on sale of the branch is determined as follows:				
Proceeds from sale	**4**			
Less: cash and cash equivalents in branch sold	**3**			
Net cash inflow on sale	**1**			

26. Related party transactions

During the year the company and its subsidiaries, in the ordinary course of business, entered into various transactions with fellow subsidiary companies. These transactions occurred under terms that are no less favourable than those arranged with third parties.

	GROUP	
	2004 Rm	2003 Rm
26.1 Transactions with fellow subsidiaries		
Premium received for insurance cover	**43**	41
Acquisition expenses	**(71)**	(69)
Claims paid	**(30)**	(24)
Administration fee income	**17**	–
Interest and dividends received	**64**	94
Rentals paid	**(16)**	(12)
Bank charges and administration fees paid	**(2)**	(3)
26.2 Year-end balances with related parties		
Payable to related parties		
Old Mutual – holding company	**1**	1
	1	1
Receivable from related parties		
Nedcor – fellow subsidiary	**505**	856
	505	856

26.3 Doubtful debts

There was neither a provision for doubtful debts, nor any bad debt written off during the year, that relates to related parties.

27. Employee benefits

27.1 Retirement funds

The group operates pension funds for all permanent staff and there are currently two separate funds in operation. Both of these funds are governed by the Pension Fund Act, 1956 and each is comprised mainly of a defined contribution section and a small defined benefit section.

Statutory valuations have been conducted in respect of both funds at 30 June 2004, using the projected unit credit method for the defined benefit sections. The valuations indicate a combined surplus of R102 million.

In complying with the Pension Funds Second Amendment Act, plans for the distribution of the surpluses will be submitted by 31 December 2005. The determination of the distributable surplus is well progressed and includes the identification and determination of minimum benefit amounts due to prior members and pensioners. The valuations include a number of realistic assumptions and based on these preliminary results, in aggregate, a small surplus will be attributable to the employer. Due to the uncertainty relating to the distribution, the group has not raised an asset in this regard in the balance sheet.

27.2 Medical aid funds

The group contributes to a defined benefit medical aid scheme for the benefit of permanent employees and their dependants. In 2004 an increase in the provision of R3 million was debited to the income statement (2003: R4 million). On the basis of current practice, which is reviewed annually, actuarially determined present value of future medical aid obligations, using the projected unit credit method, for early retirees is R100 million at 31 December 2004 (2003: R97 million) for which provision is made in full. The group has no further post-retirement medical aid obligations for current or retired employees.

27.3 Share options

Share options issued during the year

During the year 1 196 400 share options were issued to management and executives of the group in terms of the share option scheme to acquire new shares in the company as follows (2003: 1 183 400 shares at an exercise price per share between R13,50 and R16,00):

Number	Date issued	Strike price (R)
72 000	01/01/2004	13,60
114 000	17/05/2004	14,50
72 000	01/08/2004	18,50
36 000	01/10/2004	18,50
902 400	10/11/2004	20,00
1 196 400		

Share options exercised during the year

During the year 2 233 600 share options were exercised by management and executives as follows (2003: 1 840 300 shares at an exercise price per share between R1,81 and R15,20):

Number	Date exercised	Strike price (R)
48 700	03/03/2004	4,16 – 15,20
27 700	10/03/2004	7,02 – 8,24
26 700	16/04/2004	7,02 – 12,50
1 820	07/05/2004	7,92
52 280	17/05/2004	3,33 – 15,20
74 200	01/06/2004	7,70 – 8,06
208 300	17/06/2004	4,16 – 10,14
70 700	25/06/2004	3,99 – 12,50
37 300	07/07/2004	15,20 – 16,00
265 100	12/08/2004	2,68 – 12,50
39 300	19/08/2004	7,02 – 12,50
33 100	26/08/2004	7,02 – 12,50
13 200	15/09/2004	4,20 – 9,00
258 300	29/09/2004	3,52 – 9,00
81 500	12/10/2004	3,52 – 12,50
385 700	29/10/2004	0,66 – 12,50
289 600	12/11/2004	3,52 – 11,50
255 200	26/11/2004	3,52 – 11,50
33 700	14/12/2004	4,35 – 11,50
31 200	21/12/2004	4,42 – 11,50
2 233 600		

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28. Financial risk management

The group does not actively trade in financial instruments, but in the normal course of operations, the group is exposed to currency, interest rate, credit and liquidity risk. In order to manage these risks the group has developed a comprehensive risk management process to facilitate, control and monitor these risks.

