

2005 ANNUAL REPORT



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Through profitability, growth and service
we deliver value to our shareholders,
stakeholders and customers

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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.

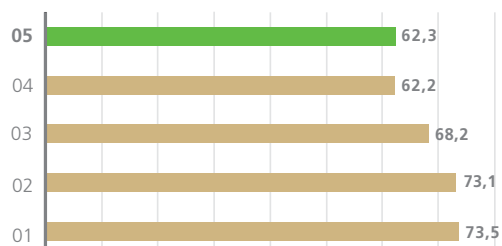
FINANCIAL HIGHLIGHTS

- Underwriting ratio of 8,4%
- Headline earnings per share up 22%
- Gross premiums up 9%
- Increase in ordinary dividend of 48%

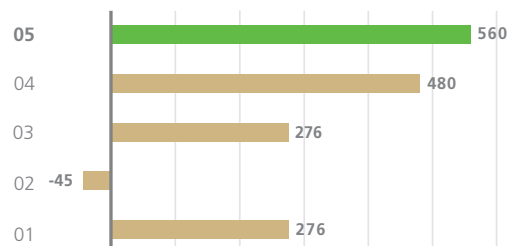
		2005	2004	% Change
FINANCIAL RESULTS (Rm)				
Net premiums		6 874	6 417	7,1
Underwriting surplus		577	607	(4,9)
General insurance result		832	808	3,0
KEY RATIOS (%)				
Management expense ratio		8,8	8,4	(4,8)
Operating ratio		91,6	90,6	(1,1)
	Target	2005	2004	2003
	%	%	%	%
PERFORMANCE OBJECTIVES				
Underwriting result as a percentage of earned premium	4,0	8,4	9,4	6,9
General insurance result as a percentage of earned premium	7,0	12,1	12,6	10,6
Return on shareholders' funds*	>20,0	20,2	23,7	22,9

*Calculated using the long-term rate of return.

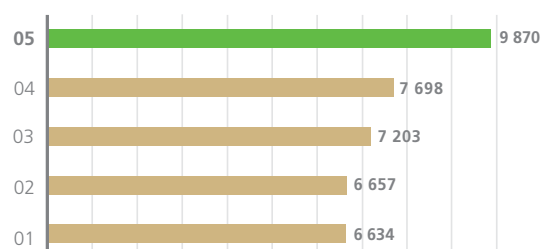
Claims ratio (%)



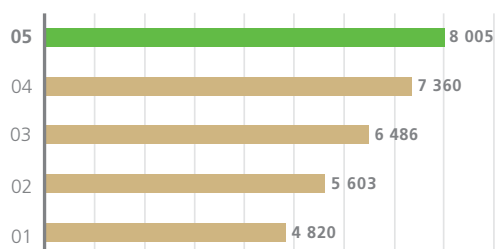
Basic earnings per share (cents)



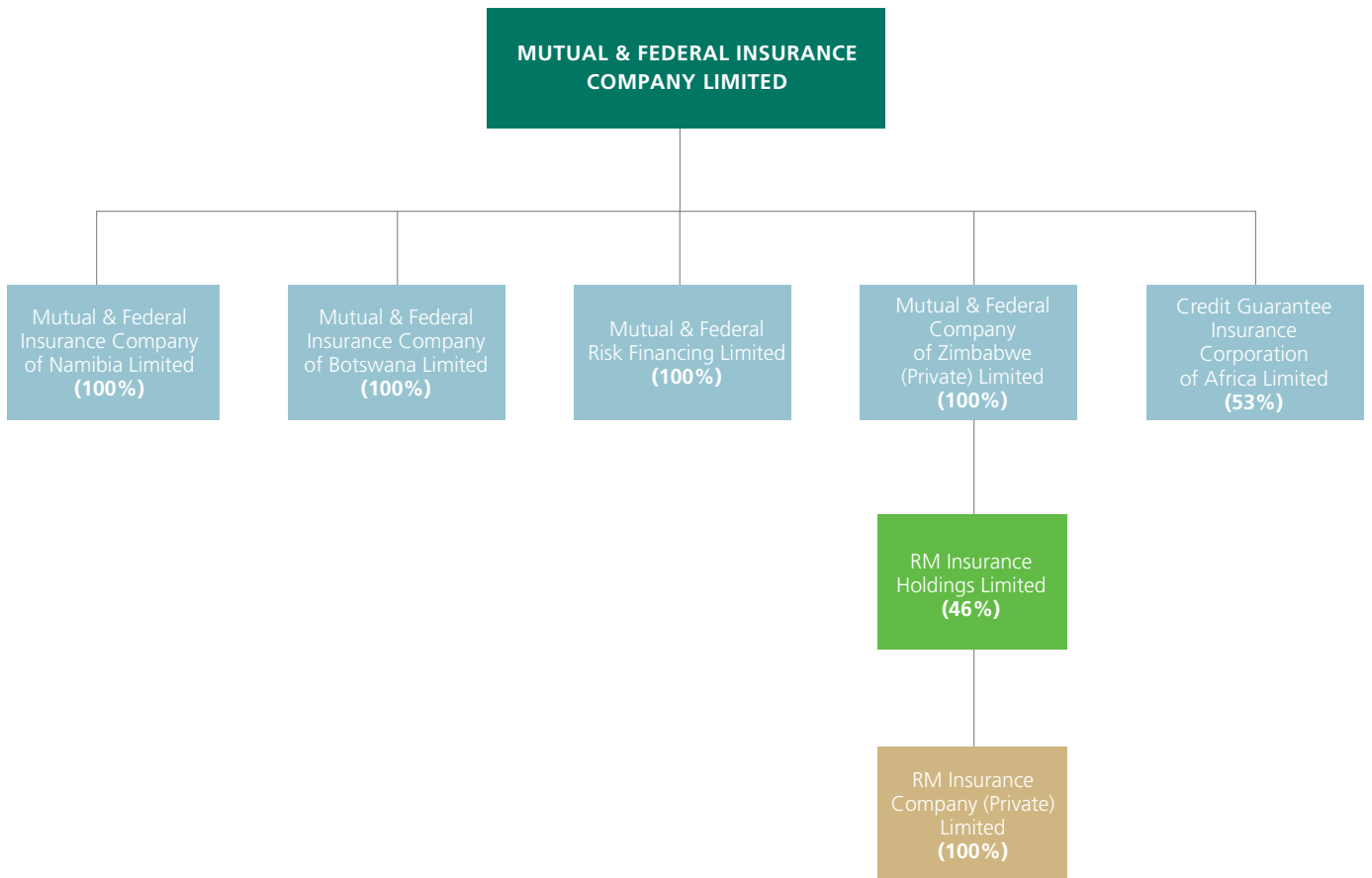
Assets (Rm)



Gross premiums (Rm)

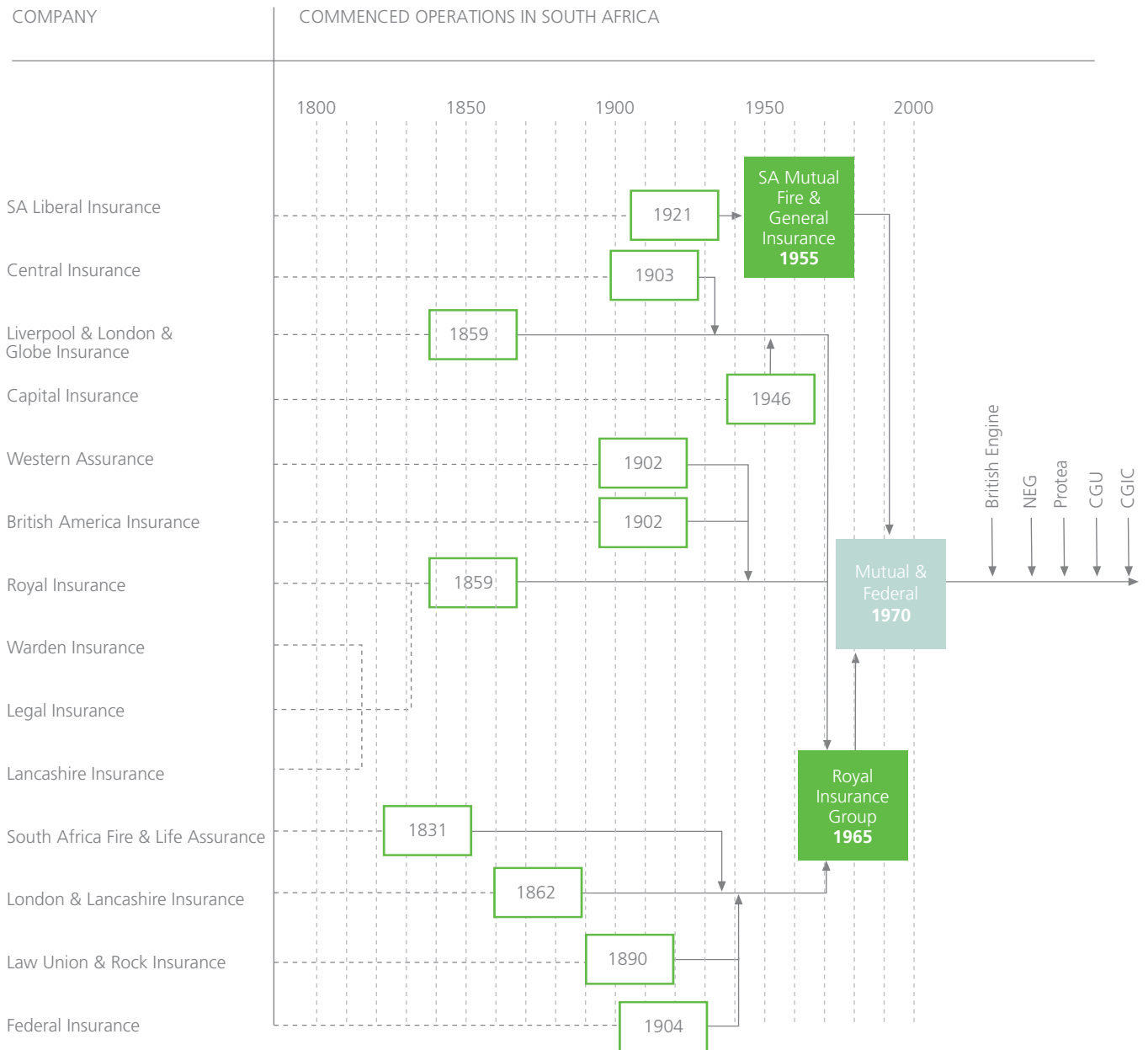


GROUP STRUCTURE



The above represents the operating entities within the group.

GROUP ANCESTRY





The group has continued to deliver growth and profitability through high levels of customer service

I take pleasure in presenting the financial results for the year ended 31 December 2005, which are highly satisfactory. The underwriting surplus for the period declined marginally to R577 million but the general insurance result nevertheless increased by R24 million to R832 million. This reflects the continued strength of the underwriting cycle and the outstanding efforts of staff in pursuit of the group's strategic vision.

Mutual & Federal aspires to be the short-term insurance company of first choice in southern Africa and it is clear that the group has continued to make significant progress in pursuit of this goal. Notwithstanding the competitive conditions which prevail the group has maintained market share and continued to deliver growth and profitability through high levels of customer service.

Despite an increased number of losses from widespread rains during the year, the group has attained exceptional levels of profitability. This has been achieved through the use of information technology to provide quality business intelligence and improved efficiency which has resulted in outstanding service levels.

The positive underwriting performance has been accompanied by exceptional returns on investments with the price of listed equities reaching record levels. The overall result to shareholders has accordingly been outstanding.

Group performance

Gross premium income increased by 9% to R8,0 billion. If the impact of the inclusion of Credit Guarantee Insurance Corporation ("CGIC") is excluded, premium growth was relatively modest at 3%.

Premiums paid to reinsurers during the year increased from R0,9 billion to R1,1 billion primarily due to the inclusion of CGIC and a hardening of international reinsurance rates. The net premium income accordingly increased by 7% to R6,9 billion. Claims for the period increased by 7% to R4,3 billion at a ratio of 62,3% (2004: 62,2%) of net earned premiums. Acquisition expenses increased in line with premium growth.

The surpluses on the investment portfolio grew strongly as a result of the increase in the value of listed equities during 2005. Interest income increased during the period due to higher levels of funds on deposit following the disposal of some R900 million in equities earlier in the year and positive cash flows generated by the operations.

The net asset value per share increased during the year from R14,64 to R19,41 due to the strong underwriting profit and the improvement in the value of listed equities. At 31 December 2005 the solvency margin (being the ratio of net assets to net premiums) was 74% which is in excess of the group's capital requirements.

During the year the group's sound financial position was furthermore confirmed by the AAA credit rating assigned to it by Global Credit Rating company.

Economic overview

The past year was very positive for the South African economy. The growth in gross domestic product exceeded expectations and is anticipated to be approximately 5% for the year. This is the highest level for a number of years and has been accompanied by record levels of consumer spending and low levels of interest rates.

There are encouraging signs that this economic progress and the positive sentiments will continue into 2006. The government is strongly committed to stimulating growth within the economy and a number of planned infrastructural developments should assist in generating growth and improving general levels of employment. There are also indications that interest rates will continue to remain at low levels.



K T M SAGGERS
CHAIRMAN

CHAIRMAN'S REVIEW (continued)

The strong economic conditions have positively impacted the short-term insurance industry. The low interest rates and high levels of consumer spending have increased the demand for short-term insurance whilst the strength of the currency and moderate levels of inflation have provided some stability in claims costs particularly with regard to imported goods. The relatively low level of insolvencies have positively impacted the credit insurance business, whilst a decrease in crime has also contributed to stability in claims numbers.

Market environment

The overall underwriting return within the industry has declined from the record achieved during 2004, but has nevertheless remained at a level which has assisted in the delivery of most satisfactory profits.

The industry has also been characterised by a period of relative stability and it appears that a position of maturity has been reached. There have been few legislative or regulatory changes and the proposed deregulation of commissions which was envisaged for 2005 has now been postponed indefinitely.

The industry produced a credible financial result for 2005 although underwriting profits were not as high as those reported in 2004.

The industry however faces a number of challenges as it enters 2006. The number of registered short-term insurers continues to grow as more entities seek to benefit from the current conditions by applying for short-term insurance licences.

Empowerment transaction

As an active participant in the development of the Financial Sector Charter, Mutual & Federal is committed to the goals and targets set out therein and is a party to the Charter. During 2005 the Old Mutual Group concluded a highly successful empowerment agreement and as part of

this transaction 11% of the shares in Mutual & Federal were placed into black hands, spread amongst staff, business partners, brokers and the community.

Although the transaction is aimed at ownership, Mutual & Federal has also been following a strategy aimed at fulfilling the other elements of the Charter. During 2005 more than R200 million was spent in procuring products and services from previously disadvantaged individuals.

In selecting black business partners ("BBPs"), consideration was given to ensuring that the partners represented a broad base of beneficiaries and that the directors and management comprised predominately black people. The leadership and values of the BBPs were carefully assessed and regard was given to whether the leadership would be able to commit sufficient time and resources to focus on business development and transformation.

I am accordingly delighted to welcome both WIPHOLD and Mtha consortiums as business partners.

Outlook

There is evidence that the underwriting cycle peaked during 2004 and the industry is generally expecting a reduction in underwriting profits during 2006. The group's long-term target for underwriting will however remain at 4% of net earned premiums. Management will accordingly continue to apply responsible underwriting standards in setting rates commensurate with insurance risks and seek to manage the underwriting cycle by applying strict discipline in claims and management expenses. The group will continue to seek improvements in efficiencies in the payment of claims and the administration of the operations.

Mutual & Federal remains committed to further growth through continued development of the intermediary channel and strengthening of relationships with brokers and clients. We will be seeking to benefit from increased

synergies within the Old Mutual Group and to develop strong relationships with our BBPs in the business environment.

Appreciation

I would like to thank the Board of Directors for their support and commitment during the year. In addition I welcome Ms Mojela of WIPHOLD, Mr Ngcuka of the Mtha consortium and Mr Magwaza, who joined the Board in the last twelve months. Each of these outstanding individuals brings with them years of invaluable experience and considerable insights into the South African economy and we are most fortunate to benefit from their presence.

Three of the longest serving directors, Messrs Hyatt, Theron and Williams have indicated that they will be retiring from the Board in May 2006. All of these gentlemen have made an outstanding contribution to the group and their wise counsel will be sorely missed.

I retire from the Board in May 2006 having reached mandatory retirement age and extend my best wishes to my successor, Mr Magwaza, who assumes the chairmanship.

In conclusion I wish to thank the management and staff of the group for the excellent results achieved and our clients and intermediaries for their continued support.



K T M Saggars
Chairman

14 February 2006



B CAMPBELL
MANAGING DIRECTOR

The achievement of profitability, growth and outstanding client service

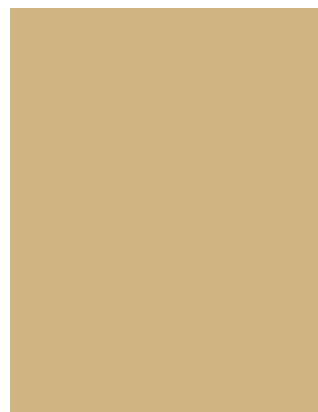
I am pleased to report that in 2005 the group once again produced a most satisfactory financial result. This follows record profitability achieved during 2004 and reflects the commitment of the group to the Corporate Mission of delivering innovative insurance products and outstanding service.

The core values of the group have been further entrenched during the year and have been evident in the passion which has been applied by staff pushing beyond boundaries to achieve company and individual goals whilst maintaining integrity and respect in their dealings with clients and with one another.

Financial results

The general insurance result for the year was a most satisfactory surplus of R832 million and was positively influenced by the continued strength of the underwriting environment. The underwriting surplus of R577 million compares to R607 million in 2004 and supports the view that the peak of the underwriting cycle had been reached. The underwriting result nevertheless represents a return of 8,4% on net earned premiums which is substantially higher than the group long-term objective of 4%.

The financial results include, with effect from 1 January 2005, the business of subsidiary company Credit Guarantee Insurance Corporation ("CGIC"). The effect of including these results has been to increase the underwriting surplus by R167 million in 2005 following a highly satisfactory year for the company.



Although the commercial division experienced a number of large commercial and industrial losses the general level of claims remained relatively subdued. Despite aggressive competition and rate cutting in the industry, commercial business recorded a highly satisfactory result, as responsible underwriting standards were maintained and market growth was not pursued indiscriminately at the expense of profitability. Results in the personal division were however impacted by intensifying competition as well as hail storms and wet weather conditions which impacted the motor account in particular. In addition an increase in the incidence of motor accidents and higher repair costs negatively affected levels of profitability.

In total, gross premium income for the group increased by 8,8% from R7 360 million to R8 005 million and this reflects the inclusion of CGIC. Levels of growth were lower than expected as a result of the intense levels of competition which are being experienced in the markets.

Profit for the year increased by 29% from R1 181 million to R1 518 million.

The growth in the value of listed equities has positively influenced the Mutual & Federal portfolio which has grown by approximately 45% for the year. This has contributed to the growth in profit. The group maintained a substantial investment in equities during the year and with more than 80% of shareholders' funds invested in listed equities, total investment income amounted to R1 572 million which was 54% higher than 2004.

Performance objectives

The group has a number of financial performance objectives in pursuit of the corporate mission. Progress achieved during 2005 was as follows:

- The group achieved an underwriting surplus of 8,4% which was substantially in excess of the long-term objective of 4%.
- Management expenses were controlled within inflation levels in accordance with the corporate objective and, excluding items considered to be non-recurring, increased by 4,5%.
- The objective of obtaining a return on capital in excess of 20% was achieved.
- Although the group objective is to maintain a solvency margin of approximately 45% the strong growth in listed equities resulted in a ratio of 74% at the financial year-end.

Strategic goals

The group vision is to be the short-term insurance company of first choice in southern Africa. Management has embraced certain medium-term objectives in the pursuit of this goal and these involve the achievement of profitability, the generation of growth and the delivery of client service.

CHIEF EXECUTIVE'S REVIEW (continued)



In pursuit of **profitability** the correct rating and selection of risks is critical and the group has engaged in extensive development of business intelligence and management information systems which have provided extensive data mining capabilities. Management has also been successful in containing claims costs by pursuing a number of initiatives to manage expenses and margins within the supply chain. To promote operational efficiency the group has commenced the implementation of a number of substantial upgrades to the IT systems to deliver improved business efficiency and cost savings which will deliver benefits to policyholders and intermediaries.

In the pursuit of **growth** the group has recognised the importance of a divisional focus to match client needs by delivering suitable products into the markets in which it operates. An organisational restructure was accordingly undertaken during the year to more effectively deliver such segmental focus. It is furthermore recognised that competition within the industry is changing continually and the distribution strategy is continually reassessed for maximum effectiveness.

The delivery of superior **client service** remains a strategic advantage enjoyed by the group and the restructure provided better interface to both intermediaries and clients. Ongoing systems development and the use of technology provide further benefits which will continue to be exploited in 2006. The group is also fortunate to

possess the highest calibre of human resources in the industry. This competence provides a competitive advantage and the group will continue to foster staff development through training and management development programmes.

Empowerment and transformation

A highlight of 2005 was the implementation of a Black Economic Empowerment transaction resulting in 11% of the shares in Mutual & Federal being placed into the hands of previously disadvantaged individuals. The scheme was broad based in nature and benefited staff, black business partners, black intermediaries and the community.

The transaction was implemented as part of the comprehensive approach to rapid transformation. It extends to employment equity particularly at management level, client acquisition, underserved markets, black broker development and community involvement.

In implementing the transaction, the group sought to achieve an equitable balance between internal and external individuals and attempted to ensure that no one individual or ultimate beneficiary would be rewarded out of proportion to the value delivered.

The group also adopted a transformation strategy which is comprehensive, robust and challenging and through

Management is confident of maintaining market share through high levels of client service

this strategy aims to meet targets that are wider than those set by the Financial Sector Charter.

To assist in the internal transformation of the group, a transformation committee has been established and performance contracts have been agreed with the business partners to ensure that the value creation which is sought will materialise.

Prospects for 2006

Although the underwriting cycle appears to have peaked during 2004, the environment remains conducive to producing underwriting profits in 2006. More than 90% of the business is conducted through intermediaries and the group continues to receive extremely strong support from such intermediaries. Despite aggressive competition, management is confident of maintaining market share through high levels of client service.

The objective remains to deliver real growth and extraordinary efforts will again be required from management and staff.

Conclusion

Our Chairman, Mr Ken Saggars, retires from the Board in May 2006 having reached mandatory retirement age. He has served the organisation in various roles including

Chief Executive and Chairman over a period of 52 years and has made an enormous contribution to the progress and prosperity of the group. I would like to extend my thanks and those of the Board to Mr Ken Saggars for his dedication to Mutual and Federal and wish him a long and happy retirement.

Finally, I wish to thank our staff and management for their outstanding contribution to the performance of the group during the year. I am also indebted to our many loyal clients for their ongoing support. In conclusion, I would like to thank all of our intermediaries who have continued to support Mutual & Federal during the year and who, by providing excellent service levels to our policyholders, are our partners in ongoing success.



B Campbell
Managing Director

14 February 2006



P BEZUIDENHOUT
CHIEF FINANCIAL OFFICER

The group adopted IFRSs for the first time in 2005

I take pleasure in presenting the financial report in respect of 2005. This year has seen many changes in financial reporting as a result of the adoption of International Financial Reporting Standards ("IFRSs") and it is appropriate therefore to provide insight into the details of the results.

Basis of reporting

Adoption of IFRS

The group adopted IFRSs for the first time in 2005 and a number of comparative figures have been restated to recognise the resultant changes in accounting policies.

In terms of IFRS 1 *First-time adoption*, the group has elected exemption from the retrospective application of certain requirements of the new standards and these are explained in note 3 to the financial statements.

The adoption resulted in a number of changes to amounts previously reported under South African Statements of Generally Accepted Accounting Practice ("GAAP"). Group equity at 1 January 2004 in terms of IFRSs decreased by R14 million, whilst assets increased by R110 million and liabilities increased by R124 million.

The net profit for 2004 increased from R1 148 million to R1 181 million, primarily due to a change in the fair value of goodwill and a change in the accounting treatment of foreign exchange translation differences.



IFRS 4: Insurance contracts

IFRS 4 *Insurance contracts* became effective on 1 January 2005 and resulted in two significant changes to the financial statements.

- Insurance results in cells owned by third parties are not consolidated into the group results. The group income statement reflects only the fee income derived from these cell activities and comparative figures have been restated accordingly.
- Expanded disclosure regarding insurance operations and insurance risk management is reflected in the financial statements.

Supplementary income statement

The group conducts insurance activities and investment activities. The results of these separate activities should be shown clearly to allow benchmarking and comparisons. The IFRS income statement does not show the activities separately and accordingly a supplementary income statement is presented on page 41. An explanation on the construction and lay-out of the supplementary income statement is provided on page 42.

In addition to showing the results of the insurance and investment activities separately, the supplementary income statement removes volatility from the results by presenting a longer-term view of the investment activities.

This is achieved by separating the long-term investment return ("LTIR") from short-term investment fluctuations. This makes analysis and comparison against peers and international benchmarks more meaningful.

The internal basis used to test the reasonableness of the LTIR (2005: 11,1%; 2004: 12,5%) is the actual investment performance. This comparison is provided at the foot of the supplementary income statement and although it provides no assurance regarding future performance, it does reflect conservatism in the LTIR used. When compared, for example, against an external benchmark such as the JP Morgan "Fund Managers Companion" for the applicable period and portfolio weightings, the LTIR is satisfactory.

Underwriting result

The group objective for underwriting is to consistently achieve a surplus representing 4% of net earned premiums over a period of time.

The group produced a satisfactory underwriting surplus of R577 million, a ratio to earned premiums of 8,4%, only marginally lower than the previous year ratio of 9,4%.

The cyclical nature of the underwriting ratio for the industry over a 13-year period is reflected in the results of the top typical South African insurers in the graph overleaf.

CHIEF FINANCIAL OFFICER'S REPORT (continued)

The underwriting cycle



General insurance result

Approximately one quarter of the premiums written are paid annually in advance whilst there is also a delay of approximately four to five months from the time that a premium is received until amounts are paid to policyholders through the settlement of claims. While these "insurance funds" are held by the group, an investment return is earned.

The general insurance result ("GIR") accordingly represents the outcome of the group insurance activities as it combines the underwriting result with the investment returns achieved on the insurance funds. This is generally regarded as the key performance indicator for insurance companies.

The GIR objective for Mutual & Federal is 7% of net earned premiums, being 4% from the underwriting activity and an additional 3% from the investment of the insurance funds.

The current GIR of 12,1% is a result of the strong underwriting surplus and diligent cash flow management and is highly satisfactory compared to last year's 12,6% seen against the reduction in the underwriting surplus, and a reduction in the rate at which the investment return is calculated.

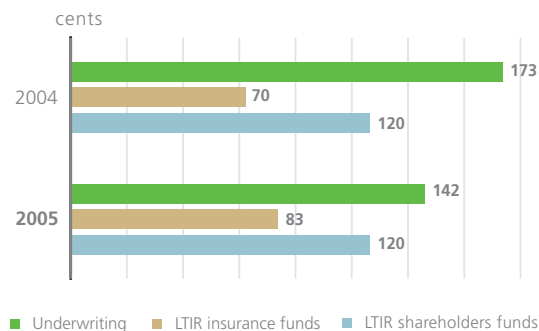
Operating income based on long-term investment return

The LTIR is also applied to shareholders' funds and added to the general insurance result in determining the operating income.

The operating income is intended to represent the non-volatile and predictable part of the group income. As a result it is also used to calculate the operating earnings per share.

Operating earnings per share decreased from 363 cents per share in 2004 to 345 cents per share in 2005. The graph below illustrates the components of the operating earnings per share.

Underwriting and earnings



Short-term fluctuations and investment income

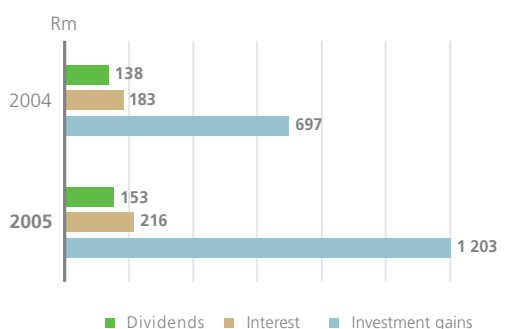
The short-term investment fluctuations represent the amount by which total investment income exceeded LTIR. The expectation is that the fluctuations will aggregate to nil over a period of time and this was discussed above.

Total investment income is benchmarked against the applicable index, namely the ALSI 40 and the IBA. The group outperformed the IBA but returned 46% on the equity portfolio which was below the ALSI 40 by 2,3% points as a result of a substantially underweight position in resources. Further detail is available in the operational report on pages 20 and 21.

Nevertheless the investment returns in the current year were most satisfactory, resulting in short-term investment fluctuations of R949 million compared to R469 million in 2004. Dividend and interest income increased by 15% from the previous year, partly due to special dividends received. Realised and unrealised gains increased by 73% from the previous year due to the strong growth in listed equity prices.

The graph below illustrates the split of investment income between the different components.

Investment income



Other items of income and expense

The following other items of income and expense which had a considerable impact on net profit warrant further clarification:

Impairment of goodwill

The current year impairment of goodwill amounted to R58 million, a significant increase from last year. The acquired goodwill from the purchase of FGI in Namibia in 2002 was considered to be substantially impaired and this contributed R19 million to the charge. Goodwill is analysed in note 12 on page 83.

Non-operational items

The non-operational item of R146 million comprises the net cost relating to the empowerment transaction. The two largest components are itemised in note 28.1 on page 94 and reflect the current year share-based payments charge. The expected cost over the 10 year implementation period, inclusive of the current year charge, is approximately R185 million, however this is significantly dependent on the share price going forward.

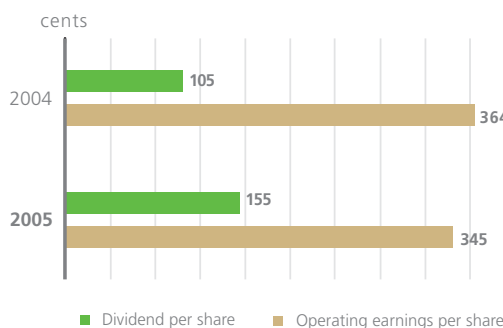
Taxation

The current year effective tax rate is 22,1% (2004: 27,7%). The 2004 effective tax rate was impacted by the inclusion of STC following the payment of a special dividend.

Dividends

The final dividend of 115 cents represents an increase of 44% on the 80 cents paid in the prior year and brings the total dividend to 155 cents compared to 105 cents in respect of the 2004 year.

Operating earnings and dividends per share



The graph above illustrates ordinary dividends per share compared to operating earnings per share.

Capital position

At year-end the group solvency ratio (ratio of net assets to net premiums) was 74% (2004: 56%) and the net asset value per share was R19,41 (2004: R14,64).

The Registrar of Short-term Insurance is in the final stages of developing Financial Condition Reporting ("FCR"), which will result in short-term insurers' solvency being measured using a much broader base of factors than is currently the case with the fairly simplistic solvency ratio.

When FCR is adopted, the group would be using the "internal model" approach and the initial calculations indicate that the capital required under this approach would not be significantly different from the current solvency ratio requirement.

P Bezuidenhout
Chief Financial Officer

14 February 2006



The operations are managed in accordance with the markets serviced

Insurance operations

The group's insurance operations are managed by division, in accordance with the markets which are serviced.

The **commercial division** services businesses, ranging from small owner managed operations to large corporates. Among the corporates, the division services approximately 20% of the top two hundred companies in South Africa including many which operate in the heavy industrial and mining sectors. The division also offers certain specialist classes of insurance such as agriculture, engineering and marine which require specific skills. The

subsidiary company, CGIC, underwrites credit insurance exclusively and these results are included with those of the commercial division.

The commercial division delivered most satisfactory results with an 18% increase in underwriting surplus. These results include for the first time those of CGIC which recorded gross premiums of R437 million for the year.

Key results

	2005 Rm	2004 Rm	Change %
Gross premium income	3 772	3 306	14
Underwriting surplus	513	433	18
Contribution to group gross premium income	47,1%	44,9%	5

During the year the division maintained a strategy of careful risk selection and appropriate premium levels and did not pursue market share indiscriminately at the expense of profitability. Although the commercial underwriting cycle remained relatively hard during the year, softer rates were evident in the second half in the large corporate, marine and engineering environment. Claim trends were relatively stable and the division did not experience a high number of significant weather-related

claims. The improved macro-economic conditions, accompanied by lower interest rates and a strong rand, also supported the underwriting performance particularly in credit insurance, which is directly influenced by economic conditions.

The agricultural insurance market was negatively affected by the difficult conditions experienced by the farming community as produce prices remained volatile and many areas were impacted by drought or hail.

Although the marine insurance market remained highly competitive due to an oversupply of capacity, the sector did not experience any major losses during the year. The engineering section of the division performed well and benefited from the specialist skills within the group and the diligent application of a sophisticated rating structure.

The division will aim to maintain profitability in the forthcoming year. In anticipation of a softening of the market across all sectors, the strategy will remain one of prudent risk selection and adequate premium rates. The division will, however, also be seeking new business opportunities in potentially profitable areas and meaningful growth is expected from rating increases in the corporate, engineering and marine markets. The division will also be critically reviewing the current distribution network with the aim of identifying areas where this can be broadened in order to attract more business.

Significant competition is expected to emerge in the credit insurance market during 2006 as new entrants in particular aim to increase market share. Conditions in the agricultural market are not expected to change significantly and growth opportunities remain limited. Growth in the engineering market will be influenced by a number of large engineering projects which are expected to commence in 2006.

The roll out of a new IT infrastructure involving a substantial re-engineering of business processes commenced during 2005 and will continue during 2006. The project has been driven by the goal of a paperless environment which will lead to cost savings and improved service to intermediaries and clients.

The **personal division** caters for the insurance needs of the public by providing in-house products and intermediary branded products. The main in-house branded product is Allsure, a product which provides comprehensive personal insurance with a wide range of cover, whilst Houseowners' insurance provides the owner of a house with insurance cover for the structure. The intermediary branded products are developed in conjunction with intermediaries and cover a wide range of products available to groups of individuals.

Key results

	2005	2004	Change
	Rm	Rm	%
Gross premium income	3 058	2 938	4
Underwriting surplus	51	164	(69)
Contribution to group gross premium income	38,2%	39,9%	(4)

The division delivered a disappointing result for 2005. Although the gross premium income growth of 4% was satisfactory in a highly competitive personal lines insurance market, it was below the group's growth target. The underwriting return reflects the poor results of the motor portfolio and is substantially below the group's targeted 4% underwriting return.

Premium income from the Allsure brand grew by 8%. A new product rating system was introduced during the year allowing for policies to be priced more accurately taking into account the lifestyle of the policyholder and the associated level of risk. This change will allow for better risk selection within the division and will promote future profitability.

The division did not achieve premium growth in the group schemes environments due to the cancellation of a number of poorly performing schemes. Ongoing attempts to restore these schemes to profitability were unfortunately unsuccessful and the cancellation was therefore in the interest of long-term profitability.

OPERATIONAL REPORT (continued)

The personal division underwriting result in 2005 was severely impacted by an increase in weather-related claims which affected the motor portfolio in particular. In April, storms in the Western Cape and a hailstorm in Johannesburg caused claims totalling R53 million of which over 70% were in respect of motor damage. Furthermore the overall frequency of motor claims increased by more than 2% whilst the financial severity of claims increased by 11%.

In 2006 the division will focus on growth and corrective action to return the motor portfolio to acceptable profit levels. Rating increases in the motor portfolio are inevitable but further efforts will also be made to contain claims costs by building on certain key initiatives, a number of which have already commenced. These include use of a claims workflow system which allows for more effective settling of claims as well as a call centre which will centralise certain claims functions.

The personal business market is currently highly competitive with traditional insurers facing increased competition from bancassurers, broker-owned insurance companies and direct operators. Amidst this environment, the personal division will seek growth opportunities through superior relationships and outstanding service levels, and by exploring other channels and product offerings. These include a call centre aimed at improving service delivery to our intermediaries and a facility to enable certain intermediaries to issue policies on behalf of the group. Other channels and product offerings will be explored in conjunction with Old Mutual group companies as well as the new Black Business Partners.

Management is optimistic regarding prospects for 2006 in the light of continued growth in the economy and high levels of consumer spending.

A further exciting development is the industry-wide development of a low-cost product designed for first-time insurers with limited assets. This is a first step towards making insurance available to all South Africans.

The **risk finance division** continued to gain market share during the year.

The underwriting results of cells owned by third parties are no longer included with those of the group and only the fee earned by the group is reflected in profit.

The group does, however, also underwrite business on a "rent-a-captive" basis and the premium related to this business continues to be shown in the financial statements.

Key results

	2005 Rm	2004 Rm	Change %
Gross premium income	1 175	1 116	5
Underwriting surplus	13	10	3
Contribution to group gross premium income	14,7%	15,2%	3

The volume of business written by the division has grown by 10% over the previous year. However, due to changes in legislation and the stricter risk transfer requirements of IFRS 4 it is probable that in 2006 a decrease in the volume of risk finance business will be experienced. During 2005 the Consumer Credit Bill was introduced and this will also reduce the volume of premiums written via retailers in 2006. Volumes are expected to return to 2005 levels in 2007/8 provided that the economy remains buoyant.

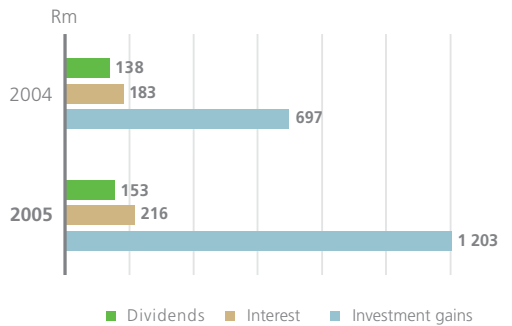
Despite these changes in legislation and accounting regime, management remain confident of the future demand for risk financing solutions and will continue to develop innovative solutions which provide risk solutions to our clients.

Investment activities

An effective investment management function is essential for the group in obtaining optimal returns on permanent capital and funds generated through the insurance operations. The group accordingly employs Old Mutual Asset Managers as advisors and administrators to provide professional guidance and moderate risk in managing the portfolio.

The overall investment return for the year was very positive as shown below:

Investment income

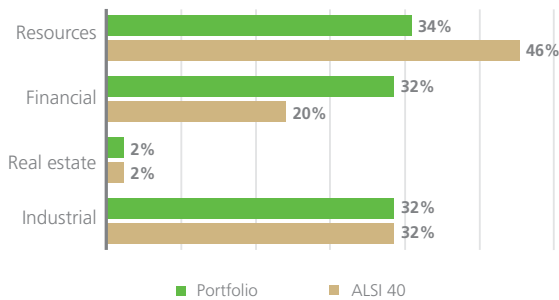


The permanent capital, often referred to as “shareholders’ funds” is invested primarily in equities and during the year the ratio of equity shares to shareholders’ funds was reduced to 80% which level is expected to be maintained.

The structure of the equity portfolio is designed to mirror broadly the ALSI 40 index. As the group does not actively trade equity shares, however, an underweight position is maintained in resource stocks due to their relative volatility, whilst a relative overweight position is held in other areas.

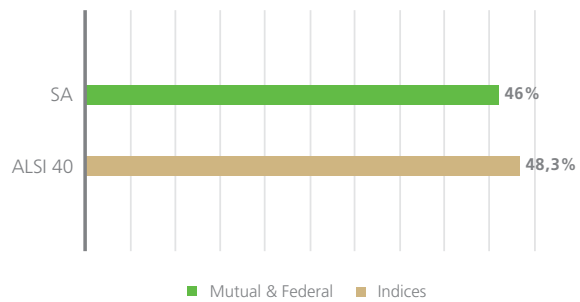
The equity portfolio structure at the year-end was as follows:

Portfolio composition



As a result of this, the return on equities achieved during the year was below that of the benchmark ALSI40 as shown below but was nevertheless most satisfactory.

Investment return on listed equities



Those investments representing the balance of the shareholders’ funds, and those representing the technical liabilities, sometimes referred to as “insurance funds”, are invested in preference shares, bonds, cash and short-term interest bearing instruments.

The investment horizon in respect of these investments is matched where appropriate to the liability profile of the insurance funds to ensure that sufficient resources are available to meet liabilities at specific times. Consideration is also given to optimising the return obtained on these investments as well as ensuring compliance, at all times, with the requirements of the Short-term Insurance Act.

DIRECTORATE



K T M Saggors (69)^{1 4} (Chairman)

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. Mr Saggors will retire from the Board on 3 May 2006.



J B Magwaza (63)⁴ (Chairman-elect)

is currently a director of Nedbank Group Limited and Dorbyl Limited, and is a member on the boards of the Development Bank of Southern Africa, Ithala Development Finance Corporation Limited, Rainbow Chickens Limited and Tongaat-Hulett Group Limited.



B Campbell (55)^{3#} (Managing Director)

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 a director on the Board of the South African Insurance Association.



R M Head (47)^{*1 2 3}

M.A.(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 on the Board of Old Mutual plc, responsible for all African operations. He is also a non-executive director of Nedbank Limited.



A M Hyatt (68)⁴

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 (Ms) (56)^{** 4}

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 and was appointed Director of Public Affairs for the Greater Boston Chamber of Commerce.