28.1 Currency risk

Foreign currency risk is created due to the influence of exchange rate fluctuations. Mutual & Federal has a policy not to take out cover on outstanding foreign currency transactions as these transactions take place on an ad hoc basis. The group's exposure at year-end is disclosed as follows:

	Foreign asset/ (liability) 000	R000	Exchange rate R1=
British Pound	(27)	(295)	0,09134
Canadian Dollar	(2)	(11)	0,21160
European Euro	(9)	(71)	0,13155
Japanese Yen	(11 150)	(607)	18,36911
Malawi Kwacha	361	19	19,00070
Namibian Dollar	(184)	(184)	1,00000
Swaziland Emalengeni	(353)	(353)	1,00000
US Dollar	980	5 572	0,17593

28.2 Interest rate risk

Fluctuations in interest rates impact on the value of short-term cash investments, giving rise to price risk. Other than ensuring optimum money market rates for deposits, the group does not make use of financial instruments to manage this risk. Formal policies, procedures and limits have been put in place for derivative instruments. Interest rate risk exposure is limited to the variable interest rate loan disclosed in note 12.

28.3 Credit risk

The group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the group is exposed to credit risk are:

- reinsurers' share of insurance liabilities,
- amounts due from reinsurers in respect of claims already paid,
- amounts due from insurance policyholders, and
- amounts due from insurance contract intermediaries.

The group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review.

Reinsurance is used to manage insurance risk. This does not, however, discharge the group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered regularly by reviewing their financial strength prior to the finalisation of any contract.

The major concentration of credit risk arises from the group's receivables and investment securities in relation to the location of customers and issuers. No collateral is required in respect of financial assets. Reputable financial institutions are used for investing and cash handling purposes.

Mechanisms are in place to monitor the risk of default by individual policyholders. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the group risk department.

Internal audit makes regular reviews to assess the degree of compliance with the group procedures on credit.

At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

28. Financial risk management (continued)

28.4 Liquidity risk

The group is exposed to daily calls on its available cash resources mainly from claims arising. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The group sets limits on the minimum proportions of maturing funds available to meet such calls and unexpected levels of demand.

28.5 Fair values

The carrying values of all financial instruments approximated fair values reflected in the balance sheet due to the short-term maturities of these assets and liabilities.

29. Operating lease commitments

The company leases certain of its office buildings and office equipment in terms of operating leases. The company does not have an option to acquire the assets at termination of the lease. There are no escalation clauses or restrictions imposed by the leases.

	GROUP		COMPANY	
	2004 Rm	2003 Rm	**2004 Rm**	2003 Rm
Total future minimum lease payments under non-cancellable operating leases	**141**	105	**141**	105
Not later than 1 year	**23**	33	**23**	33
Between 1 and 5 years	**111**	72	**111**	72
More than 5 years	**7**	–	**7**	–

30. Post-balance sheet events

The group has a 51% shareholding in Credit Guarantee Insurance Corporation of Africa Limited (CGIC) but the results of this subsidiary have not been consolidated with those of the group, as the group was not able to exercise management control during the year as a result of restrictions on voting rights contained in the Articles of Association of CGIC. The articles were formally amended early in 2005, thereby removing the restriction on voting rights. The company's voting rights now equal its shareholding.

There were no other post-balance sheet events which affected the presentation of the financial statements for the year ended 31 December 2004.

Interest in subsidiary companies

		Issued share capital		Fair value of shares in subsidiaries		Indebtedness by/(to) subsidiaries	
		2004 Rm	2003 Rm	**2004 Rm**	2003 Rm	**2004 Rm**	2003 Rm
DIRECTLY HELD							
Cougar Investment Holding Company Limited	(a)	**5**	5	**800**	715	**98**	99
Mutual & Federal Company of Zimbabwe (Private) Limited#	(a)	**–**	–	**–**	–	**–**	–
Mutual & Federal Insurance Company of Botswana Limited*	(b)	**13**	13	**95**	73	**17**	10
Mutual & Federal Insurance Company of Namibia Limited+	(b)	**10**	10	**182**	128	**9**	(59)
Mutual & Federal Risk Financing Limited	(b)	**3**	3	**299**	254	**(31)**	(23)
Mutual & Federal Risk Financing Limited (redeemable preference shares) (85%)		**–**	–	**–**	–	**–**	–
Portion 1 of Stand 210 Rosebank (Proprietary) Limited (75%)	(c)	**–**	–	**–**	6	**(2)**	(7)
INDIRECTLY HELD							
CGU Insurance Limited	(a)	**10**	10	**909**	822	**(99)**	(67)
Equestrian Risk Services (Proprietary) Limited	(c)	**–**	–	**–**	–	**–**	–
Fedsure General Insurance Namibia Limited+	(c)	**13**	13	**16**	90	**–**	14
Huis-en-Haard Beskermingskoöperasie	(c)	**–**	–	**–**	–	**–**	–
Jesop Finance Company (Proprietary) Limited (50%)	(d)	**–**	–	**–**	–	**–**	(19)
Sentrasure Limited	(a)	**169**	169	**368**	332	**10**	(21)
COMPANIES DEREGISTERED IN 2004							
Royal Fire and General Company Limited		**–**	2	**–**	2	**–**	(2)
South African Mutual Fire and General Company Limited		**–**	–	**–**	–	**–**	–
Agricor Risk Acceptances (Proprietary) Limited		**–**	–	**–**	–	**–**	–
Agricor Risk Management Services (Proprietary) Limited		**–**	–	**–**	–	**–**	–
Erf 1263 Otjiwarongo (Proprietary) Limited+		**–**	–	**–**	–	**–**	–