D Konar (52)^{2 4}

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 a non-executive Director of Old Mutual SA, the SA Reserve Bank, JD Group, SAPPI, Kumba Resources and Steinhoff International Holdings.



R P Menell (50)^{1 4}

B.A. (Hons.), M.A., M.Sc., joined the company in 1996 as a non-executive director. He is currently Chief Executive Officer of Teal Mining, having previously been Chairman of Anglovaal Mining Limited and Avgold Limited and Deputy Chairman of Assmang Limited. He is also a director of Standard Bank Group, Telkom SA Limited and the National Business Trust.



L M Mojela (Ms) (49)³

B.Com., joined as a non-executive director of the company on 24 August 2005. She is group Chief Executive Officer of WIPHOLD and serves on several boards including ABB SA, Afrisun, Emfuleni Resorts, Ericsson SA, Futuregrowth Asset Management, Mvelaphanda Holdings, Phaphama Holdings, Reberve, SAA, Sun International, USB-ED Limited, the Financial Services Board and Mintek.



M L Ndlovu (54)

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 Nedbank and formerly 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 a non-executive director of Nampak Limited and the South African National Roads Agency.



B T Ngcuka (51)³

B. Proc., LL.B., M.A., joined as a non-executive director of the company on 24 August 2005. He is Chairman of Amabubesi Investments, Director of STRB Attorneys, and a director of Transnet.



J V F Roberts (48)*

B.A., F.C.A., M.C.T., has been a non-executive director of the company since August 2000. He has recently been appointed as Chief Executive Officer of Skandia Limited from his previous position of Group Finance Director of Old Mutual plc. He is also a non-executive director of Nedbank Limited. He was formerly Group Finance Director of Sun Life & Provincial Holdings plc.



E P Theron (64)^{2 4}

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 (65)^{1 2 4}

B.A., LL.B., has been a non-executive director of the company since 1995. He was until recently Chairman of Tiger Brands Limited and Illovo Sugar Limited. He also serves on the board of First Rand Limited, Nampak Limited and Oceana Group Limited. He was previously Chief Executive Officer of Tiger Oats Limited and then appointed as Chairman.

* British

** American

¹ Member of the Remuneration and Nomination Committee

² Member of the Audit, Risk and Compliance Committee

³ Member of the Transformation Committee

⁴ Independent director

* Executive

EXECUTIVE TEAM

Managing Director



B Campbell (55)

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 Board of the South African Insurance Association.

Commercial Division



C G Grieve (45)**

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 four years.



S Legge (50)**

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.



M W Oeschger (40)*

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.

Services Division



G M Benton (54)**

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.



P Bezuidenhout (45)*

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.



C P Kemp (53)**

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 R Laird-Smith (52)**

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.

*Executive General Managers

**General Managers

Business Support Division



I Jurgensen (56)*

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.



B J Kuhn (44)**

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.

Claims Division



H T Cohen (54)**

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.



M Hendriks (Ms) (47)**

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.



K N Kennedy (54)*

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.

Personal Division



H J C Appleby (57)*

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.



B D Johnson (46)**

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.



J C Soames (44)**

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.

IT Division



J A Golding (55)**

M.C.S.S.A., was appointed Chief Information Officer ("CIO") 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.

CORPORATE GOVERNANCE



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

The group is fully committed to the principles of the Code of Corporate Practices and Conduct (“the Code”) set out in the King Report on Corporate Governance (“King II”). The group complies in all material respects with the provisions of the Code. The areas of non-compliance have been specifically identified and reported to the Audit Committee and Board. The directors, having regarded the circumstances and the relevance of the compliance, are of the opinion that the areas of non-compliance do not in any way compromise the high standard of corporate governance of the group.

Some of the developments in corporate governance that were implemented this year include:

- a strengthening of the Board by the appointment of two more non-executive directors;
- the appointment of a committee to select a new chairman, given the impending retirement of Mr Saggers. The committee was chaired by Mr Head;
- enhancements to the formal code of ethics, which all staff sign and accept. The enhancements relate to the

identification and management of potential conflicts of interest; and

- the scheduling of an additional meeting of the Audit, Risk and Compliance Committee, thereby increasing the number of meetings to four per annum.

Board of directors and Board committees

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

Details of the directors are reflected on pages 22 to 23.

The Board as a whole, within its powers selects and appoints directors on the recommendation of the Remuneration and Nomination Committee. Prior to appointment, potential Board appointees are subject to a ‘fit and proper’ test as required by the JSE Securities Exchange South Africa and as prescribed by the Short-term Insurance Act. An induction process for newly appointed directors is in place to apprise them, where

required, of their fiduciary duties and to acquaint them with the operations of the group.

All directors are subject to retirement every three years. Details of directors who are available for re-election to the Board at the next annual general meeting are included on page 120.

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

More specifically, the main functions of the Board are to:

- determine the overall strategy and objectives for the group;
- formulate group policies;
- monitor and evaluate the performance of the group;
- approve dividend declarations as well as the interim and annual financial statements;
- rate the performance of directors and executive management of the group;
- establish and ensure that the group complies with appropriate corporate governance principles;
- assess and monitor the risk profile of the group; and
- perform succession planning.

The Board and its committees are supplied with 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 group, should this be considered appropriate.

Directors are required to comply with the requirements of the JSE regarding inside information, transactions and disclosure of transactions.

The Board has established a number of standing committees. Although the Board delegates certain functions to these committees, it retains ultimate responsibility for the activities. At each board meeting, the chairperson of each of the committees reports on the issues discussed at the committee meetings. Each committee has a charter with defined terms of reference setting out the duties, roles and responsibilities of the committee.

Transformation Committee

The Transformation Committee comprises three non-executive directors and the managing director and is chaired by Mr Ngcuka. The mandate of the committee is to direct the implementation of the company's black empowerment transformation strategy and to ensure adherence to the Financial Sector Charter and DTI Code targets.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises four non-executive directors, three of whom are independent non-executive directors and is chaired by Mr Sagers. The committee determines the terms of employment and remuneration of group executives and approves overall remuneration levels for other grades of staff. It is also responsible for making recommendations to the Board on the appointment of directors and the structure of the Board. This process involves an evaluation of the skills, knowledge and experience required to implement the strategy and business plans as well as the board transformation process to meet the requirements of the Financial Sector Charter. The committee met four times during 2005.

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee comprises four non-executive directors, three of whom are

People are the most important asset of the group

independent non-executive 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 compliance 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.

One of the functions of this committee is to consider external auditor independence. For this purpose, a framework for the approval of all non-audit work has been put in place.

The committee meets four times per year. At every meeting, time is reserved for separate closed discussions with the committee together with external and internal audit, with management excluded to provide an opportunity for private and candid communication.

A group Risk Management Committee has been established comprising three members of executive management. It reports to the Audit, Risk and Compliance Committee and reviews risk management and compliance procedures throughout the group to ensure that appropriate controls are in place to address those risks.

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 risk management profile has been developed for the group and specific responsibility for the management of these risks has been assigned to executive management.

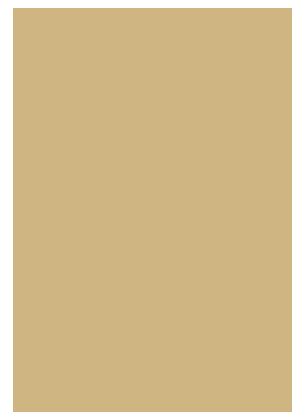
The group's approach to its insurance and financial risk management is dealt with in notes 5 and 6 of the financial statements

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, so that assets are adequately safeguarded against material loss and 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 in the key internal controls and systems occurred during the period under review.

Internal audit

The group 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 group 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.

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 internet, intranet and electronic mail policies.

A summary of the group's code of ethics is presented on page 37 of this report.

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.

Closed period of trading

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

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



Transformation is regarded as a critical component to the sustainability of Mutual and Federal

This sustainability report has been introduced to develop the reporting by Mutual & Federal on transformation and sustainability issues. This year has seen the group take a leap forward on transformation by the conclusion of an empowerment transaction and the finalisation of a transformation strategy.

Black economic empowerment and transformation

Transformation is regarded as a critical component to the sustainability of Mutual & Federal and during 2005 the group achieved substantial progress in this regard.

Empowerment transaction

The black economic empowerment transaction was concluded during August 2005 and resulted in the transfer of 11% of Mutual & Federal shares to black staff, business partners, intermediaries and the community as set out in the table below:

Staff			Black Business Partners		Intermediaries and Community	
Senior Black Management Scheme	Black Management through the Management Scheme	Broad-based Scheme	WIPHOLD Consortium	Mtha Consortium	Black Broker Trust	Community Trust
1,1%	4,8%	0,1%	3,5%	0,5%	0,5%	0,5%

A set of well defined principles were developed at the commencement of the empowerment process. These formed the framework for the transaction structure and the processes for its implementation. These principles recognised that:

- the group has an obligation to maximise shareholder value and be a responsible corporate citizen;
- equity ownership is only one element of the transformation objective of the group;
- an empowerment transaction should make commercial sense such that the value derived exceeds the cost, and the cost should be in line with market precedent;
- staff and management play an important role in creating value in the businesses; and
- the Black Business Partners should be appropriately compensated for the value that they can add to the group's businesses. They should be incentivised to maximise value creation and should have a substantially broad-based ownership structure.

Performance contracts have been signed by both of the Black Business Partner consortia and workgroups have been established to implement the requirements of those performance contracts. The performance contracts detail the input of the Black Business Partners and the basis upon which they are to be remunerated. The level of

remuneration is directly related to the performance delivered. The performance contracts will be reviewed annually.

The financial implications of the empowerment transaction are dealt with in the Chief Financial Officer's report.

Transformation strategy

Mutual & Federal is committed to being a fully transformed group catering for the short-term insurance needs of the broad South African economy and has developed a comprehensive transformation strategy.

This strategy supports the principles outlined in the Financial Sector Charter ("FSC") on Black Economic Empowerment ("BEE") as well as the belief that transformation is necessary for sustained business growth and is in the interest of all stakeholders.

The strategy supports developments beyond mere compliance with FSC targets, and in implementing its strategy the group will seek to integrate transformation with its business objectives.

The strategy is designed to ensure that the group plays a leadership role in broad-based BEE in two ways. Firstly, through the implementation of a comprehensive transformation programme within Mutual & Federal and secondly through its role in facilitating and supporting BEE activities in the broader economy.

SUSTAINABILITY REPORT (continued)

The transformation strategy is broadly based on the following principles:

Human resource development	The group wishes to continue to employ, empower and develop competent people in order to utilise their potential and to expand their careers. Mutual & Federal is committed to having a staff profile that adequately represents the demographics of the country in accordance with its employment equity plan at all levels within the group.
Business development	The strategy addresses the important issue of access to financial services for the LSM1-5 economic groupings (as set out in the FSC) but also has as its focus the broader objective of developing business strategies, products and services that cater for all income segments of the population.
Procurement	The group is committed to the implementation of a targeted procurement strategy to enhance BEE. Specific procurement objectives include encouraging, and where feasible facilitating, the transformation of existing trade agreements and service providers as well as increasing the source of potential BEE service providers and suppliers.
Enterprise development	The transformation strategy aims to foster new, and develop existing BEE accredited companies. A key instrument in this strategy will be the Mutual & Federal Black Broker Trust established as part of the empowerment transaction. The objective of the trust is to provide or secure finance for black people wishing to develop broker businesses to service the short-term insurance market in South Africa.
Empowerment financing	In terms of the strategy the group will direct a certain portion of its investable funds into projects for the utilisation of the broader South African community and in particular those members who were previously in a disadvantaged situation.

Responsibilities for the implementation of the transformation strategy have been assigned to executive management. The ongoing refinement of the transformation strategy as well as the monitoring of its implementation is dealt with by a Transformation Committee, comprising three non-executive directors and the managing director. Strategy co-ordinators from Mutual & Federal and the Black Business Partners have been co-opted onto the committee.

Financial Sector Charter on Black Economic Empowerment

Mutual & Federal is a signatory to the FSC on BEE and was actively involved in its drafting.

The Charter covers every aspect of the business and subjects participating companies to an 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 Charter requirements have been incorporated into the transformation strategy and the group is pleased to report that a significant improvement has already been achieved in comparison to the previous year.

The group continues to employ, empower and develop competent people

The group's overall point score on the FSC scorecard is as follows:

	December 2005	December 2004	Maximum per scorecard
Human resources development	5	2	20
Procurement and enterprise development	6	1	15
Access to financial services	2	0	18
Empowerment financing	0	0	22
Ownership	14	12	14
Control	4	0	8
Corporate social investment	1	2	3
Total	32	17	100

The main areas of progress during 2005 were:

- Procurement and enterprise development.

During the year the group made significant progress in terms of utilising BEE suppliers particularly with regard to claims spend.

- Ownership and control.

The empowerment transaction concluded during the year resulted in the group achieving the Charter requirement of 10% direct black ownership. The appointment of representatives of the Black Business Partners to the Board of Directors improved the ratio of black membership to the Board to 6 out of 14 (43%), and this is in excess of the 2008 FSC target of 33%.

The main areas of focus for 2006 will be human resource development, employment equity, access to financial services and empowerment financing.

The group has attained its targets for designated employees in terms of the Employment Equity Act. The FSC imposes more stringent requirements on transformation within the managerial component of the workforce and the employment equity plan of the group has been revised to ensure the attainment of these targets.

The short-term insurance industry is making a concerted effort to address the requirements regarding access to financial services and empowerment financing as an industry. Mutual & Federal is actively taking part in the industry initiatives in this regard.

SUSTAINABILITY REPORT (continued)



FINANCIAL SERVICES SECTOR CHARTER EMPLOYMENT EQUITY STATISTICS*

Category	Other staff			Junior management			Middle management			Senior management			Executive			Totals		
	2004	2005	Target 2008	2004	2005	Target 2008	2004	2005	Target 2008	2004	2005	Target 2008	2004	2005	Target 2008	2004	2005	Target 2008
Asian females	154	155	135	12	14	14	3	5	7	-	-	-	-	-	-	169	174	156
Black females	237	243	380	6	12	37	1	2	20	1	1	4	1	-	1	246	258	442
Coloured females	230	264	218	12	14	16	2	3	5	-	-	1	-	-	-	244	281	240
White females	830	767	606	158	145	114	65	69	54	10	10	12	1	1	1	1 064	992	787
Asian males	80	81	87	19	22	22	5	5	7	1	1	2	-	-	-	105	109	118
Black males	221	244	417	13	17	51	2	5	24	1	2	6	-	-	4	237	268	502
Coloured males	148	151	163	3	6	15	10	9	6	-	3	2	-	1	-	161	170	186
White males	228	208	117	119	128	75	102	98	64	49	46	35	17	16	12	515	496	303
Total	2 128	2 113	2 123	342	358	344	190	196	187	62	63	62	19	18	18	2 741	2 748	2 734

*South Africa only.

Stakeholders

Shareholders

The group is committed to a process of continuing and meaningful communication with shareholders, and makes appropriate contact with investors following results declarations and major corporate actions. Presentations, followed by question and answer sessions, are held for the investment community following the release of the year-end and interim financial results.

Clients

The majority of the group's premium income is channelled through intermediaries. Strong long-term relationships with these intermediaries are a key success factor of the business.

The organisation places emphasis on professional, ethical and fair dealings. Intermediary satisfaction surveys are regularly conducted and open and honest communication is encouraged.

Relationships with policyholders are equally important and the group takes pride in being fair and professional in the settlement of claims. This was again clearly evidenced in recent statistics of complaints lodged with the Ombudsman for the Short-term Insurance Industry. In 2005, Mutual & Federal was the subject of 7% of all complaints. This percentage is low compared to the group's market share of approximately 20%.

Employees

People are the most important asset of the group and employees play a vital role in the creation of sustainable value for shareholders and benefits to all stakeholders.

The group employs, empowers and develops competent people in order to utilise their potential and expand their careers. The cornerstones of this vision are appropriate training programmes, effective performance management and rigorous motivation and remuneration programmes.

Leadership development has been a key focus area for the training department during 2005 and this focus will

continue into 2006. Particular success was achieved during the year when staff at middle-management level took part in leadership development programmes which were designed in conjunction with the Stellenbosch Business School. The programmes focused on leadership, values, diversity management, financial management and innovation.

Performance management programmes have been enhanced with the aim of introducing successful talent management and greater transparency which are designed to promote improved staff motivation and retention levels.

A number of meaningful changes have also been implemented to the remuneration programmes which will see a wider spectrum of management being eligible for share options and incentive bonuses.

The transformation of the human resources profile to one which complies with the FSC underlies many of the current human resource initiatives. As such, the group aims to:

- promote a non-racial, non-sexist environment and to enhance cultural diversity and gender sensitivity;
- invest in human resource development across the full spectrum of skills, with special emphasis on increasing the participation of black people in skilled, strategic and operational leadership;
- invest in and equip current and future leadership incumbents with the appropriate knowledge and capacity to enable them to play a central role in driving the transformation programme; and
- implement programmes relating to career development, mentoring, targeted recruitment and cultural diversity.

The FSC requires financial institutions to spend 1,5% of basic payroll per annum on the training of black employees. Mutual & Federal currently spends 1,6% of basic payroll per annum on the training of black employees and is committed to maintaining this level of expenditure.

Community

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

The programme currently provides financial assistance to 26 organisations, 14 of which are BEE focused. The South African government has identified social stability, quality of life and economic prosperity as concerns of national priority. The organisations included in the group's programme administer various projects that are aimed at improving these priorities in various communities around South Africa.

Thousands of disadvantaged South Africans benefit from the programme, including homeless children, youth involved with crime, unemployed rural people, AIDS orphans, prisoners, sea rescue crews, those who are insured whilst travelling on national roads and people involved in conservation.

The CSI strategy aims to fund a limited number of well-established organisations, with suitable grants that offer measurable support. Projects are generally supported for a number 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.

The existing programme was enhanced during 2005 by the formation of a Community Trust as part of the empowerment transaction. The trust has been funded by a grant of 0,5% of the company's share capital. With the

formation of the Trust the CSI spend will be continually increased by dividends earned by the Trust. The future distribution of funds will be considered in terms of specific themes that would have a life-span of a defined time period.

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)

Managing HIV/AIDS

The group recognises the potential impact of HIV/AIDS on its staff as well as external stakeholders. It has addressed its potential impact on the welfare of staff through an awareness and prevention programme, with counselling for those affected.

Our corporate social investment programme places strong emphasis on supporting those affected by the pandemic. The group also intends to increase support to AIDS orphans in the forthcoming year.

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 the trust and confidence of all those whom the group deals with is accordingly one of its most vital responsibilities. 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 or overstatement in all publications and advertising; and
- absolute confidentiality of information received.

Shareholders:

- protection of the interests of all shareholders;
- accounting statements true and timely;
- aim to generate an attractive long-term return for shareholders; 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 and educational and cultural contributions;
- conservation of the environment and responsible use of finite resources; and
- meeting tax obligations.

Competitors:

- not unfairly damaging the reputation of competitors;
- not attempting to acquire information regarding a competitor's business by disreputable means; and
- not engaging in restrictive trade practices or abusing of any positions of market dominance.

Scope

The strict adherence to the provisions of this code is a condition of employment within the group. The 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.

SEVEN YEAR REVIEW

	2005 Rm	2004 Rm	2003* Rm	2002* Rm	2001* Rm	2000* Rm	1999* Rm
BALANCE SHEETS							
ASSETS							
Property and equipment	202	166	159	157	153	138	117
Interest in associated companies	–	220	190	96	101	125	97
Goodwill	82	140	142	163	179	143	–
Intangible assets	107	94	37	–	–	–	–
Investment properties	7	7	6	8	2	–	–
Investments at fair value	5 742	4 103	3 813	2 409	3 513	4 045	3 442
Reinsurers' share of insurance contract provisions	798	813	855	733	500	473	278
Deferred acquisition costs	150	149	151	151	127	107	–
Deferred taxation	18	6	–	5	–	–	32
Trade and other receivables	790	572	654	865	856	631	353
Cash	1 974	1 428	1 196	2 070	1 203	966	1 446
Total assets	9 870	7 698	7 203	6 657	6 634	6 628	5 765
EQUITY AND LIABILITIES							
Total shareholders' equity	4 872	3 616	3 458	2 944	3 180	3 489	3 991
Interest of outside shareholders in subsidiaries	197	–	2	2	3	128	4
Preference shareholders' interest	–	–	36	–	–	–	–
Interest bearing loans	10	2	27	100	150	–	–
Non-current provisions	131	100	97	93	101	117	54
Deferred taxation	262	135	58	40	162	45	81
Technical provisions	3 639	3 304	3 169	2 898	2 557	2 480	1 470
Current liabilities	759	541	356	580	481	369	165
Total equity and liabilities	9 870	7 698	7 203	6 657	6 634	6 628	5 765
INCOME STATEMENTS							
Gross premiums	8 005	7 360	6 486	5 603	4 820	3 468	2 786
Net premiums	6 874	6 417	5 608	4 886	4 306	3 152	2 482
Underwriting surplus/(loss)	577	607	392	116	85	(2)	(60)
<i>Investment return on insurance funds</i>	255	201	210	195	161	144	140
General insurance result	832	808	602	311	246	142	80
<i>Long-term investment return on shareholders' funds</i>	368	348	395	387	393	381	492
Operating income based on long-term investment return	1 200	1 156	997	698	639	523	572
Short-term investment fluctuations	949	469	(50)	(700)	299	2	1 714
Impairment and amortisation of goodwill	(58)	(2)	(21)	(21)	(18)	(4)	–
Non-operational items	(146)	(30)	–	(16)	–	(7)	–
Profit/(loss) before taxation	1 945	1 593	926	(39)	920	514	2 286
Taxation	(430)	(442)	(250)	(60)	(279)	(166)	(223)
Profit/(loss) after taxation	1 515	1 151	676	(99)	641	348	2 063
Share of associated companies' retained income	3	30	33	(6)	25	11	3
Income attributable to outside shareholders	(123)	–	(36)	–	1	(1)	–
Net profit/(loss) for the year	1 395	1 181	673	(105)	667	358	2 066

	2005 Rm	2004 Rm	2003* Rm	2002* Rm	2001* Rm	2000* Rm	1999* Rm
CASH FLOW STATEMENTS							
Cash generated by/(utilised in) operations	836	990	555	176	220	231	(21)
Investment income	369	321	339	306	341	361	296
Taxation paid	(391)	(394)	(261)	(105)	(287)	(30)	(233)
Dividends paid	(416)	(1 041)	(163)	(140)	(988)	(863)	(1 583)
Cash generated by/(utilised in) operating activities	398	(124)	470	237	(714)	(301)	(1 541)
Cash (utilised in)/generated by investing activities	(38)	342	(1 359)	621	939	(182)	2 624
Cash generated by financing activities	360	218	(889)	858	225	(483)	1 083
Increase/(decrease) in cash and cash equivalents	15	14	15	9	12	3	3
Cash and cash equivalents at beginning of year	375	232	(874)	867	237	(480)	1 086
Cash and cash equivalents of subsidiary consolidated	1 428	1 196	2 070	1 203	966	1 446	360
Effect of exchange rate movements on cash and cash equivalents	174	–	–	–	–	–	–
	(3)	–	–	–	–	–	–
Cash and cash equivalents at end of year	1 974	1 428	1 196	2 070	1 203	966	1 446
	2005	2004	2003*	2002*	2001*	2000*	1999*
KEY RATIOS (%)							
Claims ratio	62,3	62,2	68,2	73,1	73,5	75,5	78,8
Management expense ratio	8,8	8,4	7,8	8,5	9,1	8,8	8,4
Operating ratio	91,6	90,6	93,1	97,6	98,0	100,0	102,1
Five-year compound return on shareholders' funds	20,1	15,7	15,3	11,2	10,9	10,7	13,8
Return on total assets	14,1	15,3	9,3	(1,6)	10,1	5,4	35,8
Solvency margin	73,7	56,4	61,7	60,3	73,9	110,7	160,8
PERFORMANCE PER ORDINARY SHARE							
Operating earnings per share (cents)	345	363	308	227	188	135	120
Headline earnings per share (cents)	592	486	284	(37)	283	150	84
Basic earnings per share (cents)	560	480	276	(45)	276	149	84
Dividends per share (cents)							
Ordinary	155	105	73	64	58	58	58
Special	–	350	–	–	350	300	600
Dividend cover (times)	3,6	4,6	3,8	(0,7)	4,8	2,6	1,4
Net asset value per share (cents)	1 941	1 464	1 410	1 207	1 312	1 447	1 668
OTHER STATISTICS							
Number of employees at year-end	3 051	3 121	3 277	3 038	3 344	3 653	2 278
Gross premium per employee (R000)	2 624	2 358	1 979	1 844	1 441	949	1 223

*Comparative figures for the individual years prior to 2004 have not been restated in terms of IFRS as the required information was not always available.

SEVEN YEAR REVIEW (continued)

	2005	2004	2003*	2002*	2001*	2000*	1999*
STOCK EXCHANGE STATISTICS							
Market price per share (cents)							
Closing	3 100	2 450	1 710	1 475	1 590	1 600	1 480
Highest	3 100	2 451	1 750	1 840	2 200	2 000	2 200
Lowest	2 090	1 469	1 150	1 400	1 575	1 290	1 100
Number of shares traded (000)	6 729	15 475	6 569	9 075	13 988	12 716	16 717
Value of shares traded (R000)	162 870	271 109	94 348	151 876	266 219	379 866	280 971
Number of shares traded as a percentage of total issued shares (%)	2,4	6,3	2,7	3,7	5,8	5,3	6,9
Dividend yield at year-end (%)	3,9	3,0	3,9	3,9	3,6	3,6	3,9
Earnings yield at year-end (%)	19,2	19,4	16,5	(2,5)	17,8	9,4	5,7
Price earnings ratio at year-end (%)	5,2	5,2	6,0	(39,9)	5,6	10,7	17,6
Market capitalisation (Rm)	8 711	6 062	4 193	3 589	3 852	3 857	3 562

*Comparative figures for the individual years prior to 2004 have not been restated in terms of IFRS as the required information was not always available.

Mutual and Federal share price performance relative to JSE ALSI for the period 01/01/2005 to 31/12/2005



SUPPLEMENTARY INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005
(Reflecting long-term rate of return adjustment)

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
TECHNICAL ACCOUNT				
Gross premiums	8 005	7 360	6 673	6 190
Less: Reinsurance premiums	1 131	943	440	512
Net premiums	6 874	6 417	6 233	5 678
Change in provision for unearned premiums	8	32	(2)	21
Gross amount	(17)	138	10	100
Reinsurers' share	25	(106)	(12)	(79)
Earned premiums net of reinsurance	6 882	6 449	6 231	5 699
Claims incurred net of reinsurance	(4 290)	(4 011)	(3 986)	(3 578)
Acquisition expenses	(1 406)	(1 291)	(1 347)	(1 034)
Management expenses	(609)	(540)	(530)	(520)
Underwriting surplus	577	607	368	567
<i>Investment return on insurance funds</i>	<i>255</i>	<i>201</i>	<i>171</i>	<i>156</i>
General insurance result	832	808	539	723
<i>Long-term investment return on shareholders' funds</i>	<i>368</i>	<i>348</i>	<i>351</i>	<i>335</i>
Operating income based on long-term investment return	1 200	1 156	890	1 058
NON-TECHNICAL ACCOUNT				
Short-term investment fluctuations	949	469	968	616
Dividends, interest and rentals	369	321	516	329
Realised surplus on investments	581	99	359	89
Unrealised surplus on investments	622	598	615	689
<i>Allocated investment return transferred to technical account</i>	<i>(623)</i>	<i>(549)</i>	<i>(522)</i>	<i>(491)</i>
Impairment of goodwill	(58)	(2)		
Non-operational items	(146)	(30)	(146)	17
Profit before taxation	1 945	1 593	1 712	1 691
Taxation	(430)	(442)	(235)	(398)
Profit after taxation	1 515	1 151	1 477	1 293
Share of profit of associated companies	3	30		
Profit for the year	1 518	1 181	1 477	1 293
Attributable to:				
Ordinary shareholders	1 395	1 181	1 477	1 293
Outside shareholders	123	–		
	1 518	1 181	1 477	1 293
Operating earnings per share (cents)				
Basic	345	363		
Diluted	323	360		

SUPPLEMENTARY INCOME STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005
(Reflecting long-term rate of return adjustment)

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 11,1% (2004: 12,5%) 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, less the 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 profit before taxation.

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 profit adjusted for the impairment of goodwill, non-operational items, share of associated company's profits, short-term investment fluctuations net of taxation adjusted for outside shareholders' share, and secondary tax on companies of R858 million (2004: R892 million). The calculation is based on a weighted average of 249 034 665 (2004: 245 855 173) shares in issue during the period.

Reconciliation of operating earnings

	GROUP	
	2005 Rm	2004 Rm
Profit for the year	1 395	1 181
Impairment of goodwill	58	2
Non-operational items	146	30
Share of associated companies' profits	(3)	(30)
Short-term investment fluctuations	(949)	(469)
Outside shareholders' short-term investment fluctuations	38	–
Taxation effect of short-term investment fluctuations	138	61
Secondary tax on companies	35	117
Operating earnings	858	892

DILUTED OPERATING EARNINGS PER SHARE

Diluted operating earnings per share are calculated on profit adjusted for impairment of goodwill, non-operational items, share of associated company's profits, short-term investment fluctuations net of taxation adjusted for outside shareholders' share and secondary tax on companies of R858 million (2004: R892 million). The calculation is based on a diluted weighted average of 257 799 356 (2004: 248 034 988) shares in issue during the period.

COMPARISON OF THE AGGREGATE ACTUAL RETURN TO CALCULATED LONG-TERM RETURN

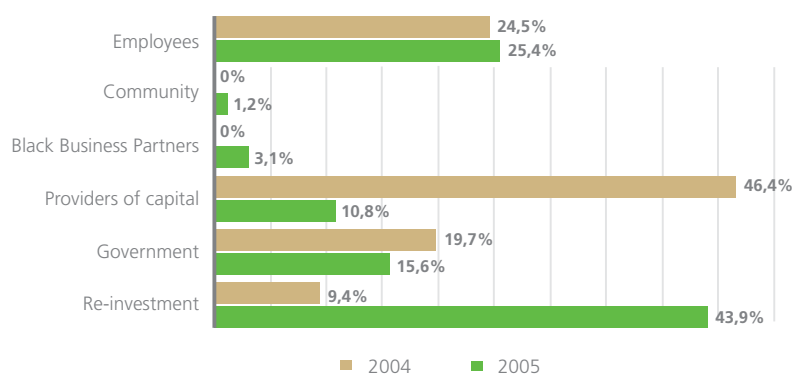
	Total Rm	2005 Rm	2004 Rm	2003 Rm	1999 – 2002* Rm
Actual returns	6 753	1 572	1 018	555	3 608
Long-term returns	4 070	623	549	605	2 293
Excess/(shortfall) aggregate short-term fluctuations	2 683	949	(469)	(50)	1 315

*Since implementation in 1999.

VALUE ADDED STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	GROUP	
	2005 Rm	2004 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 created and distributed.		
VALUE ADDED		
Gross premiums	8 005	7 360
Reinsurance premiums	(1 131)	(943)
Claims paid, reserve movements and cost of other services	(5 677)	(5 220)
	1 197	1 197
Investment income (including associates)	1 575	1 048
Total value created	2 772	2 245
VALUE DISTRIBUTED		
Employee benefits	703	550
Community	34	–
Black Business Partners	85	–
Government	432	443
Direct and deferred taxation on income	395	325
Secondary tax on companies	35	117
Regional Service Council levies	2	1
Shareholders	300	1 041
	1 554	2 034
Retained for investment and future support of business	1 218	211
Total value distributed	2 772	2 245



GROSS AND REINSURANCE UNDERWRITING RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2005

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
GROSS ACCOUNT				
Gross premiums	8 005	7 360	6 673	6 190
Change in provision for unearned premiums	(17)	138	10	100
Earned premiums	7 988	7 498	6 683	6 290
Claims incurred	(4 736)	(4 538)	(4 111)	(3 852)
Acquisition expenses	(1 639)	(1 485)	(1 447)	(1 161)
Administration expenses	(609)	(540)	(530)	(520)
Gross underwriting surplus	1 004	935	595	757
REINSURANCE ACCOUNT	(427)	(328)	(227)	(190)
Premiums paid	(1 131)	(943)	(440)	(512)
Change in provision for unearned premiums	25	(106)	(12)	(79)
Earned premiums	(1 106)	(1 049)	(452)	(591)
Claims recovered	446	527	125	274
Commission received	233	194	100	127
Net underwriting surplus	577	607	368	567

CONVENIENCE STATEMENTS

GROUP			GROUP	
2005	2004		2005	2004
£m	£m		Rm	Rm
BALANCE SHEETS AT 31 DECEMBER 2005				
ASSETS				
18	15	Property and equipment	202	166
–	20	Interest in associated companies	–	220
8	13	Goodwill	82	140
10	9	Intangible assets	107	94
1	1	Investment properties	7	7
527	375	Investments at fair value through profit and loss	5 742	4 103
73	74	Reinsurers' share of insurance contract provisions	798	813
14	13	Deferred acquisition costs	150	149
2	–	Deferred taxation	18	6
72	52	Trade and other receivables	790	572
181	130	Cash and cash equivalents	1 974	1 428
906	702		9 870	7 698
EQUITY AND LIABILITIES				
447	330	Capital and reserves	4 872	3 616
18	–	Interest of outside shareholders in subsidiary companies	197	–
12	9	Post-retirement medical benefit provision	131	100
24	12	Deferred taxation	262	135
1	–	Interest bearing loans	10	2
334	302	Insurance contract provisions	3 639	3 304
70	49	Agents' balances, accounts payable and provisions	759	541
906	702		9 870	7 698
INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005				
691	622	Gross premiums	8 005	7 360
594	543	Net premiums	6 874	6 417
50	51	Underwriting surplus	577	607
22	17	<i>Investment return on insurance activities</i>	255	201
72	68	General insurance result	832	808
32	29	<i>Long-term investment return on shareholders' funds</i>	368	348
104	97	Operating income based on long-term investment return	1 200	1 156
82	40	Short-term investment fluctuations	949	469
(5)	–	Impairment of goodwill	(58)	(2)
(13)	(2)	Non-operational items	(146)	(30)
168	135	Profit before taxation	1 945	1 593
(37)	(37)	Taxation	(430)	(442)
131	98	Profit after taxation	1 515	1 151
–	3	Share of profit of associated companies	3	30
131	101	Profit for the year	1 518	1 181
0,08635	0,08456	Average rate	1,00000	1,00000
0,09181	0,09134	Closing rate	1,00000	1,00000

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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 50 to 112 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") 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. The directors are satisfied that the information contained in the annual financial statements fairly presents the results of operations and cash flows 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 company or group will not be a going concern 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 has been adhered to.

The group's external auditors, KPMG Incorporated, audited the annual financial statements, and their report is presented on page 49.

The annual financial statements were approved by the Board of Directors on 14 February 2006 and are signed on its behalf:



K T M Saggars
Chairman



B Campbell
Managing Director

14 February 2006

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 50 to 112 for the year ended 31 December 2005. 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.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as at 31 December 2005, and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act in South Africa.



KPMG Inc.

*Registered Accountants and Auditors
Chartered Accountants (SA)*

14 February 2006

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



G M BENTON

Company Secretary

14 February 2006

DIRECTORS' REPORT

On 14 February 2006, the directors approved the accompanying financial statements set out on pages 54 to 112 and take pleasure in presenting their report.

Nature of business

The Mutual & Federal Insurance group transacts all classes of short-term insurance business.

Share capital

The company's authorised share capital remained unchanged at 350 000 000 shares of 10 cents each. During the year 33 579 000 shares were issued at a premium of R444 million.

Premium income

The group's gross premiums for the year totalled R8 005 million (2004: R7 360 million). After deducting reinsurance premiums of R1 131 million (2004: R943 million), net premiums amounted to R6 874 million (2004: R6 417 million).

Underwriting results

The underwriting surplus for the year was R577 million compared to R607 million in the previous year.

Contingency reserve

The current year's financial statements include a transfer of R51 million (2004: R134 million) to the contingency reserve as required by the regulatory authorities in South Africa and Namibia. The group's contingency reserve now stands at R708 million (2004: R657 million) which fully meets these requirements.

Investment income

Dividends, interest and rental income net of expenses amounted to R369 million for the year (2004: R321 million), whilst the realised and unrealised surplus on investments amounted to R1 203 million (2004: R697 million).

Dividends

An interim dividend of 40 cents per share was declared payable in September 2005 (2004: 25 cents). A final dividend of 115 cents per share (2004: 80 cents) has been declared payable on or about 20 March 2006. The total ordinary dividend in respect of the 2005 financial year is therefore 155 cents (2004: 105 cents).

Profits and dividends

	GROUP	
	2005 Rm	2004 Rm
Profit before taxation	1 945	1 593
Taxation	(430)	(442)
Current	(293)	(262)
Deferred	(102)	(63)
Secondary tax on companies	(35)	(117)
	1 515	1 151
Share of associated companies' profit	3	30
Profit for the year	1 518	1 181
Outside shareholders' interest	(123)	–
Retained income from previous year	2 800	2 794
	4 195	3 975
Appropriations:		
Transfer to contingency reserve	51	134
Transfers directly in equity	(5)	–
Dividends paid	300	1 041
Retained income at the end of the year	3 849	2 800
	4 195	3 975

Directors

Mr M J Levett resigned from the Board on 3 May 2005. Ms L M Mojela and Mr B T Ngcuka were appointed to the Board on 24 August 2005. The Chairman, Mr K T M Saggars retires from the Board on 3 May 2006, having reached mandatory retirement age. Mr J B Magwaza joins the Board from 14 February 2006 as Chairman-elect. The names of the directors appear on pages 22 to 23 and that of the secretary of the company, together with his business and postal addresses on page 122.

In terms of the company's articles of association, the following directors retire at the thirty-fifth annual general meeting:

A M Hyatt, J B Magwaza, L M Mojela, B T Ngcuka, K T M Saggars, E P Theron, R A Williams.

The following retiring directors, being eligible, offer themselves for re-election:

J B Magwaza, L M Mojela, B T Ngcuka.

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

DIRECTORS' REPORT (continued)

Directors' shareholdings

Details of shareholdings of directors are shown below. No material change in these holdings has taken place since 31 December 2005.

Director	Non-beneficial		Beneficial ³	
	2005	2004	2005	2004
B Campbell	500	500	166 800	166 800
R M Head	500	500	–	–
A M Hyatt	500	500	–	–
P D Jones Vilakazi	500	500	–	–
D Konar	500	500	–	–
M J Levett	–	500	–	–
L M Mojela ¹	500	–	–	–
R P Menell	500	500	–	–
M L Ndlovu	500	500	–	–
B T Ngcuka ²	500	–	–	–
J V F Roberts	500	500	–	–
K T M Saggars	500	500	259 100	259 100
E P Theron	500	500	–	–
R A Williams	500	500	–	–
	6 500	6 000	425 900	425 900

¹L M Mojela has a financial interest in the WIPHOLD consortium which is a Black Business Partner of the group, discussed further in note 34.

²B T Ngcuka has a financial interest in the Mtha consortium which is a Black Business Partner of the group, discussed further in note 34.

³Excludes restricted share plan awards as detailed in note 28.3.