**Incorporated in Botswana*
#Incorporated in Zimbabwe
+Incorporated in Namibia

(a) *Investment holding company*
(b) *Short-term insurance*
(c) *Dormant company*
(d) *Finance company*

All holdings are 100% unless otherwise indicated.

The group's share of the after-tax results of subsidiaries for the year ended 31 December 2004 was as follows:
Profits: R245 million (2003: R252 million).

Shareholder information

	Number of shareholders	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	416	33.49	243 911	0,10
1 001 – 10 000 shares	592	47,67	2 477 353	1,00
10 001 – 100 000 shares	188	15,14	5 700 661	2,30
100 001 – 1 000 000 shares	38	3,06	10 289 518	4,16
1 000 001 shares and over	8	0,64	228 702 981	92,44
	1 242	**100,00**	**247 414 424**	**100,00**
Distribution of shareholders				
Strategic holdings	3	0,24	215 252 247	87,00
Mutual funds	35	2,82	8 524 907	3,45
Insurance companies	15	1,21	7 202 732	2,91
Pension funds	45	3,62	5 461 267	2,21
Individuals	778	62,64	4 339 190	1,75
Nominees and trusts	233	18,76	2 411 841	0,97
Banks	15	1,21	2 097 910	0,85
Private companies	48	3,86	851 029	0,34
Investment companies	18	1,45	460 832	0,19
Public companies	4	0,32	313 850	0,13
Other corporations	13	1,05	204 604	0,08
Endowment funds	15	1,21	168 831	0,07
Close corporations	18	1,45	111 084	0,04
Medical aid schemes	2	0,16	14 100	0,01
	1 242	**100,00**	**247 414 424**	**100,00**
Public/Non-public shareholders				
Non-public shareholders	13	1,05	215 682 147	87,17
Directors and associates of the company holdings	12	0,97	431 900	0,17
Strategic holdings (more than 10%)	1	0,08	215 250 247	87,00
Public shareholders	1 229	98,95	31 732 277	12,83
	1 242	**100,00**	**247 414 424**	**100,00**
Top 10 beneficial shareholders				
Old Mutual Group			215 889 647	87,26
Liberty Group			4 819 931	1,95
Investec			3 385 959	1,37
Public Investment Commissioner			2 563 400	1,04
Rand Merchant Bank			2 095 453	0,85
Capital Alliance			1 520 413	0,61
Santam			1 464 796	0,59
Namibian Government Institutions Pension Fund			1 349 000	0,55
Peregrine			781 481	0,32
Sage			528 473	0,21
Registered shareholders holding more than 1 000 000 shares				
Mutual & Federal Investments			215 250 247	87,00
Liberty Life Association of Africa Limited			4 259 831	1,72
Public Investment Commissioner			2 563 400	1,04
Rand Merchant Bank			1 541 100	0,62
Santam Investec Portfolio			1 464 396	0,59
Capital Alliance Absolute Return Fund			1 415 813	0,57
Investec Special Focus Fund			1 186 794	0,48
Investec Opportunity Fund			1 021 400	0,41

Managers and branch organisation

Department	Group Manager
Accounting Services	J S Smit
Actuarial	E O Paul, B.Sc.(Hons)., F.F.A., C.F.A.
Administration	A M Dias, H.D. Bus. Man.
Advertising and Communications	L G M Comyn, B.A.
Agriculture	J H du Plessis
Business Development	P Morris, F.C.I.I.
Claims Development	K M Lawrence, B.L., LL.B., A.I.I.S.A.
Commercial Schemes	D A Hopcroft
Commercial Technical	W V Richards, F.I.I.S.A.
Corporate Accounting	J R Heunes, Dip. Bus. Man.
Crop	S Calvin
Financial Services	K H Kietzman, B.Compt.(Hons.), C.A.(S.A.)
Governance	M P Arnold, B.Com., B.Acc.
Group Procurement	P Geyer, B.Tech.