Board meetings

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

	8 Feb 2005	4 Mar 2005	15 Apr 2005	3 May 2005	8 Jun 2005	22 Jul 2005	8 Nov 2005
Executive director							
B Campbell	✓	✓	✓	✓	✓	✓	✓
Non-executive directors							
R M Head	✓	✓	✓	✓	✓	✓	✓
A M Hyatt	✓	✓	✓	✓	✓	X	✓
P D Jones Vilakazi	✓	✓	X	✓	X	✓	✓
D Konar	✓	X	X	✓	X	✓	✓
M J Levett	✓	X	✓	✓	*	*	*
L M Mojela	*	*	*	*	*	*	✓
R P Menell	X	✓	✓	✓	✓	✓	X
M L Ndlovu	✓	✓	X	X	✓	✓	✓
B T Ngcuka	*	*	*	*	*	*	✓
J V F Roberts	X	✓	X	✓	X	X	X
K T M Saggars	✓	✓	✓	✓	✓	✓	✓
E P Theron	✓	X	X	✓	X	✓	✓
R A Williams	✓	✓	X	✓	X	✓	✓

* Not applicable

X 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 Saggars

Chairman



B Campbell

Managing Director

14 February 2006

BALANCE SHEETS

AT 31 DECEMBER 2005

	Notes	GROUP		COMPANY	
		2005 Rm	2004 Rm	2005 Rm	2004 Rm
ASSETS					
Interest in subsidiary companies	8			1 828	1 510
Loans and interest in share trusts	9			456	–
Property and equipment	10	202	166	169	164
Interest in associated companies	11	–	220	–	220
Goodwill	12	82	140		
Intangible assets	13	107	94	107	94
Investment properties	14	7	7	7	7
Investments at fair value through profit and loss	15	5 742	4 103	4 224	3 191
Reinsurers' share of insurance contract provisions	20	798	813	575	681
Deferred acquisition costs	16	150	149	110	114
Deferred taxation	18	18	6	18	3
Deposits with reinsurers		66	1	1	1
Taxation paid in advance		19	3	18	–
Other receivables		241	189	192	139
Agents' and reinsurers' balances		464	379	289	312
Cash and cash equivalents	17	1 974	1 428	1 110	705
Total assets		9 870	7 698	9 104	7 141
LIABILITIES					
Post-retirement medical benefit provision	33.2	131	100	114	100
Amounts due to subsidiary companies	8			228	132
Deferred taxation	18	262	135	134	90
Interest bearing loans	19	10	2	2	2
Insurance contract provisions	20	3 585	3 249	2 822	2 813
Deferred reinsurance commission revenue	16	54	55	36	43
Deposits owing to reinsurers		97	77	62	77
Other payables		379	252	73	85
Agents' and reinsurers' balances		154	99	103	58
Current provisions	21	111	97	97	94
Taxation payable		18	16	–	11
Total liabilities		4 801	4 082	3 671	3 505
EQUITY					
Share capital and share premium	22	186	153	600	153
Other reserves					
Contingency reserve		708	657	641	569
Property revaluation reserve		15	17	16	17
Foreign currency translation reserve		(18)	(15)	–	(1)
Share-based payment reserve		132	4	186	4
Retained income		3 849	2 800	3 990	2 894
Total shareholders' equity		4 872	3 616	5 433	3 636
Interest of outside shareholders in subsidiary companies		197	–		
Shareholders' equity and outside shareholders' interests		5 069	3 616	5 433	3 636
Total liabilities and equity		9 870	7 698	9 104	7 141

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	GROUP		COMPANY	
		2005 Rm	2004 Rm	2005 Rm	2004 Rm
Gross premiums		8 005	7 360	6 673	6 190
Less: Reinsurance premiums		1 131	943	440	512
Net premiums		6 874	6 417	6 233	5 678
Change in provision for unearned premiums		8	32	(2)	21
Gross amount		(17)	138	10	100
Reinsurers' share		25	(106)	(12)	(79)
Earned premiums net of reinsurance		6 882	6 449	6 231	5 699
Commission income	23	233	194	100	127
Investment income		1 572	1 018	1 490	1 107
Dividends, interest and rentals	24.1	369	321	516	329
Realised net surplus on investments		581	99	359	89
Unrealised net surplus on investments	24.2	622	598	615	689
Other operating income	25	6	30	6	42
Net income		8 693	7 691	7 827	6 975
Net claims incurred	26	(4 290)	(4 011)	(3 986)	(3 578)
Gross amount		(4 736)	(4 538)	(4 111)	(3 852)
Reinsurers' share		446	527	125	274
Acquisition costs	27	(1 639)	(1 485)	(1 447)	(1 161)
Administration expenses	28	(761)	(600)	(682)	(545)
Impairment of goodwill		(58)	(2)		
Profit before taxation		1 945	1 593	1 712	1 691
Taxation	29	(430)	(442)	(235)	(398)
Profit after taxation		1 515	1 151	1 477	1 293
Share of profit of associated companies		3	30		
Profit for the year		1 518	1 181	1 477	1 293
Attributable to:					
Ordinary shareholders		1 395	1 181	1 477	1 293
Outside shareholders		123	–		
		1 518	1 181	1 477	1 293
Earnings per share (cents)	30				
– Basic		560	480		
– Diluted		541	476		
Headline earnings per share (cents)	30				
– Basic		592	486		
– Diluted		572	481		
Dividend per share paid in the year (cents)		120	73		
Dividend per share declared in respect of the year (cents)		155	105		
Special dividend per share (cents)		–	350		

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

	Attributable to ordinary shareholders									
	Share capital and share premium Rm	Contingency reserve Rm	Foreign currency translation reserve Rm	Share-based payment reserve Rm	Property revaluation reserve Rm	Retained income Rm	Total ordinary shareholders' equity Rm	Outside shareholders' interest Rm	Preference shareholders Rm	Total Rm
GROUP										
Balance at 31 December 2003	139	523	–	–	–	2 796	3 458	2	36	3 496
Effect of first time adoption of IFRS and other adjustments				1	23	(2)	22		(36)	(14)
Restated balance at 31 December 2003	139	523	–	1	23	2 794	3 480	2	–	3 482
Profit for the year						1 181	1 181	–	–	1 181
Transfer to contingency reserve		134				(134)	–			–
Current period movements			(15)		(6)		(21)	(2)		(23)
Dividends paid						(1 041)	(1 041)			(1 041)
Share-based payment charge				3			3			3
Issue of share capital	14						14			14
Balance at 31 December 2004	153	657	(15)	4	17	2 800	3 616	–	–	3 616
Profit for the year						1 395	1 395	123	–	1 518
Arising on consolidation of CGIC								211		211
Share buy-back								(14)		(14)
Transfer to contingency reserve		51				(51)	–			–
Current period movements			(3)		(2)	5	–			–
Dividends paid						(300)	(300)	(123)		(423)
Share-based payment charge				128			128			128
Issue of share capital	33						33			33
Balance at 31 December 2005	186	708	(18)	132	15	3 849	4 872	197	–	5 069

	Share capital and share premium Rm	Contingency reserve Rm	Foreign currency translation reserve Rm	Share-based payment reserve Rm	Property revaluation reserve Rm	Retained income Rm	Total Rm
COMPANY							
Balance at 31 December 2003	139	455	–	–	–	2 757	3 351
Effect of first time adoption of IFRS and other adjustments				1	23	(2)	22
Restated balance at 31 December 2003	139	455	–	1	23	2 755	3 373
Profit for the year						1 293	1 293
Transfer to contingency reserve		114				(114)	–
Current period movements			(1)		(6)	1	(6)
Dividends paid						(1 041)	(1 041)
Share-based payment charge				3			3
Issue of share capital	14						14
Balance at 31 December 2004	153	569	(1)	4	17	2 894	3 636
Profit for the year						1 477	1 477
Transfer to contingency reserve		72				(72)	–
Current period movements			1		(1)	1	1
Dividends paid						(310)	(310)
Share-based payment charge				182			182
Issue of share capital	447						447
Balance at 31 December 2005	600	641	–	186	16	3 990	5 433

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	GROUP		COMPANY	
		2005 Rm	2004 Rm	2005 Rm	2004 Rm
Cash generated by operations	31	836	990	576	948
Investment income		369	321	516	329
Taxation paid		(391)	(394)	(235)	(332)
Dividends paid		(416)	(1 041)	(299)	(1 041)
Cash generated by/(utilised in) operating activities		398	(124)	558	(96)
Cash (utilised in)/generated by investing activities		(38)	342	(569)	228
Net purchases of property and equipment		(40)	(39)	(38)	(38)
Net developments and purchases of intangible assets		(90)	(46)	(90)	(46)
Net sales/(purchases) of investments		92	427	(441)	312
Disposal of branch of subsidiary		–	1	–	–
Pre-acquisition dividends received				2	2
Deregistration of subsidiary companies				–	2
Amounts due from and to subsidiary companies				186	(77)
Loans to share trusts				(383)	–
Interest in associated companies		43	4	–	–
Ordinary shares		815	209	547	181
Government securities		16	16	–	–
Money market instruments and other		(789)	193	(800)	200
Loans advanced		7	4	7	4
Cash generated by financing activities		360	218	(11)	132
Share buy-back		15	14	416	14
Proceeds from issue of shares		(11)	–	–	–
		26	14	416	14
Increase in cash and cash equivalents		375	232	405	146
Cash and cash equivalents at beginning of year		1 428	1 196	705	559
Cash and cash equivalents of subsidiary consolidated	7	174	–		
Effect of exchange rate movements on cash and cash equivalents		(3)	–		
Cash and cash equivalents at end of year		1 974	1 428	1 110	705

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

Mutual & Federal Insurance Company Limited is domiciled in South Africa. The consolidated financial statements of the company for the year ended 31 December 2005 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associates.

The financial statements were authorised for issue by the directors on 14 February 2006.

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the interpretations issued by the International Accounting Standards Board ("IASB"), and are in compliance with the Listings Requirements of the JSE Limited and the Companies Act. These are the group's first consolidated financial statements under IFRSs and IFRS 1 has been applied.

The disclosures required by IFRS 1 concerning the transition from South African Statements of Generally Accepted Accounting Practice to IFRSs are given in note 3.

The group has chosen to early adopt the fair value amendments to IAS 39 *Financial Instruments: Recognition and Measurement* as issued in June 2005.

1.2 Basis of preparation

The financial statements are presented in Rand, rounded to the nearest million. The financial statements are prepared on the historical-cost basis, modified by the revaluation of properties and financial instruments to fair value and the application of the equity method of accounting for investments in associated companies.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 2.

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and in preparing an opening IFRSs balance sheet at 1 January 2004 for the purposes of the transition to IFRSs.

The accounting policies have been applied consistently by group entities.

1.3 Consolidated financial statements

The consolidated financial statements include the assets and liabilities of the company and all of its subsidiary companies and associated companies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

1. ACCOUNTING POLICIES (continued)

1.3 Consolidated financial statements (continued)

Subsidiary companies

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Subsidiary companies include special purpose entities created to accomplish a narrow, well-defined objective, which may take the form of a corporation, trust, partnership or unincorporated entities. The substance of the relationship between the company and the special purpose entity indicates that the entity is controlled by the group.

Investments in subsidiary companies in the separate financial statements of the company are classified as fair value through profit and loss financial instruments. The fair value is calculated using a discounted earnings model or shown at net asset value, whichever is appropriate.

Associated companies

An associated company is an enterprise in which the company has significant influence over the financial and operating policies, and which is neither a subsidiary nor a joint venture of the company. 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 in associated companies in the consolidated financial statements are accounted for under the equity method of accounting. Under this method, the group's share of the post-acquisition profits or losses of associates are recognised in the income statement, and movements in reserves are taken directly to equity. These cumulative post-acquisition movements are adjusted against the carrying value 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.

Investments in associated companies in the separate financial statements of the company are carried at fair value.

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 are eliminated to the extent of the group's interest in the enterprises. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1.4 Classification of insurance contracts

Contracts under which the group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Contracts under which the transfer of insurance risk to the group from the policyholder is not significant are classified as investment contracts (refer 1.6).

The group classifies financial guarantee business as insurance contracts.

1. ACCOUNTING POLICIES *(continued)*

1.5 Recognition and measurement of insurance contracts

Premiums

Premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries and exclude Value Added Tax. Premiums written include adjustments to premiums written in prior accounting periods.

Premiums on reinsurance assumed are included in gross written premiums and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or reinsurance business assumed.

The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

Unearned premium provision

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in subsequent financial years, computed separately for each insurance contract using a time proportionate basis or another suitable basis for uneven risk contracts.

Claims incurred

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and an appropriate risk margin.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material.

Unexpired risk provision

Provision is made for unexpired risks arising where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

Reinsurance

The group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the group from its direct obligations to its policyholders.

Premiums ceded and claims reimbursed are presented in the income statements and balance sheets separately from the gross amounts.

Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Reinsurance agreements that do not transfer significant insurance risk are accounted for as investment contracts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

1. ACCOUNTING POLICIES (continued)

1.5 Recognition and measurement of insurance contracts (continued)

Reinsurance (continued)

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the group will receive from the reinsurer.

Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the unearned premium provision.

Liabilities and related assets under liability adequacy test

The net liability recognised for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs. Where a shortfall is identified, an additional provision is made and the group recognises the deficiency in income for the year.

Contingency reserve

A reserve in equity is made for the full amount of the contingency reserve as required by the regulatory authorities in South Africa and Namibia. Transfers to and from this reserve are treated as appropriations of retained income.

1.6 Recognition and measurement of investment contracts

Receipts and payments under investment contracts are not classified as insurance transactions in the income statement but are deposit accounted in the balance sheet. The deposit liability recognised in the balance sheet represents the expected amounts payable to the holders of the investment contracts inclusive of allocated investment income.

1.7 Foreign currency translation

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Rand at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Rand at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the income statement.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Rand at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Rand at the appropriate weighted average rates for the period. Foreign exchange differences arising on translation are recognised directly in a separate component of equity and are released into the income statement upon disposal of the foreign operation.

1. ACCOUNTING POLICIES *(continued)*

1.8 Property and equipment

Land and buildings held for use for administrative purposes are stated at revalued amounts, determined from market-based evidence by appraisals undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed at least once every three years such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained income.

Land is not depreciated. Depreciation on revalued buildings to residual value is charged to profit and loss. Buildings are depreciated over a period of 20 years.

Equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on the difference between the cost and residual value of the asset and is charged to the income statement over the estimated useful lives of each significant part of an item of equipment, using the straight-line method.

The estimated useful lives are as follows:

Furniture and equipment	2 – 7 years
Motor vehicles	5 years
Computer equipment	3 years

The useful lives are reassessed annually. The residual value, if not insignificant, is also reassessed annually.

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 the proceeds with the carrying amount of the assets and are included in profit or loss before tax.

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 of the existing asset will flow to the group.

1.9 Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation, or for both. Investment properties are measured initially at cost, including transaction costs. After initial recognition investment properties are measured at fair value. An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every three years. In the event of a material change in market conditions between the valuation date and balance sheet date an internal valuation is performed and adjustments made to reflect any material changes in value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

1. ACCOUNTING POLICIES (continued)

1.9 Investment properties (continued)

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy 1.19.

When an item of property and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained income. Any loss arising in this manner is recognised immediately in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. When the group redevelops an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on the fair value model, and is not reclassified as property and equipment during the redevelopment.

1.10 Intangible assets

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the group, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Computer software development costs recognised as intangible assets are amortised using the straight-line method over their estimated useful lives, ranging between two and five years.

Expenditure associated with research activities, regarding developing computer software programs, are recognised as an expense when incurred.

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.

1.11 Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiaries and associates. For business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the group's opening IFRS balance sheet at 1 January 2004.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and tested annually for impairment (see accounting policy 1.12). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

1. ACCOUNTING POLICIES *(continued)*

1.12 Impairment

The carrying amounts of the group's assets are reviewed at each 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 fair value less costs to sell and its value in use. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. 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.

For goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use, the recoverable amount is estimated at each balance sheet date.

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 that would have been determined (net of amortisation) had an impairment loss not been recognised in prior years. An impairment loss in respect of goodwill is not reversed.

1.13 Financial instruments

Measurement

Investments

Listed and unlisted investments are classified as fair value through profit and loss and are carried at fair value. Investments which the group has classified as fair value through profit and loss are managed, evaluated and reported using a fair value basis.

For listed investments, fair value is calculated by reference to stock exchange quoted bid prices at the close of business on the balance sheet date. Unlisted investments are shown at fair value which are calculated on bases that best present the estimated proceeds to be realised from a sale to an informed purchaser under normal market conditions.

Loans advanced by the group are designated as fair value through profit and loss and are fair valued by reference to expected cash flows and current market interest rates.

Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value, by reference to expected cash flows and current market interest rates.

Trade and other payables

Trade and other payables are stated at cost.

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 group 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

1. ACCOUNTING POLICIES (continued)

1.14 Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity.

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. 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, when it is probable that they will be realised.

1.15 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 represents 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 twelve months and are measured at the amounts expected to be paid when they are settled.

1. ACCOUNTING POLICIES *(continued)*

1.15 Employee benefits *(continued)*

Share-based payment transactions

The services received in equity-settled share-based payment transactions with employees are measured at the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date.

If the equity instruments granted vest immediately and the employee is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the services received are recognised in full on grant date in the income statement for the period with a corresponding increase in equity.

Where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for those equity instruments, will be received in the future, during the vesting period. These services are accounted for in the income statement as they are rendered during the vesting period, with a corresponding increase in equity. Share-based payment expenses are adjusted for non-market related performance conditions.

The fair value on grant date of the equity instruments are credited to share capital (nominal value) and share premium when the equity instruments have vested and the shares are transferred to the employees.

Post employment benefits

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. A defined contribution pension plan is a plan under which the group pays fixed contributions into a separate fund and will have no constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit pension plans

The group obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior years. The benefit is discounted to determine the present value of the obligation, and the fair value of any plan assets are deducted. The calculation is performed by a qualified actuary using the projected unit credit method. Any actuarial gains or losses are recognised as incurred.

Defined benefit medical plans

The group provides post-retirement medical benefits to qualifying employees by way of subsidising medical scheme contributions. The expected costs of these benefits are assessed in accordance with advice of qualified actuaries, using the projected unit credit method, and the actuarial gain or loss is charged to the income statement as incurred.

1.16 Share-based payment transactions with persons or entities other than employees

The transactions in which equity instruments are issued to historically disadvantaged individuals and organisations in South Africa are accounted for as share-based payments. Where the group has issued such shares and expects to receive services in return for equity instruments, the share-based payment charge representing the fair value of the equity instruments is spread over the vesting (i.e. service) period of these instruments. In instances where such goods and services could not be identified the fair value of the equity instrument granted has been expensed with immediate effect.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

1. ACCOUNTING POLICIES (continued)

1.17 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.

1.18 Treasury shares

Company shares held by trusts set up for the benefit of employees, black business partners and distributors that have not vested yet, are classified as treasury shares on consolidation and presented as a deduction from equity. These shares are held at cost.

Balance sheet presentation

On purchase, the cost of the shares acquired is deducted from equity. Subsequently, any gain or loss on the sale or cancellation of the company's own equity instruments is recognised directly in equity.

Income statement presentation

Any net income in relation to own shares, both dividends received and unrealised losses on own shares are eliminated before stating group profit for the year.

Dividends paid in respect of these shares are eliminated when determining the group profit for the year.

Earnings per share

In calculating the basic earnings per share, the treasury shares are deducted from the weighted average number of shares in issue.

When calculating the diluted earnings per share, the number of shares at year-end that have a dilutive effect is included in the weighted average number of shares.

1.19 Revenue recognition

Rental income

Rental income from investment properties is recognised in the income statement on a straight-line basis over the term of each lease.

Interest income

Interest income is recognised as it accrues, using the effective interest method.

Dividend income

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

1.20 Dividends payable

Dividends payable and the related taxation thereon are recorded in the group's financial statements in the period in which the shareholders' rights to receive payment have been established.

1.21 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.

1. ACCOUNTING POLICIES *(continued)*

1.21 Leases *(continued)*

Finance leases

Leases of property and 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 asset 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 interest rate on the outstanding balance of the liability.

The corresponding lease obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the income statement over the lease period according to the effective interest method. The equipment acquired under the finance leases is depreciated over the shorter of the useful life of the asset and the lease term, whilst the property is depreciated over its useful life.

1.22 Reporting by segment

The primary segments of the group have been identified by market composition, 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.

1.23 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.

1.24 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.

2. ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting judgements in applying the group's accounting policies are described below:

Claims incurred

The group's estimates for reported and unreported losses are continually reviewed and updated, and adjustments resulting from this review are reflected in income. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. The group's process for determining significant reserving assumptions are outlined in note 20.

Post-retirement medical benefit provision

Assumptions are made regarding the level of subsidy and discount rates in calculating the group's post-retirement medical benefit provision. Details of these assumptions are set out in note 33.2.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

3. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS AND OTHER ADJUSTMENTS

The group adopted International Financial Reporting Standards ("IFRSs") for the first time for these financial statements, being the period ended 31 December 2005. In order to show comparative balances, the period ended 31 December 2004 is also shown under IFRSs. The date of transition to IFRSs is 1 January 2004.

The group, as permitted by IFRS 1 *First-time Adoption of International Financial Reporting Standards*, has elected to use the following exemptions from the retrospective application of certain parts of other IFRSs:

Cumulative translation differences

The first-time adopter is not required to comply with the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates* for cumulative translation differences that existed at the date of transition to IFRSs. Consequently the cumulative translation differences are deemed to be zero at the date of transition.

Business combinations

The group has elected not to retrospectively apply the requirements of IFRS 3 *Business Combinations* for combinations that occurred prior to 1 January 2004.

Share-based payments

The group has elected not to apply the provisions of IFRS 2 *Share-based Payments* to employee share option scheme awards granted on or before 7 November 2002.

Fair value as deemed cost

The group has elected to measure owner-occupied property at the date of the transition to IFRSs at its fair value and use that fair value as its deemed cost at that date.

In preparing its opening IFRSs balance sheet, the group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (SA GAAP). An explanation of how the transition from SA GAAP to IFRSs has affected the group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of the impact of the first-time adoption of IFRSs and other adjustments on the balance sheet

GROUP Rm	Assets		Liabilities		Equity	
	1 January 2004	31 December 2004	1 January 2004	31 December 2004	1 January 2004	31 December 2004
As reported under SA GAAP	7 203	7 572	3 707	3 915	3 496	3 657
Adjustments for:						
Revaluation of owner-occupied property	23	22	–	4	23	18
Goodwill	–	19	–	–	–	19
Operating leases	–	–	10	11	(10)	(11)
Residual value of assets	12	16	4	5	8	11
Cell captives	75	63	110	141	(35)	(78)
Reclassify deferred tax assets	–	6	–	6	–	–
As reported under IFRSs	7 313	7 698	3 831	4 082	3 482	3 616

3. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS AND OTHER ADJUSTMENTS (continued)

Reconciliation of the impact of the first-time adoption of IFRSs and other adjustments on the balance sheet (continued)

COMPANY Rm	Assets		Liabilities		Equity	
	1 January 2004	31 December 2004	1 January 2004	31 December 2004	1 January 2004	31 December 2004
As reported under SA GAAP	6 512	7 100	3 161	3 482	3 351	3 618
Adjustments for:						
Revaluation of owner-occupied property	23	22	–	4	23	18
Operating leases	–	–	9	11	(9)	(11)
Residual value of assets	12	16	4	5	8	11
Reclassify deferred tax assets	–	3	–	3	–	–
As reported under IFRSs	6 547	7 141	3 174	3 505	3 373	3 636

Reconciliation of the impact of the first-time adoption of IFRSs and other adjustments on profit for the year

Rm	Group 2004	Company 2004
As reported under SA GAAP	1 148	1 294
Adjustments for:		
Goodwill	19	–
Share-based payments	(3)	(3)
Foreign exchange translation	15	1
Operating leases	(1)	(2)
Residual value of assets	3	3
As reported under IFRSs	1 181	1 293

The impact of the first-time adoption of IFRSs and other adjustments on the cash flow statement

There have been no adjustments to the cash flow statement in respect of cash used by operating activities (although the composition has changed), cash flows from investing activities and cash flows from financing activities as a result of the adoption of IFRSs.

The basis of the material adjustments between SA GAAP and IFRSs, as shown in the above reconciliations is noted below. The adjustments in the reconciliation of profit for the year are net of the tax impact.

Revaluation of owner-occupied property

Owner-occupied buildings which were previously carried at depreciated historical cost are now carried at depreciated fair value in terms of IAS 16 *Property, Plant and Equipment*. Fair value adjustments are taken directly to equity.

Goodwill

Under SA GAAP, the group recognised acquired goodwill at cost and amortised it on a straight-line basis over its expected useful life, not exceeding 10 years. Under IFRSs, goodwill is not amortised and is subject to impairment reviews annually or when there are indications that the carrying value may not be recoverable.

Share-based payments

The group granted share options to employees prior to the adoption of IFRSs. Under SA GAAP, costs were not recognised in the income statement for these share-based payments. In accordance with IFRS 2 *Share-based Payments*, the costs associated with the company's share option scheme that was in existence at the date of transition to IFRSs issued after 7 November 2002, are now charged to the income statement over the five year vesting period based on the fair value of the options determined on grant date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

3. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS AND OTHER ADJUSTMENTS (continued)

Foreign exchange translation

Under SA GAAP, the group recognised all gains and losses arising from the foreign exchange translation of a foreign operation directly in the income statement. In terms of IAS 21 *The Effects of Changes in Foreign Exchange Rates*, these gains or losses are now taken directly to equity.

Operating leases

Operating lease costs which were previously expensed as paid under SA GAAP, are now spread evenly over the period of the lease.

Residual value of assets

Depreciable amount for property and equipment is no longer cost, but rather the difference between cost and residual value.

Cell captive business

Following the implementation of IFRS 4 *Insurance Contracts* read in conjunction with IAS 27 *Consolidated and Separate Financial Statements*, the group re-evaluated its presentation for insurance cells. The results of insurance contracts underwritten in cells where the risk and rewards accrue to the third party cell owners, no longer form part of the group's profit before taxation. Consequently no transfer is required to outside shareholders' interests for this business as was done in prior years. The change in presentation had no effect on the group's profit for the year.

Reclassifications

On conversion to IFRSs, the group reclassified investments "at fair value through profit and loss", which were previously classified as "available-for-sale". This was merely a balance sheet reclassification as all fair value adjustments continue to be reflected in the income statement.

Deferred tax assets arising from unutilised STC credits are now disclosed separately from deferred tax liabilities arising from income and capital gains tax. In accordance with IAS 38 *Intangible Assets* computer software is now classified as intangible assets.

The above reclassifications have no impact on equity or the income statement.

4. TERMS AND CONDITIONS OF INSURANCE CONTRACTS

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

Types of insurance contracts	Commercial	Personal	Risk finance
Property	*	*	*
Accident	*	*	*
Personal accident	*	*	*
Motor	*	*	*
Engineering	*		
Crop	*		
Marine	*		*
Credit	*		*

The commercial segment underwrites the risks of enterprises from small businesses to large corporates. The personal segment provides insurance to the general public in their personal capacities. The risk finance segment provides facilities to clients allowing them to retain some insurance risk and effectively operate as autonomous insurance entities. An extended understanding of the nature of the above segments can be obtained from the operational reports on pages 18 to 21.

4. TERMS AND CONDITIONS OF INSURANCE CONTRACTS *(continued)*

Property – Provide indemnity for loss of or damage to immovable and movable property caused by perils such as fire, lightning, explosion, weather, water, earthquake and malicious damage. The fire classes also include Business Interruption policies which insure the loss of profits incurred by a business as a result of loss or damage to the insured property by these perils.

Accident – Provide indemnity for loss of or damage to mainly movable property for losses caused by crime, certain accidental damage such as damage to goods in transit or accidental damage to glass. Included under the accident classes are legal liabilities an insured may incur as a result of accidental damage to third party property or accidental death or injury to a third party caused by the insured.

Personal accident – Provide compensation arising out of the death, permanent or temporary total disability of the insured, the family of the insured or possibly the employees of a business. Such death or disability is restricted to certain accidents and does not provide the wider cover available from the life insurance industry.

Motor – Provide indemnity for loss of or damage to the insured motor vehicle. The cover is normally on an all risks basis providing a wide scope of cover following an accident or a theft of the vehicle but the insured can select restricted forms of cover such as cover for fire and theft only. Legal liabilities arising out of the use or ownership of the motor vehicle following an accident for damage to third party property or death or injury to a third party are also covered under this class of business.

Engineering – Provide indemnity for losses sustained through the use of machinery and equipment or the erection of buildings or structures. This type of contract includes contract works, removal of support, project delay, construction plant, machinery breakdown, loss of profit, deterioration of stock, dismantling transit and erection, works damage and electronic equipment.

Crop – Provide indemnity for crops while still on the field against hail, drought and excessive rainfall. Cover ceases as soon as harvesting has taken place.

Marine – Provide indemnity for both cargo and hull classes of business. Cargo covers physical loss of or damage to cargo, with a project delay option. Hull covers loss or damage to pleasure crafts or commercial vessels as a result of accidents and also includes legal liability as a result of the accident.

Credit – Provide indemnity against the risk of the debtor going into liquidation (insolvency), delayed or non-payment (protracted default) and in respect of export risks, the unilateral cancellation of a contract (repudiation) as well as a myriad of political related risks.

The return to shareholders under the above products arises from the total premiums charged to policyholders less the amounts paid to cover claims, commissions and expenses incurred by the group. There is also scope for the group to earn investment income owing to the time delay between the receipt of premiums and the payment of claims.

The group underwrites finite risk policies and cell captive business which comprise the Risk finance segment reported on in note 37. The finite risk policies expose the group to limited risk only and include profit participation measures to promote good risk management amongst the insureds and the originators of the business. The cell captives are created through shareholders' agreements and a cell owner is allocated the positive return from the underwriting and investment activities in its cell. Conversely, the cell owner is accountable for any losses to the extent that the cell has funds available to offset against the losses. Future profits that arise in the cell will also be utilised to offset historic losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

5. RISK THAT ARISES FROM INSURANCE CONTRACTS

Insurance risk and policies for mitigating insurance risk

The primary activity of the group relates to the assumption of the risk of loss from events involving persons or organisations. Such risks may relate to property, accident, personal accident, motor, liability, engineering, crop, marine, credit and other perils that may arise from an insured event. As such the group is exposed to the uncertainty surrounding the timing, severity and frequency of claims under insurance contracts.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected and that the group does not charge premiums appropriate for the risk accepted. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues. These actions are described below.

Underwriting strategy

The group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks spread over a large geographical area. The underwriting strategy is set out in an annual business plan that determines the classes of business to be written, the territories in which business is to be written and the industry sectors to which the group is prepared to accept exposure. This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set the limits for underwriters by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio. The single largest gross risk, based on estimated maximum loss, to which the group will commit is less than 10% of equity.

Adherence to the underwriting authorities is measured through a series of exception reports that are monitored on a regular basis covering line size, territory, class and industry. In addition, management meets monthly to review underwriting information including premium income and loss ratios by class, territory and industry.

Reinsurance strategy

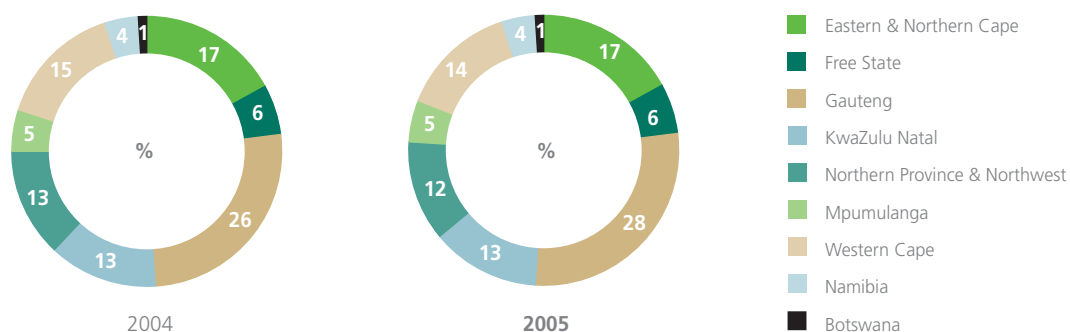
The group reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The group buys a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure of the group by up to 90% of the value of the gross risk on any one risk. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances.

The reinsurance result is set out on page 45 of the annual report. At year-end there were no unamortised gains or losses from purchasing reinsurance.

Concentrations of insurance risk and policies mitigating the concentrations

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the group's resources. The group monitors the concentration risk by geographical segment and class of business.

Gross premium by geographical segment

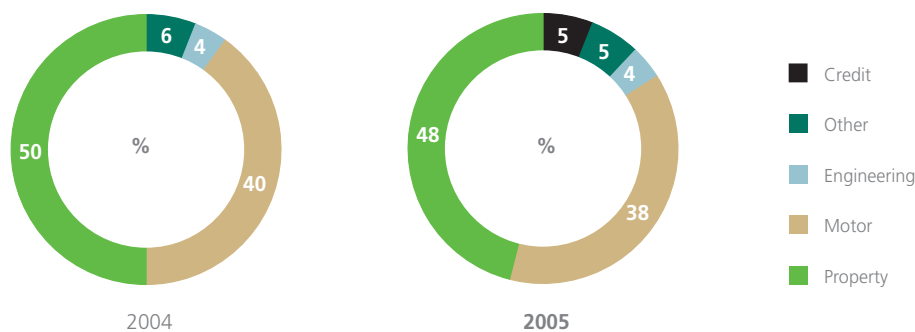


5. RISK THAT ARISES FROM INSURANCE CONTRACTS *(continued)*

Concentrations of insurance risk and policies mitigating the concentrations *(continued)*

The group is broadly represented across South Africa, Namibia and Botswana and exposures to risks are representative of the economic activity in the various regions. The increased concentration of premium income in the Gauteng region in 2005 is as a result of the inclusion of CGIC from 1 January 2005.

Gross premium by class



The group has exposure to all major lines of insurance business with very limited exposure to specialised areas of insurance. This exposure is consistent with the market and the group's reinsurance policy limits the losses in any one class of business.

Exposure relating to catastrophe events

The group sets out the total aggregate exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes. The aggregate position is reviewed annually. The group uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes and the net exposure of the group.

The group considers that its most significant exposure would arise in the event of an earthquake in Gauteng. This analysis has been performed through identifying key concentration of risks based on different classes of businesses exposed in the event of such an incident. The group's policies for mitigating catastrophe risk exposure include the use of both proportional and excess-of-loss reinsurance. In the event of a major catastrophe such as an earthquake in Gauteng, the net retained loss will represent less than 2% of the group's equity. The group has purchased excess-of-loss reinsurance for catastrophe events that provides indemnity up to R3 billion.

Other risks and policies for mitigating these risks

Insurance companies are exposed to the risk of false, invalid and exaggerated claims. Sophisticated software and fraud detection measurements are in place to improve the group's ability to proactively detect fraudulent claims.

Claims development

The group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term, subject to pre-determined time scales dependent on the nature of the insurance contract. The group is therefore exposed to the risk that claims reserves will not be adequate to fund historic claims (run-off risk). To manage run-off risk the group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and adopts sound reserving practices. Consequently, the group has a history of positive claims development, i.e. the reserves created over time proved to be sufficient to fund the actual claims paid.

The majority of the group's insurance contracts are classified as 'short-tailed', meaning that any claim is settled within a year after the loss date. This contrasts with the 'long-tailed' classes where the claims cost takes longer to materialise and settle. The group's long-tailed business is generally limited to personal accident, third-party motor liability and some engineering classes.

In terms of IFRS 4, an insurer need only disclose claims run-off information where uncertainty exists about the amount and timing of claims payments not resolved within one year. The claims from long-tail business comprise less than 4% of an average year's claims cost and consequently, detailed claims run-off information is not presented.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

6. FINANCIAL RISK

Transactions in financial instruments result in the group assuming financial risks. These include market risk, foreign currency risk, credit risk and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the group manages these risks.

6.1 Market risk

Market risk can be described as the risk of a change in the fair value of a financial instrument brought about by changes in interest rates and equity prices.

Equity price risk

The portfolio of listed equities, which are carried on the balance sheet at fair value, has exposure to price risk, being the potential loss in market value resulting from an adverse change in prices. The group's objective is to earn competitive relative returns by investing in a diverse portfolio of high quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling methods. The group holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by management and statutory requirements. The group's largest investment in any one company comprises 5,8% of the total assets.

At 31 December 2005, the group's listed equities were recorded at their fair value of R3 963 million. A hypothetical 10% decline in each stock's price would have decreased profit before taxation by R396 million.

Interest rate risk

Fluctuations in interest rates impact on the value of fixed interest investments, giving rise to price risk. The group does not use financial instruments to manage this risk.

The group's fixed interest borrowings are insignificant and therefore do not give rise to significant interest rate risk.

It is estimated that a 1% increase in interest rates would have decreased the group's profit before tax by less than R5 million.

Market risk is one of the most significant factors considered in determining the group's investment philosophy. This philosophy draws a distinction between funds backing technical liabilities and shareholders' funds and is summarised below:

Technical liabilities

The overall philosophy governing these investments is driven by liquidity considerations and a strong emphasis on capital preservation. The maturity profile of investments approximates the average term of operational liabilities. To this end funds are invested predominately in fixed interest bearing investments with a duration not exceeding five years.

Shareholders' funds

Shareholders' funds are invested in a broader spread of investments (including equities), reflecting the more stable nature of the fund pool and the need for strong real returns over the long-term. The spread of investments is constructed in such a manner as to guarantee operational capacity (as measured by the solvency margin) at all times. The Board has determined that investments in equities will be equal to 80% of shareholders' funds.

6.2 Foreign currency risk

The group is exposed to foreign currency risk for transactions that are denominated in a currency other than rand. This exposure is limited to the operations of the foreign subsidiaries, credit insurance, transactions with foreign reinsurers and equity investments in foreign companies. The group does not take cover on foreign currency transactions and balances as the exposure is considered minimal. The table below illustrates the split of assets and liabilities of the group per major currency.

6. FINANCIAL RISK (continued)

6.2 Foreign currency risk (continued)

	2005			2004		
	Assets Rm	Liabilities Rm	Net Rm	Assets Rm	Liabilities Rm	Net Rm
South African Rand	9 317	4 415	4 902	7 235	3 813	3 422
Euro	70	90	(20)	–	–	–
United States Dollar	48	7	41	8	3	5
Namibian Dollar	245	178	67	285	164	121
Botswana Pula	149	107	42	137	101	36
Other	41	4	37	33	1	32
	9 870	4 801	5 069	7 698	4 082	3 616

6.3 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:

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

The group limits the levels of credit risk that it accepts by placing limits on its exposure to a single counterparty or groups of counterparties, and to geographical and industry segments. The levels are subject to annual or more frequent reviews. Internal audit also makes regular reviews to assess the degree of compliance with the group's procedures on credit.

Exposures to individual policyholders and groups of policyholders are monitored as part of the credit control process. The group is also protected by guarantees provided by the intermediary guarantee facility for the non-payment of premiums collected by intermediaries.

Reputable financial institutions are used for investing and cash handling purposes. All money market instruments and cash equivalents are placed with institutions that have a national long-term credit rating of at least AA-

Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount in the event that a gross claim is paid. However, the group remains liable to its policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently the group is exposed to credit risk.

The group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The group has a Reinsurance Security Committee that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance against those criteria.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

6. FINANCIAL RISK (continued)

6.3 Credit risk (continued)

When selecting a reinsurer the group considers its security. This is assessed from public rating information and from internal investigations. The table below illustrates the credit ratings of the reinsurers that participated in the group's 2005 reinsurance programme.

(Rated by Standard and Poor's)	GROUP 2005 %
AAA	9
AA	32
AA-	20
A+	10
A	20
A-	2
BBB+	5
Unrated	2
	100

The group held deposits of R97 million (2004: R77 million) as security for reinsurers' share of insurance contract provisions at the balance sheet date.

6.4 Liquidity risk

The group is exposed to daily cash calls 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.

7. CONSOLIDATION OF SUBSIDIARY

The group acquired shares in Credit Guarantee Insurance Corporation of Africa Limited ("CGIC") during 2004 that increased its shareholding to more than 50%. The 2004 results of this subsidiary were not consolidated with those of the group, as the group was then not able to exercise management control as a result of restrictions on voting rights contained in the Articles of Association of CGIC. The articles were formally amended, thereby removing the restriction on voting rights, and with effect from 1 January 2005, the results of CGIC were consolidated with those of the group.

	GROUP	
	2005 Rm	2004 Rm
7. CONSOLIDATION OF SUBSIDIARY (continued)		
Assets and liabilities of CGIC at 1 January 2005:		
Property and equipment	31	
Investments at fair value through profit and loss	488	
Investment in associated company	38	
Reinsurers' share of insurance contract provisions	99	
Other assets	137	
Cash and cash equivalents	174	
Total assets	967	
Deferred taxation	(25)	
Insurance contract provisions	(369)	
Taxation payable	(37)	
Total other liabilities	(105)	
Attributable to outside shareholders	(211)	
Net assets	220	

	COMPANY	
	2005 Rm	2004 Rm
8. INTEREST IN SUBSIDIARY COMPANIES		
Shares at cost less amounts written off	1 217	998
Adjustment to fair value	571	378
	1 788	1 376
Amounts due from subsidiaries	40	134
	1 828	1 510
Amounts due to subsidiaries	(228)	(132)
	1 600	1 378

Refer to page 112 for details of interest in subsidiary companies.

Other than for the amount owing by the Namibian subsidiary, the amounts owing by or to the company are not subject to interest. The interest payable by the Namibian subsidiary is variable and linked to the prime lending rate. The amounts owing are unsecured and do not have fixed repayment terms.

9. LOANS AND INTEREST IN SHARE TRUSTS		
Loan to The Mutual & Federal Management Incentive Trust	349	–
Loan to The Mutual & Federal Black Broker Trust	34	–
Interest in The Mutual & Federal Senior Black Management Trust	73	–
	456	–

The loans carry no interest and have no fixed repayment terms.