Department	Group Manager
Human Resources	M Low, B.Admin.
Information Services	L Gennari R Roxburgh, B.Sc. I M Williamson, M.Comm. K Wishart L Wolmarans, EDP Dip.
Internal Audit	P M J Hancock, B.Compt.(Hons.) C.A.(S.A.), C.I.A.
Investments	A J Uren, B.Com.
Legal	A T Bouwer, B.Iur., LL.B., Dip.LL.
Old Mutual Liaison	S Isaacs, A.C.I.I., A.I.I.S.A.
Personal Business	L Friend, A.I.I.S.A. R E Jatho, A.C.I.I., A.I.I.S.A. L A Robertson, A.I.I.S.A.
Personal Business Technical	L Beckbessinger, F.C.I.I., F.I.I.S.A.
Reinsurance	G D Montagnani, B.A., A.I.I.S.A.
Specialist Investigation	P J K Viljoen, B.A. Police Science, B.A.(Hons.)

Johannesburg

Branch	Regional Manager
Claims Commercial P O Box 1120 Telephone (011) 374 2162 Fax (011) 374 2100	**P R Pepperell,** F.C.I.I. *P Christofides, B.Juris *S Close, B.Sc. *E Coetzee, F.I.I.S.A. *D Y Koelman, B.A., A.I.I.S.A. *N Green, B.A., H.C.I.I. *A Louw, B.Iuris., LL.B. *I T McKinley, I.Eng., M.I.I.E., F.I.I.S.A.
Claims Motor P O Box 1120 Telephone (011) 374 9111 Fax (011) 374 2428	**C J Hayhurst,** A.I.I.S.A. *M Coetzee, B.Proc., LLB., A.C.I.I. *A du Toit *P Pienaar *L Rooney *D R Russell
Claims Motor Liability P O Box 1120 Telephone (011) 374 9111 Fax (011) 374 4000	**R Kalima-Moyo,** B.Sc. Bus. Man., M.B.A. *E B Meintjes, A.C.I.I.

Branch	Regional Manager
Claims Personal P O Box 1120 Telephone (011) 374 2733 Fax (011) 374 2240	**S M Kapito,** M.B.A., I.C.I.B.S. *C Thessner
Corporate Business P O Box 1120 Telephone (011) 374 9111 Fax (011) 374 2371	**S Miller,** A.I.I.S.A. *S Isaacs *P Lowrie, A.I.I.S.A. *M Wedderburn
Engineering Business P O Box 1120 Telephone (011) 374 9111 Fax (011) 374 2676	**T I Kerst,** Pr.Eng., B.Sc.(Eng.), F.I.I.S.A., M.B.L. *S de Wet, ICiBS *D Gouws, B.Eng., A.I.I.S.A. *O van Jaarsveld, I.C.i.B.S. *D Waterworth, B.Sc.(Eng.), A.I.I.S.A., Pr.Eng.
Marine P O Box 1120 Telephone (011) 374 2833 Fax (011) 833 1274	**M G Caietta** *R Cundill
Risk Financing P O Box 1120 Telephone (011) 374 2177 Fax (011) 374 2461	**B L Ancient** *R K Bezuidenhout, A.C.I.I. Chartered Insurer, A.I.I.S.A. *P Ramdin A.I.A.C. *N Matthews