The interest in The Mutual & Federal Senior Black Management Trust represents the value of the unexpensed portion of the grant to the trust. The unexpensed portion represents future share-based payments to employees.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

	Land and buildings Rm	Furniture and equipment Rm	Motor vehicles Rm	Computer equipment Rm	Computer software Rm	Total Rm
10. PROPERTY AND EQUIPMENT						
10.1 Group						
Cost or fair value						
Balance at 31 December 2003	86	39	52	141	75	393
Transfer to intangible assets	–	–	–	–	(75)	(75)
Additions	2	3	13	28	–	46
Disposals	–	(9)	(6)	(52)	–	(67)
Disposal of branch	–	(1)	(1)	–	–	(2)
Revaluation	(12)	–	–	–	–	(12)
Balance at 31 December 2004	76	32	58	117	–	283
Additions	4	4	30	13	–	51
Disposals	–	(1)	(15)	(3)	–	(19)
Arising on consolidation of CGIC	28	11	3	12	–	54
Balance at 31 December 2005	108	46	76	139	–	369
Accumulated depreciation						
Balance at 31 December 2003	–	(30)	(10)	(116)	(43)	(199)
Transfer to intangible assets	–	–	–	–	43	43
Depreciation	(4)	(3)	(6)	(17)	–	(30)
Disposals	–	9	4	51	–	64
Disposal of branch	–	–	1	–	–	1
Revaluation	4	–	–	–	–	4
Balance at 31 December 2004	–	(24)	(11)	(82)	–	(117)
Depreciation	(7)	(4)	(12)	(19)	–	(42)
Disposals	–	1	11	3	–	15
Arising on consolidation of CGIC	(1)	(9)	(2)	(11)	–	(23)
Balance at 31 December 2005	(8)	(36)	(14)	(109)	–	(167)
Net book value						
Balance at 31 December 2003	86	9	42	25	32	194
Transfer to intangible assets	–	–	–	–	(32)	(32)
Net additions	2	2	11	27	–	42
Depreciation	(4)	(3)	(6)	(17)	–	(30)
Revaluation	(8)	–	–	–	–	(8)
Balance at 31 December 2004	76	8	47	35	–	166
Net additions	4	4	26	13	–	47
Depreciation	(7)	(4)	(12)	(19)	–	(42)
Arising on consolidation of CGIC	27	2	1	1	–	31
Balance at 31 December 2005	100	10	62	30	–	202

	Land and buildings Rm	Furniture and equipment Rm	Motor vehicles Rm	Computer equipment Rm	Computer software Rm	Total Rm
10. PROPERTY AND EQUIPMENT (continued)						
10.2 Company						
Cost or fair value						
Balance at 31 December 2003	86	37	50	139	75	387
Transfer to intangible assets	–	–	–	–	(75)	(75)
Additions	2	2	14	27	–	45
Disposals	–	(9)	(6)	(52)	–	(67)
Revaluation	(12)	–	–	–	–	(12)
Balance at 31 December 2004	76	30	58	114	–	278
Additions	4	3	28	13	–	48
Disposals	–	(1)	(15)	(3)	–	(19)
Balance at 31 December 2005	80	32	71	124	–	307
Accumulated depreciation						
Balance at 31 December 2003	–	(28)	(9)	(115)	(43)	(195)
Transfer to intangible assets	–	–	–	–	43	43
Depreciation	(4)	(3)	(7)	(16)	–	(30)
Disposals	–	9	4	51	–	64
Revaluation	4	–	–	–	–	4
Balance at 31 December 2004	–	(22)	(12)	(80)	–	(114)
Depreciation	(5)	(3)	(12)	(19)	–	(39)
Disposals	–	1	11	3	–	15
Balance at 31 December 2005	(5)	(24)	(13)	(96)	–	(138)
Net book value						
Balance at 31 December 2003	86	9	41	24	32	192
Transfer to intangible assets	–	–	–	–	(32)	(32)
Net additions	2	2	12	26	–	42
Depreciation	(4)	(3)	(7)	(16)	–	(30)
Revaluation	(8)	–	–	–	–	(8)
Balance at 31 December 2004	76	8	46	34	–	164
Net additions	4	3	24	13	–	44
Depreciation	(5)	(3)	(12)	(19)	–	(39)
Balance at 31 December 2005	75	8	58	28	–	169

The carrying amount of assets under finance leases included in computer equipment is R2 million (2004: R2 million).

At 1 January 2004, computer software was transferred to intangible assets.

The land and building owned by the company comprises an office block situated on Erf 5230, 75 President Street, Johannesburg, Gauteng. This property was acquired in 1998 for an amount of R85 million. The group also owns a property situated on Erven 690 and 1769, 31 Dover Street, Randburg, Gauteng. These buildings are leased in terms of a finance lease (refer note 19). This property was acquired in 1983 for an amount of R11 million.

The group's land and buildings were last revalued during 2004 by external valuers. Valuations were made on the basis of open market value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

	GROUP		COMPANY		
	2005 Rm	2004 Rm	2005 Rm	2004 Rm	
10. PROPERTY AND EQUIPMENT <i>(continued)</i>					
10.3 Historical cost					
If land and buildings were stated on the historical cost basis, which includes improvements, the amounts would be as follows:					
Cost	102	87	91	87	
Accumulated depreciation	(30)	(26)	(30)	(26)	
	72	61	61	61	
11. INTEREST IN ASSOCIATED COMPANIES					
Investment at cost	–	105			
Share of post acquisition income	–	98			
Share of post acquisition reserve movements	–	17			
	–	220			
Analysis of movements in carrying value					
Balance at beginning of year	220	190			
Reclassification of associated company to subsidiary company (refer note 7)	(220)	–			
Arising on consolidation of CGIC	38	–			
Share of profit after taxation	3	30			
Disposal of associated company	(43)	(6)			
Profit on sale of associated company	2	–			
Share of reserve movements	–	6			
Balance at end of year	–	220			
Details of associated companies		% held	% voting power		
	Nature of business	2005	2004	2005	2004
Credit Guarantee Insurance Corporation of Africa Limited ("CGIC")	Short-term insurance	n/a	51	n/a	25
RM Insurance Company (Private) Limited (Zimbabwe)	Short-term insurance	46	46	46	46

	GROUP	
	2005 Rm	2004 Rm
12. GOODWILL		
Cost	205	205
Accumulated impairment	(123)	(65)
Balance at beginning of year	(65)	(63)
Current year impairment	(58)	(2)
Balance at end of year	82	140
Goodwill arising from the acquisition of:		
Cougar Investment Holding Company Limited	68	99
Sentrasure Limited	7	15
Fedsure General Insurance Namibia Limited	7	26
	82	140

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
13. INTANGIBLE ASSETS				
Computer software				
Cost	268	178	268	178
Balance at beginning of year	178	37	178	37
Transferred from property and equipment	–	75	–	75
Current year developments and purchases	90	66	90	66
Amortisation and impairment losses	(161)	(84)	(161)	(84)
Balance at beginning of year	(84)	–	(84)	–
Transferred from property and equipment	–	(43)	–	(43)
Current year amortisation	(41)	(21)	(41)	(21)
Impairment charge	(36)	(20)	(36)	(20)
Balance at end of year	107	94	107	94
14. INVESTMENT PROPERTIES				
Balance at beginning of year	7	6	7	5
Sale of Malawi branch	–	(1)	–	–
Fair value gains	–	2	–	2
Balance at end of year	7	7	7	7

Investment properties consists of business premises situated on Erf 51, 2 Bonsmara Road, Johannesburg, Gauteng and Erven 608, 610 and 612, 90 Elston Avenue, Benoni, Gauteng.

The last external 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
15. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS				
15.1 Total investments at fair value through profit and loss				
15.1.1 At cost				
Preference shares – listed	27	2	1	1
Ordinary shares	1 464	1 575	1 025	1 211
Listed	1 428	1 539	989	1 175
Unlisted	36	36	36	36
Unit trusts	39	41	–	–
Government securities	44	55	–	–
Corporate bonds	–	32	–	–
Public body stock	–	3	–	–
Loans advanced	41	48	41	48
Money market instruments	1 569	736	1 500	700
	3 184	2 492	2 567	1 960
15.1.2 At fair value				
Preference shares – listed	31	2	2	2
Ordinary shares	3 986	3 163	2 690	2 454
Listed	3 963	3 157	2 688	2 453
Unlisted	23	6	2	1
Unit trusts	75	65	–	–
Government securities	50	63	–	–
Corporate bonds	–	34	–	–
Public body stock	–	3	–	–
Loans advanced	32	36	32	35
Money market instruments	1 568	737	1 500	700
	5 742	4 103	4 224	3 191
The group classifies all its investments at fair value through profit and loss. The investments are managed and their performance evaluated and reported internally on a fair value basis in terms of a documented investment strategy.				
15.2 Current portion of investments at fair value through profit and loss				
15.2.1 At cost				
Government securities	14	14	–	–
Corporate bonds	–	32	–	–
Public body stock	–	3	–	–
Loans advanced	3	3	3	3
Money market instruments	1 569	736	1 500	700
	1 586	788	1 503	703

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
15. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS <i>(continued)</i>				
15.2 Current portion of investments at fair value through profit and loss <i>(continued)</i>				
15.2.2 At fair value				
Government securities	17	15	–	–
Corporate bonds	–	34	–	–
Public body stock	–	3	–	–
Loans advanced	3	3	3	3
Money market instruments	1 568	737	1 500	700
	1 588	792	1 503	703
The non-current government securities mature between one and five years. The coupon rates on government securities vary between 9,5% – 13,0% (2004: 9,5% – 12,5%).				
Loans advanced comprise mortgages to staff and are granted at interest rates varying from 1% – 10,5% (2004: 1% – 11%). Personal loans are included in other receivables.				
15.3 Listed ordinary shares by sector				
Resources	1 360	927	922	740
Financial	1 256	1 096	907	870
Real estate	61	60	47	46
Industrial	1 286	1 074	812	797
	3 963	3 157	2 688	2 453

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

15. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS (continued)

15.4 Major equity investments

The group's most significant listed equity investments at 31 December 2005 are set out below and comprise in aggregate 30,5% of total assets and 75,9% of the listed equity portfolio. The analysis shown reflects the percentage of the total market value at 31 December 2005 of the listed equity investments.

Name of company	Fair value Rm	% of equity portfolio
Anglo American plc	576	14,5
BHP Billiton plc	378	9,5
Sasol Limited	279	7,0
Richemont Securities AG	271	6,8
South African Eagle Insurance Company Limited	254	6,4
Standard Bank Group Limited	196	4,9
SABMiller plc	190	4,8
Remgro Limited	155	3,9
Venfin Limited	117	3,0
Imperial Holdings Limited	114	2,9
Nedbank Group Limited	112	2,8
Sanlam Limited	106	2,7
First Rand Limited	92	2,3
Tiger Brands Limited	90	2,3
RMB Holdings Limited	77	1,9

A register of investments at 31 December 2005 is available for inspection at the company's registered office.

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
16. DEFERRED ACQUISITION COSTS				
Deferred acquisition costs	150	149	110	114
Deferred reinsurance commission revenue	(54)	(55)	(36)	(43)
Net deferred acquisition costs	96	94	74	71
Analysis of movements in deferred acquisition costs				
Balance at beginning of year	149	151	114	128
Change in income statement	3	(1)	(4)	(14)
Foreign currency translations	(2)	(1)		
Balance at end of year	150	149	110	114
Analysis of movements in net deferred acquisition costs				
Balance at beginning of year	94	79	71	64
Change in income statement	3	15	3	7
Foreign currency translations	(1)	–		
Balance at end of year	96	94	74	71

The net deferred acquisition costs relate to annual contracts and will be released into the income statement within the next year

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
17. CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	1 796	1 239	1 110	705
Short-term bank deposits	178	189	–	–
	1 974	1 428	1 110	705
18. DEFERRED TAXATION				
Balance at beginning of year	129	58	87	25
Arising on consolidation of CGIC	25	–	–	–
Charged to income statement	90	67	29	58
Charged directly to equity	–	4	–	4
Balance at end of year	244	129	116	87
Presented on balance sheet:				
Deferred tax asset	(18)	(6)	(18)	(3)
Deferred tax liability	262	135	134	90
	244	129	116	87
Analysis of major temporary differences				
Provisions	(97)	(64)	(78)	(68)
Owner-occupied property	8	4	5	5
Contingency reserve	10	9	–	–
Investments	335	181	202	153
STC credits	(18)	(6)	(18)	(3)
Other	6	5	5	–
	244	129	116	87

At 31 December 2005, a deferred tax liability of R42 million relating to the revaluation of investments in subsidiary companies has not been recognised because the group controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
19. INTEREST BEARING LOANS				
Land and buildings under finance lease	8	–	–	–
Computer and office equipment under finance leases	2	2	2	2
Finance lease liability	10	2	2	2
Finance lease liabilities – future minimum lease payments				
Not later than 1 year	7	1	1	1
Later than 1 year and not later than 5 years	4	1	1	1
	11	2	2	2
The present value of finance lease liabilities is as follows:				
Not later than 1 year	6	1	1	1
Later than 1 year and not later than 5 years	4	1	1	1
	10	2	2	2

Finance lease liabilities relating to land and buildings are payable over a 10 year period in bi-annual instalments at an effective interest rate of 18,9%. The last instalment will be on 15 June 2007.

It is the group's policy to lease certain of its computer and office equipment under finance leases. The average lease term is three years. For the year ended 31 December 2005, the average effective borrowing rate was 10,1% (2004: 10,6%). Interest rates are fixed at the contract date.

Finance lease liabilities, relating to computer and office equipment, are effectively secured, as the rights to the leased assets revert to the lessor in the event of default.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental repayments.

The fair value of the group's lease obligations approximates their carrying amount.

20. INSURANCE CONTRACT PROVISIONS

GROUP	2005			2004		
	Gross Rm	Reinsurance Rm	Net Rm	Gross Rm	Reinsurance Rm	Net Rm
Unearned premiums	917	230	687	842	198	644
Outstanding claims	2 668	568	2 100	2 407	615	1 792
	3 585	798	2 787	3 249	813	2 436
Estimated maturity profile						
within the next year	3 269	733	2 536	2 936	733	2 203
thereafter	316	65	251	313	80	233
	3 585	798	2 787	3 249	813	2 436
COMPANY						
Unearned premiums	627	127	500	637	139	498
Outstanding claims	2 195	448	1 747	2 176	542	1 634
	2 822	575	2 247	2 813	681	2 132
Estimated maturity profile						
within the next year	2 657	534	2 123	2 650	633	2 017
thereafter	165	41	124	163	48	115
	2 822	575	2 247	2 813	681	2 132

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
20. INSURANCE CONTRACT PROVISIONS <i>(continued)</i>				
Analysis of movements in net outstanding claims				
Balance at beginning of year	1 792	1 498	1 634	1 323
Value Added Tax	(166)	(136)	(158)	(129)
	1 626	1 362	1 476	1 194
Arising on consolidation of CGIC	214	–		
Sale of branch of subsidiary	–	(5)		
Current year claims incurred	4 671	4 326	4 297	3 963
Change in previous year claims estimates	(419)	(314)	(313)	(289)
Current year claims paid	(3 417)	(2 948)	(3 257)	(2 633)
Previous year claims paid	(762)	(793)	(636)	(759)
Foreign currency translations	(1)	(2)		
	1 912	1 626	1 567	1 476
Value Added Tax	188	166	180	158
Balance at end of year	2 100	1 792	1 747	1 634
Analysis of movements in net unearned premium reserve				
Balance at beginning of year	644	684	498	519
Arising on consolidation of CGIC	56	–		
Change in income statement	(8)	(32)	2	(21)
Sale of branch of subsidiary	–	(3)		
Foreign currency translations	(5)	(5)		
Balance at end of year	687	644	500	498

20.1 Process used to determine significant assumptions

Insurance risks are unpredictable and the group recognises that it is impossible to forecast with absolute precision, future claims payable under existing insurance contracts. Over time, the group has developed a methodology that is aimed at establishing insurance provisions that have a reasonable likelihood of being adequate to settle all its insurance obligations.

20.1.1 Claim provisions

The group's outstanding claims provisions include notified claims as well as incurred but not yet reported claims.

Notified claims

Other than for credit policies, each notified claim is assessed on a separate, case-by-case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar claims. The group employs staff experienced in claims handling and rigorously applies standardised policies and procedures around claims assessment. The provision for each notified claim includes Value Added Tax, where applicable.

The ultimate cost of the reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Case estimates are therefore reviewed regularly and updated if new information becomes available.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

20. INSURANCE CONTRACT PROVISIONS (continued)

20.1 Process used to determine significant assumptions (continued)

20.1.1 Claim provisions (continued)

Claims incurred but not yet reported ("IBNR")

The IBNR provision, other than for credit policies, consists of a best estimate reserve and an implicit risk margin. The best estimate represents the expected value of the insurance liabilities with a 50% level of certainty i.e. the mean in a range of possible outcomes in the development of unreported claim liabilities. Implicit risk margins are added to the best estimate to reflect the uncertainty of the ultimate cost of claims. The risk margins are not determined statistically but represent an allowance based on judgment for instances where the actual claims development could be more severe than the best estimate liability. The appropriateness of the risk margins is assessed annually by management against the group's past claims experience and is adjusted if the recent claims experience shows that the methodology is no longer appropriate. The aggregate of the best estimate reserve and risk margins expressed as a percentage of premiums written, represents the IBNR assumption for each financial year.

For credit policies, the cost of notified claims and the IBNR provisions are estimated using a range of statistical methods such as the Chain Ladder and Bornhuetter Ferguson methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each loss year based upon observed development of earlier years and expected loss ratios.

As these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development/recording of claims paid and incurred;
- economic, legal, political and social trends;
- changes in mix of business; and
- random fluctuations, including the impact of large losses.

The provision for the notified claims and IBNR are initially estimated at a gross level. A separate calculation is then carried out to determine the estimated reinsurance recoveries. The calculation of the reinsurance recoveries considers the type of risk underwritten, which year the gross claim occurred and therefore under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or forms part of a catastrophe reinsurance claim.

20.1.2 Premium provisions

The group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is then released as the risk under the contract expires. The majority of the group's insurance contracts have an even risk profile and therefore the unearned premium provisions are released evenly over the period of insurance using a time proportionate basis. For the remainder of the insurance portfolio, which includes engineering and crop risks and the risk finance business, the unearned premium is released on a basis consistent with the increasing, decreasing or uneven risk profile of the contracts.

The provisions for unearned premiums are first determined on a gross level and thereafter the reinsurance impact is recognised. Deferred acquisition costs and reinsurance commission revenue is recognised on a basis consistent with the related provisions for unearned premiums.

20. INSURANCE CONTRACT PROVISIONS *(continued)*

20.2 Assumptions

Other than for credit policies, the assumption that has the greatest effect on the measurement of insurance contract provisions is the percentage applied to premiums written in the IBNR calculation. A 7% of written premium assumption has been used for 2005.

For credit policies the assumption that has the greatest effect on the measurement of insurance contract provisions, and specifically IBNR, is the expected ultimate loss ratios for the most recent underwriting year. The expected ultimate loss ratios assumed for the 2005 underwriting year is 45% and 50% for domestic and export business respectively (2004: 70% and 60% respectively).

20.3 Changes in assumptions

There was no change in the IBNR assumption for non-credit policies used for the 2004 and 2005 financial years. The changes from 2004 to 2005 in the expected ultimate loss ratios for credit policies, as detailed above, reduced the group's insurance contract provisions by R60 million.

20.4 Sensitivity of assumptions

The table below demonstrates the before tax profit impact of a hypothetical change in material assumptions:

	GROUP 2005 Rm	COMPANY 2005 Rm
Calculating IBNR at 8% of net written premiums other than for credit insurance	62	59
10% higher ultimate loss ratio for both domestic and export credit insurance	36	–

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
21. CURRENT PROVISIONS				
Leave and bonus provisions				
Balance at beginning of year	97	58	94	58
Arising on consolidation of CGIC	6	–		
Utilisation of provisions	(95)	(57)	(90)	(57)
Provisions raised during the year	103	96	93	93
Balance at end of year	111	97	97	94

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

	Number of shares 000	Share capital Rm	Share premium Rm	Treasury shares Rm	Total Rm
22. SHARE CAPITAL AND SHARE PREMIUM					
GROUP					
At 1 January 2004	245 181	25	114	–	139
Issue of shares – staff share option scheme	2 233	–	14	–	14
At 31 December 2004	247 414	25	128	–	153
Issue of shares – staff share option scheme	1 215	–	11	–	11
Issue of shares – black economic empowerment transaction	31 942	3	422	(410)	15
Issue of shares – capitalisation award	422	–	11	(4)	7
At 31 December 2005	280 993	28	572	(414)	186

	Number of shares 000	Share capital Rm	Share premium Rm	Total Rm
COMPANY				
At 1 January 2004	245 181	25	114	139
Issue of shares – staff share option scheme	2 233	–	14	14
At 31 December 2004	247 414	25	128	153
Issue of shares – staff share option scheme	1 215	–	11	11
Issue of shares – black economic empowerment transaction	31 942	3	422	425
Issue of shares – capitalisation award	422	–	11	11
At 31 December 2005	280 993	28	572	600

The authorised share capital comprises 350 million shares (2004: 350 million shares) with a par value of 10 cents each.

The treasury shares represent the company's shares held by the group at cost. At 31 December 2005, the group held 29 974 249 (2004: Nil) of the company's shares.

The unissued shares were placed under the control of the directors at the annual general meeting held on 3 May 2005 until the commencement of the next annual general meeting.