**Manager*

Other branches

Branch	Regional Manager	Sub/Local Office	Branch Manager
BENONI P O Box 201 Telephone (011) 747 1747 Fax (011) 422 1357	**G C Horn,** A,C.I.I., A.I.I.S.A. *C Stolsie, A.I.I.S.A. *E K Sweet *W L Jorgensen, N.Dip. Marketing COP	**Vereeniging** P O Box 672 Telephone (016) 445 1040 Fax (016) 454 3729	**C Ahrends,** I.C.i.B.S.
BENONI CLAIMS P O Box 201 Telephone (011) 747 1747 Fax (011) 420 1910	**C J Grosch** *B Kasselman *P Panday, A.C.I.I.		
BLOEMFONTEIN P O Box 1085 Telephone (051) 403 7700 Fax (051) 448 9866	**J Squires,** B.Com. *M J Smith *M van der Westhuizen *G Stapelberg, B.A. *S G von Berg, Nat.Dip.Mgt.	**Bethlehem** P O Box 1642 Telephone (058) 303 4557 Fax (058) 303 4759 **Kroonstad** P O Box 353 Telephone (056) 212 7131 Fax (056) 213 1718 **Welkom** P O Box 614 Telephone (057) 352 6256/7 Fax (057) 352 7369	**A Wiese** **J P Moelich**
CAPE TOWN P O Box 16 Telephone (021) 401 6911 Fax (021) 401 6605/6/7/12	**M G D van Leeuwen,** F.C.I.I. F.I.I.S.A. *G V Gore, F.I.A.C., C.F.A.(S.A.) *C M Grove *R O Schultz, F.I.I.S.A.	**Bellville** P O Box 1830 Telephone (021) 910 2011 Fax (021) 910 2016 **Mutual Park** P O Box 66 Cape Town Telephone (021) 509 3262 Fax (021) 531 1243	*G Pennacchini *K E Vels, A.I.I.S.A.
CAPE TOWN CLAIMS P O Box 16 Telephone (021) 401 6911 Fax (021) 401 6601/2/3	**A C W Hill,** F.C.I.I. *G L La Foy, F.C.I.I. *S A Ward, H.C.i.I. *A Weddell, B.Sc.Q.S., F.I.I.S.A.		
DURBAN P O Box 66 Telephone (031) 362 6111 Fax (031) 362 6175	**R C Meer** *L J Brown, A.C.I.I. *H A E Fountain, H.D. Bus. Man. (DMS) *D F Kerrin, F.I.I.S.A.	**Empangeni** P O Box 84 Telephone (035) 772 4811 Fax (035) 772 2179	*G Pansegrouw
DURBAN CLAIMS P O Box 66 Telephone (031) 362 6111 Fax (031) 362 6119	**P J Foley,** F.I.I.S.A. *O S Dixon *R W Wilson, A.I.I.S.A.		

**Manager*

Managers and branch organisation

Other branches continued

Branch	Regional Manager	Sub/Local Office	Branch Manager
EAST LONDON P O Box 608 Telephone (043) 705 4800 Fax (043) 721 0350	**C Dallas,** F.I.I.S.A. *M V Gower *D B Arries, A.I.I.S.A.	**Queenstown** P O Box 428 Telephone (045) 839 3106/7 Fax (045) 838 1194	*A Roodt
KIMBERLEY Private Bag X6063 Telephone (053) 807 5000 Fax (053) 831 2741	*D K Delport *R G Talbot	**Hopetown** P O Box 313 Telephone (053) 203 0534/5 Fax (053) 203 0292	*P J Vermeulen
		Upington P O Box 820 Telephone (054) 338 6000/1/2 Fax (054) 332 4684	*H van Wyk, Dip. Bus. Mgt.
KLERKSDORP P O Box 565 Telephone (018) 464 8800 Fax (018) 462 9238	**G Booysen**, B.Com. (Hons.), A.C.I.I. *J G Blignaut *J J Goosen	**Lichtenburg** P O Box 1643 Telephone (018) 632 1204 Fax (018) 632 5211	*R C Herbst
		Vryburg P O Box 427 Telephone (053) 927 2227/8 Fax (053) 927 3081	*E Vermeulen
NELSPRUIT P O Box 307 Telephone (013) 753 2221/2/3 Fax (013) 752 5912	**G P Kloppers,** F.I.I.S.A. *H Breedt, I.C.i.B.S. *A Loubscher, B.A. (Hons.)	**Ermelo** P O Box 1602 Telephone (017) 819 1117 Fax (017) 811 4814	*J du Toit, Nat.Dip.Mkt.
PAARL P O Box 289 Telephone (021) 860 8500 Fax (021) 872 9264	**M L Glasby,** F.I.I.S.A. *C J van der Merwe *J H Welthagen	**Stellenbosch** P O Box 175 Telephone (021) 808 5500 Fax (021) 808 5570	**M H Nacerodien,** F.I.I.S.A.
		Vredendal P O Box 328 Telephone (027) 213 3263 Fax (027) 213 3204	*J Theron
		Worcester P O Box 206 Telephone (023) 342 2454/5 Fax (023) 342 8769	**C de Jager,** I.C.i.B.S.
PIETERMARITZBURG P O Box 420 Telephone (033) 897 4700 Fax (033) 342 1176/7425	**J Trybus** *N D Bothwell *D G Manning *N R Taylor, A.I.I.S.A.	**Vryheid** P O Box 432 Telephone (034) 980 9856 Fax (034) 980 9703	*A M H Lombaard
		Ladysmith P O Box 372 Telephone (036) 637 7031 Fax (036) 637 2606	*C B Lee
		Newcastle P O Box 2338 Telephone (034) 312 7094/5 Fax (034) 315 2880	**C L Stretch,** F.I.I.S.A.

**Manager*

Other branches continued

Branch	Regional Manager	Sub/Local Office	Branch Manager
PINETOWN P O Box 2178 Telephone (031) 717 8300 Fax (031) 702 9646	**D S Pascal,** F.I.I.S.A. *I Manchest, F.I.I.S.A. *T Achary, I.C.i.B.S., B.A. Law., L.L.B.	**Port Shepstone** P O Box 263 Telephone (039) 682 5825 Fax (039) 682 0097	*M J Marius, H.C.I.I. National Diploma of Organisation & Workstudy
POLOKWANE P O Box 675 Telephone (015) 297 5800 Fax (015) 297 5493/4	**G L Fijma,** F.I.I.S.A. *T Hohls	**Modimolle** P O Box 2136 Telephone (014) 717 1712 Fax (014) 717 1719	*C J C Jansen van Vuuren, A.C.I.I.
		Tzaneen P O Box 3125 Telephone (015) 307 2001 Fax (015) 307 2046	*C S Donaldson
PORT ELIZABETH P O Box 342 Telephone (041) 508 3111 Fax (041) 508 3153	**A R P Shaddock,** Dip.Bus.Man. *T Daniels, A.C.I.I. *M R Delponte, H.Cil. *H Platt *L Westerman, B.Com. *A Fiebiger, A.I.I.S.A.	**George** P O Box 300 Telephone (044) 802 5200 Fax (044) 873 3864	*A Cronje, H.Cil.
PRETORIA P O Box 29357 Sunnyside Telephone (012) 400 8100 Fax (012) 400 8130	**G E Martin,** I.C.i.B.S. *A Fourie *G P Lucas, A.I.I.S.A. *F L Marshall, I.C.i.B.S.	**Witbank** P O Box 2118 Telephone (013) 690 2850 Fax (013) 656 5591	*C van Niekerk
PRETORIA CLAIMS P O Box 29357 Sunnyside Telephone (012) 400 8100 Fax (012) 400 8308	**P D Pau,** B.A., LL.B, I.L.P.A. *A Berge *S Papadopoulos, H.C.I.I.		
RANDBURG **Commercial Business** P O Box 3909 Telephone (011) 777 8400 Fax (011) 886 1901	**A S Errington,** A.I.I.S.A. *J B Goodchild *L L Greer I.C.i.B.S. *C A Kotze, F.I.I.S.A. *J Kayter I.C.i.B.S.		
Personal Business P O Box 1060 Telephone (011) 777 8400 Fax (011) 789 2615	**M P McCann,** A.I.I.S.A., A.C.I.I., Chartered Insurer *M Bown *J Chapman, A.C.I.I. *R R Boggenpoel		
ROODEPOORT P O Box 5802 Telephone (011) 671 7800 Fax (011) 475 7651	**A W G Vögel,** A.I.I.S.A. *W J Badenhorst, B.Proc. *L van Heerden, A.C.I.I.	**Carletonville** P O Box 997 Telephone (018) 786 1147 Fax (018) 788 5758	*R P van Rooyen, COP, I.C.i.B.S.
RUSTENBURG P O Box 518 Telephone (014) 592 1191 Fax (014) 594 1651	**W J J Botha** *L de Koker		

**Manager*

Managers and branch organisation

Managers

Branch	Manager	
Old Mutual Liaison	S C Stevenson	Benoni
	W F Immelman	Bloemfontein & Kimberley
	O La Grange	Cape Town & Paarl
	D J R Blair, A.C.I.I., A.I.I.S.A.	Durban
	I D Dreyer	Johannesburg
	H A Duvenhage	Pietermaritzburg
	E C Albrecht	Pretoria
	F Sepuru, F.I.I.S.A.	Johannesburg – National Trainer
	L H Swanepoel	Johannesburg – National Trainer

Mutual & Federal Insurance Company of Botswana Limited

Branch	Regional Manager
Private Bag 00347	General Manager
Gaborone	**B A Kelly,** H.Dip. Proj. M. (DMS)
Telephone (+267) 390 3333	*C F Coleman, A.I.I.S.A., B.A.
Fax (+267) 390 3400	

Mutual & Federal Insurance Company of Namibia Limited

Branch	Regional Manager	Sub/Local Office	Branch Manager
P O Box 151	Managing Director	**Mariental**	**E Erlank**
Windhoek	**G R Katjimune,** B.A.(Hons.), M.A.	P O Box 900	
Telephone (+264 61) 207 7111	General Manager	Telephone (+264 63) 24 0999	
Fax (+264 61) 207 7205	**J W B le Roux**	Fax (+264 63) 24 2300	
	*A Lombard	**Oshakati**	**E Venter**
	*C Straus	P O Box 15372	
	*H Zapke	Telephone (+264 65) 22 2841	
	*A Puriza	Fax (+264 65) 22 2700	
		Otjiwarongo	**R Viviers**
		P O Box 1396	
		Telephone (+264 67) 30 3630	
		Fax (+264 67) 30 3246	
		Walvis Bay	**R Lotriet**
		P O Box 656	
		Telephone (+264 64) 20 2635	
		Fax (+264 64) 20 3183	

RM Insurance Company (Private) Limited – Zimbabwe

Branch	General Manager
P O Box 3599	**D M Muthe,** M.B.A., A.C.I.I.
Harare	
Telephone (+2634) 75 8954	
Fax (+2634) 75 9700	

WEBSITE: www.mf.co.za
E-mail: investor@mf.co.za

**Manager*

Shareholders' diary

Annual General Meeting	**3 May 2005**
Announcement of interim results	**25 July 2005**
Financial year-end	**31 December**
Announcement of annual results	**February 2006**

Dividend number 70

Dividend as at 31 December declared	**8 February 2005**
Last date to trade cum dividend	**11 March 2005**
Share trade ex-dividend	**14 March 2005**
Record date	**18 March 2005**
Dividend payable	**22 March 2005**
Last date for shareholders to register	**18 March 2005**
Dematerialisation of shares prohibited	**14 to 18 March 2005, both days inclusive**

Dates are subject to change.

Notice to shareholders

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

Mutual & Federal Insurance Company Limited
(Incorporated in the Republic of South Africa)
(Registration number 1970/006619/06)
Share code: MAF ISIN: ZAE000010823
("Mutual & Federal" or "the company")

Notice to shareholders

Notice is hereby given that the thirty-fourth annual general meeting of shareholders of Mutual & Federal will be held on the 4th floor, Mutual & Federal Centre, 75 President Street, Johannesburg, at 10:00 on Tuesday, 3 May 2005 for the following purposes:

1. To receive and adopt the annual financial statements and reports for the year ended 31 December 2004.

2. To elect directors of the company.

The following directors retire in accordance with the company's articles of association and being eligible, offer themselves for re-election:
(a) B Campbell
(b) R M Head
(c) R P Menell
(d) E P Theron
(e) R A Williams

A brief curriculum vitae in respect of each director referred to above appears on pages 34 to 35 of this annual report.

3. To re-appoint KPMG Inc. as auditors of the company.

4. To approve the remuneration of non-executive directors, in accordance with the provisions of article 69 of the company's articles of association until such time as it be further amended by the company in general meeting and with effect from 1 January 2005 as follows:
4.1 Chairman of the company – R225 000 per annum
4.2 Deputy Chairman of the company – R180 000 per annum
4.3 Non-executive directors – R90 000 per annum

5. To place under the control of the directors of the company by way of a general authority all of the authorised but unissued shares in the share capital of the company in terms of clause 4 of the articles of association and section 221(2) of the Companies Act, 1973 (Act 61 of 1973) as amended ("the Act") with the power to allot and issue them at their discretion subject to section 221(3) of the Act and the JSE Securities Exchange South Africa ("JSE") Listings Requirements. The issuing of shares granted under this authority will be limited to Mutual & Federal's existing contractual obligations to issue shares, any scrip dividend and/or capitalisation award, and shares required to be issued for the purpose of carrying out the terms of the Mutual & Federal share incentive scheme.

As special business to consider and, if deemed fit, pass with or without modification, the following resolution:

Ordinary resolution

"**Resolved that** the directors of the company be and they are hereby authorised by way of a general authority, to issue all or any of the authorised but unissued shares in the capital of the company for cash, as and when they in their discretion deem fit, subject to the Act, the articles of association of the company, the JSE Listings Requirements, when applicable, and the following limitations, namely that:

- the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- the authority shall be valid until the date of the next annual general meeting of the company, provided it shall not extend beyond 15 months from the date of this general meeting;
- a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published after any issue representing, on a cumulative basis within any one financial year, 5% or more of the number of shares in issue prior to such issue;
- issues in terms of this authority will not exceed 10% in the aggregate of the number of ordinary shares in the company's issued share capital in any one financial year. The number of ordinary shares which may be issued shall be based on the number of ordinary shares in issue, added to those that may be issued in future (arising from the conversion of options/convertibles) at the date of such application, less any ordinary shares issued, or to be issued in future arising from options/convertible ordinary shares issued during the current financial year; plus any ordinary shares to be issued pursuant to a rights issue which has been announced, is irrevocable and is fully underwritten, or an acquisition which has had final terms announced;
- in determining the price at which an issue of shares will be made in terms of this authority the maximum discount permitted will be 10% of the weighted average traded price of such shares, as determined over a 30-day period prior to the date that the price of the issue is determined or agreed by the directors; and
- any such issue will only be made to public shareholders as defined in paragraphs 4.26 and 4.27 of the JSE Listings Requirements and will not be made to a related party as defined in the JSE Listings Requirements.

Voting and proxies

Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote in his stead. The proxy so appointed need not be a member of the company. A form of proxy is attached for the convenience of any certificated shareholder and own name registered dematerialised shareholders who cannot attend the meeting, but who wished to be represented thereat. In order to be valid, duly completed proxy forms should be

Notice to shareholders

forwarded to reach the transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107) by no later than 10:00 on Friday, 29 April 2005.

Shareholders who have dematerialised their shares through a Central Securities Depositary Participant ("CSDP") or broker, other than own name registered dematerialised shareholders, and who wish to attend the annual general meeting must request their CSDP or broker to issue them with the necessary authority to attend. Should shareholders who have dematerialised their shares, other than own name registered shareholders, wish to vote by proxy, they must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between the dematerialised shareholders and their CSDP or broker.

By order of the board

Proxy form

Mutual & Federal Insurance Company Limited
(Incorporated in the Republic of South Africa)
(Registration number 1970/006619/06)
Share code: MAF ISIN: ZAE000010823
("Mutual & Federal" or "the company")

For use by certificated and own name registered dematerialised shareholders at the thirty-fourth annual general meeting of the company to be held on the 4th floor, Mutual & Federal Centre, 75 President Street, Johannesburg, at 10:00 on Tuesday, 3 May 2005.

Shareholders who have dematerialised their shares through a Central Securities Depositary Participant ("CSDP") or broker, other than own name registered dematerialised shareholders, and who wish to attend the annual general meeting must request their CSDP or broker to issue them with the necessary authority to attend. Should shareholders who have dematerialised their shares, other than those with own name registration, wish to vote by proxy, they must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between the dematerialised shareholders and their CSDP or broker.

I/We ______________________________

of ______________________________

being a member(s) of Mutual & Federal Insurance Company Limited,

hereby appoint ______________________________

of ______________________________

or failing him ______________________________

of ______________________________

or failing him, the chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of the company to be held on Tuesday, 3 May 2005 and at every adjournment thereof.

Please indicate how you wish your proxy to vote by placing a cross in the box which applies:

	For	Against	Abstain
1. To receive and adopt the annual financial statements			
2. To re-elect directors of the company by single resolution			
3. To re-appoint KPMG Inc. as auditors			
4. To approve the following directors' remuneration:			
4.1 Chairman of the company – R225 000 per annum			
4.2 Deputy Chairman of the company – R180 000 per annum			
4.3 Non-executive directors – R90 000 per annum			
5. To place unissued shares under the control of the directors			
6. To grant the directors authority to issue shares for cash			

If no voting instructions are given, the proxy will be entitled to vote or to abstain at his discretion.

Signature ______________________________ Date ______________

Assisted by me, her husband ______________________________

(If applicable)

Notes to the proxy form

1. Any alteration or correction made to this form of proxy, other than the deletion of alternatives, must be initialled by the signatory(ies).

2. A member entitled to attend and vote may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided, with or without deleting "the Chairman of the annual general meeting". A proxy need not be a member of the company. The person whose name stands first on the form of proxy and who is present at the meeting will be entitled to act as proxy to the exclusion of those whose names follow.

3. A member is entitled to one vote on a show of hands and, on a poll, one vote in respect of each share held. A member's instructions to the proxy must be indicated by inserting the relevant number of votes exercisable by the member in the appropriate box(es). Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the member's votes.

4. A vote given in terms of an instrument of proxy shall be valid in relation to the annual general meeting notwithstanding the death of the person granting it, or the revocation of the proxy, or the transfer of the shares in respect of which the vote is given, unless an intimation in writing of such death, revocation or transfer is received by the Company Secretary not less than 48 hours before the commencement of the annual general meeting.

5. The Chairman of the annual general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.

6. The completion and lodging of this form of proxy will not preclude the relevant member from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.

7. Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the company or unless this requirement is waived by the Chairman of the annual general meeting.

8. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the company.

9. Where there are joint holders of shares:
   - any one holder may sign the form of proxy;
   - the vote(s) of the senior members (for that purpose seniority will be determined by the order in which the names of members appear in the company's register of shareholder(s)) who tender a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint member(s).

10. Forms of proxy should be lodged with the transfer secretaries,
    Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001
    (P O Box 61051, Marshalltown, 2107)
    to be received by no later than 10:00 on Friday, 29 April 2005.

Reporting of fraud and corruption

Mutual & Federal subscribes to Tip-offs Anonymous, an independently managed ethics and fraud hotline. To report any suspicion of fraud or unethical behaviour contact:

Toll free no: 0800 006 930
Toll free fax no: 0800 007 788

Free post: DN 298
Umhlanga Rocks
4320

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Authorised Financial Services Provider