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
23. COMMISSION INCOME				
Commission received from reinsurers	233	178	93	106
Change in deferred reinsurance revenue liability	–	16	7	21
	233	194	100	127

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
24. INVESTMENT INCOME				
24.1 Dividends, interest and rentals				
Dividends – listed investments	153	96	113	76
– subsidiary companies			246	88
– associated companies	–	42	–	42
Total dividends	153	138	359	206
Interest and rentals received	222	185	157	123
Interest paid	(6)	(2)	–	–
	369	321	516	329
24.2 Unrealised net surplus on investments				
Relating to current year disposals	(460)	(110)	(343)	(97)
Current year fair value changes	1 087	723	963	786
Unrealised foreign exchange losses	(5)	(15)	(5)	–
	622	598	615	689
25. OTHER OPERATING INCOME				
Profit on sale of property and equipment	6	4	6	4
Contingent asset not previously recognised	–	26	–	26
Pension fund recoupment	–	–	–	12
	6	30	6	42
26. NET CLAIMS INCURRED				
Gross	4 736	4 538	4 111	3 852
Claims paid	4 682	4 257	4 116	3 482
Change in provision for outstanding claims	54	281	(5)	370
Reinsurers' share	(446)	(527)	(125)	(274)
Claims paid	(503)	(516)	(223)	(184)
Change in provision for outstanding claims	57	(11)	98	(90)
	4 290	4 011	3 986	3 578
Claims include:				
Payments to insureds	3 881	3 670	3 620	3 287
Claims administration expenses	409	341	366	291
	4 290	4 011	3 986	3 578

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
27. ACQUISITION COSTS				
Acquisition expenses paid	1 642	1 484	1 443	1 147
Change in deferred acquisition costs	(3)	1	4	14
	1 639	1 485	1 447	1 161
28. MANAGEMENT EXPENSES				
28.1 Administration and claims administration expenses include:				
Employee costs	678	550	575	531
Salaries	557	451	471	434
Employer contribution to defined contribution retirement funds	53	39	43	37
Other	68	60	61	60
Share-based payments charge – employee (refer note 35)	25	3	25	3
Share-based payments charge – other (refer note 36)	119	–	119	–
Audit fees – audit services	6	4	4	4
– other services	1	–	1	–
Depreciation	42	30	39	30
Furniture and equipment	4	3	3	3
Land and buildings	7	4	5	4
Motor vehicles	12	6	12	7
Computer equipment	19	17	19	16
Amortisation of intangible assets	41	21	41	21
Impairment of intangible assets	36	20	36	20
Repairs and maintenance of property and equipment	4	3	3	3
Rentals under operating leases	38	33	32	29
Office equipment	9	9	9	8
Property	29	24	23	21
(Profit)/loss on foreign exchange	(4)	2	(1)	2
Directors' emoluments				
Executive directors – for managerial remuneration			4	4
Non-executive directors – for services as directors			2	2

R000	Fees	Basic salary	Other	Bonus [†]	Pension contribution	Total
28. MANAGEMENT EXPENSES <i>(continued)</i>						
28.2 Directors' emoluments						
2005						
K T M Saggars	225		477			702
M J Levett [#]	61					61
B Campbell*	90	1 819		1 941	219	4 069
R M Head [#]	162					162
A M Hyatt	90					90
P D Jones Vilakazi	90					90
D Konar [#]	180					180
R P Menell	117					117
L M Mojela	31					31
M L Ndlovu	90					90
B T Ngcuka	31					31
J V F Roberts [#]	90					90
E P Theron	135					135
R A Williams	162					162
	1 554	1 819	477	1 941	219	6 010
2004						
K T M Saggars	165		497			662
M J Levett [#]	132					132
B Campbell*	66	2 160		1 803	188	4 217
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	1 803	188	5 840

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

*Executive director.

[†]Is in respect of the bonus amount which accrued during the year, although payment occurred in the following year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

	Date of issue	Number	Strike price (R)	Date exercised
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28. MANAGEMENT EXPENSES (continued)

28.3 Executive director's share options and awards

28.3.1 Share options

B Campbell

Outstanding share options at 31 December 2004		449 700		
Share options exercised during the current financial year		136 400		
	16/11/1999	74 600	4,33	14/02/2005
	01/01/2001	41 200	9,00	14/02/2005
	12/11/2001	20 600	11,50	14/02/2005
Share options issued during the current financial year		47 500		
	08/11/2005	47 500	25,00	

Outstanding share options at 31 December 2005 360 800

	Date of issue	Number	Strike price (R)	Exercisable before
Outstanding share options consisting of:	01/01/2001	20 500	9,00	31/12/2006
	12/11/2001	41 100	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
	08/11/2005	47 500	25,00	08/11/2011

360 800

28.3.2 Share award

	Date of issue	Number
B Campbell		
Restricted share award issued during the current financial year	08/11/2005	14 250

The share awards vest immediately subject to the condition that the director remains in the group's employment for a period of time. The director can take delivery of the shares after three years (one-third), four years (one-third) and five years (one-third).

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
29. TAXATION				
29.1 South African and foreign				
Current	293	262	190	228
Current year	291	257	190	223
Prior year	2	5	–	5
Deferred	102	63	44	58
Current year	107	63	47	58
Change in tax rate	(5)	–	(3)	–
Secondary tax on companies	35	117	1	112
Paid	47	113	16	112
Deferred movement	(12)	4	(15)	–
	430	442	235	398
	%	%	%	%
29.2 Reconciliation of tax rate				
Standard rate	29,0	30,0	29,0	30,0
Non-taxable income	(11,8)	(9,4)	(17,7)	(13,2)
Disallowed expenditure	2,1	(0,1)	2,3	(0,1)
Goodwill	0,9	0,1		
Secondary tax on companies and withholding tax	2,0	7,2	0,3	6,7
Foreign tax rate differential	0,1	(0,2)		
Prior year adjustment	–	0,1	–	0,1
Change in tax rate	(0,2)	–	(0,2)	–
Effective rate	22,1	27,7	13,7	23,5

30. EARNINGS PER SHARE

30.1 Basic earnings per share

Basic earnings per share are calculated on profit after tax attributable to ordinary shareholders of R1 395 million (2004: R1 181 million). The weighted average number of shares in issue during the period was 249 034 665 (2004: 245 855 173).

30.2 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 potentially dilutive ordinary shares.

For share options issued to employees, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market 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).

For shares issued to trusts in favour of black business partners, the dilutive number of shares was based on the unencumbered amount of shares that the business partners could obtain at year-end should they choose not to participate in the scheme any longer.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

	GROUP	
	2005 m	2004 m
30. EARNINGS PER SHARE <i>(continued)</i>		
30.2 Diluted earnings per share <i>(continued)</i>		
Reconciliation of diluted weighted average number of shares		
Weighted average number of ordinary shares in issue	249,0	245,9
Adjustment for share options issued to employees	2,5	2,1
Adjustment for shares issued to trusts in favour of black business partners	6,3	–
Diluted weighted average number of ordinary shares	257,8	248,0

	GROUP	
	2005 Rm	2004 Rm
30.3 Headline earnings per share		
Headline earnings per share are calculated on profit attributable to ordinary shareholders, adjusted for impairment of goodwill and intangibles and the profit on sale of property and equipment, of R1 475 million (2004: R1 194 million). The weighted average number of shares in issue during the period was 249 035 565 (2004: 245 855 173).		
Reconciliation of headline earnings		
Profit	1 395	1 181
Impairment of goodwill	58	2
Impairment of intangible assets	26	14
Profit on sale of property and equipment	(4)	(3)
Headline earnings	1 475	1 194

30.4 Diluted headline earnings per share

Diluted headline earnings per share are calculated on profit attributable to ordinary shareholders, adjusted for impairment of goodwill and intangibles and the profit on sale of property and equipment, of R1 475 million (2004: R1 194 million). The diluted weighted average number of shares in issue during the period was 257 799 356 (2004: 248 034 988).

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
31. CASH GENERATED BY OPERATIONS				
Profit before taxation	1 945	1 593	1 712	1 691
Adjusted for:				
Investment income	(1 572)	(1 018)	(1 490)	(1 107)
Impairment of goodwill	58	2		
Share-based payment charge	128	3	128	3
Impairment of pension fund asset	–	35		
Increase in insurance contract provisions	81	262	115	290
Increase in deferred acquisition costs	(3)	(14)	(3)	(7)
Depreciation of property and equipment	42	30	39	30
Amortisation and impairment of intangible assets	77	21	77	21
Profit on sale of property and equipment	(6)	(4)	(6)	(4)
Changes in working capital:				
Decrease in net agents' and reinsurers' balances	29	27	68	15
(Increase)/decrease in other receivables	(53)	12	(55)	(24)
Increase/(decrease) in other payables	105	54	(12)	5
Net decrease in deposits with/by reinsurers	(13)	(15)	(15)	(6)
(Decrease)/increase in interest bearing loans	(5)	(25)	–	2
Increase in post-retirement medical benefit provision	14	3	14	3
Increase in current provisions	7	39	3	36
Effect of foreign exchange translation on working capital	2	(15)	1	–
	836	990	576	948

	GROUP	
	2005 Rm	2004 Rm
32. RELATED PARTY TRANSACTIONS		
32.1 Identity of related parties		
The company has a related party relationship with its holding company, subsidiaries, fellow subsidiaries, associates and with its directors and executive officers. The subsidiary companies are listed in Appendix 1.		
32.2 Transactions with key management personnel		
The remuneration of the executive general management, who are the key management personnel of the group, is set out below in aggregate. Information about the remuneration of individual directors is provided in note 28.		
Salary and bonuses	15	14
Post-employment benefits	1	1
Share-based payments	1	1
	17	16

Directors and executive general management of the group and their immediate relatives control 0,2% of the voting shares of the company. Loans to directors and executive general management for the year ended 31 December 2005 amounted to R0,3 million (2004: R0,3 million) and are included in "other receivables".

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

	GROUP	
	2005 Rm	2004 Rm
32. RELATED PARTY TRANSACTIONS <i>(continued)</i>		
32.3 Other related party transactions		
Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. During the year, the company and its subsidiaries, in the ordinary course of business, entered into various transactions with fellow subsidiary companies in the greater Old Mutual group of companies. These transactions occurred under terms that are no less favourable than those arranged with third parties.		
32.3.1 Transactions with fellow subsidiaries		
Premium received for insurance cover	42	43
Interest and dividends received	38	64
Administration fee income	19	17
Bank charges and administration fees paid	(7)	(2)
Claims paid	(26)	(30)
Rentals paid	(28)	(16)
Acquisition expenses	(99)	(71)
32.3.2 Year-end balances with related parties		
Payable to related parties		
Old Mutual South Africa Limited – fellow subsidiary	–	1
Receivable from related parties		
Nedbank Limited – fellow subsidiary	750	505
32.3.3 Equity investments in fellow subsidiaries at fair value:		
Nedbank Group Limited	112	73
Old Mutual plc	23	23
32.4 Doubtful debts		
There was neither a provision for doubtful debts, nor any impairment during the year, with regard to related parties.		

33. EMPLOYEE BENEFITS

33.1 Retirement plans

The group operates pension funds for all permanent staff. These comprise defined contribution pension plans and defined benefit pension plans governed by the Pension Fund Act, 1956.

Under the pension plans the employees are entitled to retirement benefits on attainment of a retirement age of between 55 and 64.

33.1.1 Defined benefit pension plans

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out at 31 December 2005. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the minimum benefits basis.

Key assumptions:	Valuation at 2005 %
Discount rate	7,9
Consumer price inflation	4,3
Expected return on plan assets	7,9
Rate of compensation increase	5,2
Pension increase	4,3

GROUP AND COMPANY
2005
Rm

33. EMPLOYEE BENEFITS *(continued)*

33.1 Retirement plans *(continued)*

33.1.1 Defined benefit pension plans *(continued)*

Amounts recognised in the income statement are as follows:

Current service costs	1
Interest costs	2
Expected return on plan assets	(2)
	1

The charge for the year of R1 million has been included in staff costs.

Actuarial gains and losses are recognised in the income statement as identified and no portion is deferred.

The actual return on plan assets was R4,6 million.

The present value of the obligation and the fair value of the plan assets included in the balance sheet are as follows:

Present value of defined benefit obligations	32
Fair value of plan assets	32
Surplus in plan assets	–

Movements in the present value of defined benefit obligation in the current period:

At beginning of year	27
Current service costs	1
Interest costs	2
Contribution from plan members	–
Actuarial loss	2
At end of year	32

Comparative information for the make-up of the amounts recognised in the income statement and the movements for the balance sheet items is not presented as the information is not available in the required format.

33.1.2 Distribution of the surplus relating to a defined contribution plan

In order to comply with the provisions of the Second Pension Fund Amendment Act the Trustees of the Mutual & Federal Pension Fund have been working on a distribution of surplus exercise. The surplus exercise relates to the defined contribution members of the fund only. This project is well progressed and it has been established that there is a distributable surplus on the Fund after calculation of minimum benefits in terms of the aforesaid legislation and after taking into account the amount due by the group to the Fund in respect of obligations under the legislation. A surplus apportionment scheme will be submitted to the Financial Services Board for approval by 30 September 2006. At year-end there was insufficient information available to determine the amount of surplus that will be apportioned to the group. Consequently no asset or liability has been raised in the annual financial statements in respect of the surplus apportionment scheme.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

33. EMPLOYEE BENEFITS (continued)

33.2 Post-retirement medical benefit provision

The group has an obligation to fund a portion of certain employees' and pensioners' contributions to their medical aids. The obligation is calculated using the projected unit credit method.

	GROUP		COMPANY	
	2005 %	2004 %	2005 %	2004 %
Key assumptions:				
Discount rate	7,9 – 9,0	8,3 – 9,0	7,9	8,3
Increase in employer contributions	4,3 – 7,0	3,8 – 7,0	4,3	3,8
	Rm	Rm	Rm	Rm
Amounts recognised in the income statement are as follows:				
Current service cost	2	2	2	2
Interest cost	8	10	8	10
Actuarial loss/(gain)	12	(6)	12	(6)
	22	6	22	6
Actuarial gains and losses are recognised in the income statement as identified and no portion is deferred.				
Present value of defined benefit obligation included in the balance sheet:				
Balance at beginning of year	100	102	100	102
Arising on consolidation of CGIC	17	–		
Current service cost	2	2	2	2
Interest cost	8	10	8	10
Actuarial loss/(gain)	12	(6)	12	(6)
Contributions by employers	(8)	(8)	(8)	(8)
Balance at end of year	131	100	114	100

34. BLACK ECONOMIC EMPOWERMENT (“BEE”) TRANSACTION

The BEE share transaction comprises the following key groupings:

- Employees;
- Distributors;
- Community and charitable groupings; and
- Black Business Partners (“BBPs”) through the BBPs scheme.

34.1 The Employee Schemes

The Mutual & Federal Management Incentive Scheme

The primary purpose of the scheme is to attract, reward and retain senior and middle management. The allocations are a combination of restricted share plan (“RSP”) share awards and share options. The RSP shares vest immediately subject to the condition that the employee remains in the group's employment for a period of time and are not subject to Corporate Performance Targets (“CPTs”). The share options may be exercised after three years (one-third), four years (one-third) and five years (one-third), but no later than six years from grant date, and may be subject to CPTs.

Although non-black management also participate in this scheme all shares issued to the scheme at its commencement are earmarked for allocation to black management.

34. BLACK ECONOMIC EMPOWERMENT (“BEE”) TRANSACTION *(continued)*

34.1 The Employee Schemes *(continued)*

The Mutual & Federal Black Management Incentive Scheme

This scheme operates for the benefit of selected senior black management of the group. Allocations from this scheme are in addition to the normal annual allocations made in terms of The Mutual & Federal Management Incentive Scheme to the senior black management of Mutual & Federal.

The trustees will make RSP share awards to existing and future management for retention and attraction purposes.

RSP share awards are not subject to CPTs and will vest immediately, subject to the resolutive condition that the participant remains in the group's employment for a period of time. Participants are to be paid dividends in respect of RSP share awards and will be entitled to exercise the voting rights in respect of the shares. Participants may only take delivery of the shares after four years (one-third), five years (one-third) and six years (one-third).

The Mutual & Federal Broad-based Scheme

This scheme operates for the benefit of all employees of the group who do not participate in either The Mutual & Federal Management Incentive Scheme or The Mutual & Federal Senior Black Management Scheme. On 4 August 2005, an allocation was made by means of a once-off RSP share award to the value of R8 575 per participant. The award is not subject to CPTs or service conditions. Staff joining Mutual & Federal after the allocation date do not participate in this scheme.

Participants are to be paid dividends in respect of the RSP share awards and will be entitled to exercise the voting rights in respect of the Mutual & Federal shares. Participants may, however, only take delivery of the shares after five years of participation in the scheme.

34.2 The Distributor Scheme (Black Broker Trust)

The objective of this scheme is to provide or secure finance to or for black brokers wishing to develop brokerage businesses to service the short-term insurance market in South Africa. The finance made available by The Mutual & Federal Black Broker Trust will be utilised by black brokers to provide education and to acquire assets required in order to commence operation in a productive manner.

34.3 The Community Scheme

The objective of this scheme is to provide meaningful benefits to selected community and charitable projects. The aim is to supplement existing community and charitable initiatives on a co-ordinated and consistent basis.

The Community Trust acquired 0,5% of the issued share capital of the company at par and was funded by a loan provided by an Old Mutual Group subsidiary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

34. BLACK ECONOMIC EMPOWERMENT ("BEE") TRANSACTION (continued)

34.4 Black Business Partners (BBPs) Schemes

The black business partners comprise the Wiphold and Mtha Consortia, who have respectively acquired 3,5% and 0,5% of the company's issued share capital. The shares are held in a trust for ten years. A funding mechanism has been developed which involves Mutual & Federal issuing the shares at 2,5% of market value to the participants. On the applicable termination dates of each scheme, Mutual & Federal will be entitled to call back as many of the shares as, based on the then market value, are equal in value to the terminal value on a notional calculation model based at the original fair value of the shares and a funding rate.

The table below provides further details on the Mutual & Federal transaction:

	Total transaction			Black ownership
	Number of shares m	Transaction value Rm	Shareholding (post-issue of new shares)	Shareholding (post-issue of new shares)
Employee schemes	19	438	6,5%	6,0%
M & F Management Incentive Scheme	15	348	5,1%	4,8%
M & F Senior Black Management Scheme	3	74	1,1%	1,1%
M & F Broad-based Scheme	1	16	0,3%	0,1%
Distributor Scheme	1	34	0,5%	0,5%
Community Scheme	1	34	0,5%	0,5%
BBPs	11	278	4,0%	4,0%
Wiphold Consortium	10	243	3,5%	3,5%
Mtha Consortium	1	35	0,5%	0,5%
	32	784	11,5%	11,0%

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
35. SHARE-BASED PAYMENTS TO EMPLOYEES				
Share option schemes	7	3	7	3
RSP awards	18	–	18	–
	25	3	25	3

35.1 Details of share options

The Mutual & Federal Share Option Scheme

This scheme was in existence before the BEE transaction. The primary purpose of this scheme is to attract, reward and retain senior and middle management. The allocations comprised share options only. The share options may be exercised after three years (one-third), four years (one-third) and five years (one-third), but no later than six years from grant date.

The scheme was replaced by The Mutual & Federal Management Incentive Scheme and is now in run off.

35. SHARE-BASED PAYMENTS TO EMPLOYEES (continued)

35.1 Details of share options (continued)

The Mutual & Federal Share Option Scheme (continued)

	Number 2005	Weighted average exercise price 2005 R	Number 2004	Weighted average exercise price 2004 R
Group				
Balance at beginning of year	5 111 300	12,32	6 393 600	9,14
Issued during the year	494 000	23,85	1 196 400	18,96
Exercised during the year	(1 215 200)	8,49	(2 233 600)	6,64
Lapsed during the year	(92 700)	13,04	(245 100)	13,39
Balance at end of year	4 297 400	14,71	5 111 300	12,32
Exercisable in the following 12 months	409 067	7,93	249 700	4,03
Company				
Balance at beginning of year	5 017 900	12,32	6 344 700	9,14
Issued during the year	458 000	23,85	1 151 900	18,96
Exercised during the year	(1 193 300)	8,49	(2 233 600)	6,64
Lapsed during the year	(92 700)	13,04	(245 100)	13,39
Balance at end of year	4 189 900	14,71	5 017 900	12,32
Exercisable in the following 12 months	404 067	7,93	243 700	4,03

The outstanding share options have an exercise price of between R4,20 and R24,50 (2004: R0,49 and R20,00) and a weighted average contractual life of 6 years (2004: 6 years).

The weighted average share price at date of exercise for options exercised during the period was R23,70 (2004: R20,16).

The Mutual & Federal Management Incentive Scheme

	GROUP		COMPANY	
	Number	Weighted avg exercise price	Number	Weighted avg exercise price
	2005	2005 R	2005	2005 R
Issued during the year	3 544 950	22,62	3 429 050	22,62
Lapsed during the year	(59 300)	21,33	(53 900)	21,33
Balance at end of year	3 485 650	22,64	3 375 150	22,64

The outstanding share options have an exercise price of between R21,33 and R26,60 and a weighted average contractual life of 6 years.

Fair value of employee share options granted

The fair value of services received in return for share options granted to employees are measured by reference to the fair value of share options granted. The estimate of the fair value of share options granted is measured using a Black-Scholes option pricing model.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

35. SHARE-BASED PAYMENTS TO EMPLOYEES (continued)

35.1 Details of share options (continued)

Fair value of employee share options granted (continued)

Share options are granted under a service condition, however they contain no market conditions. Some of the option pricing inputs used in the model are included below:

	Share Option Scheme	2005 Management Incentive Scheme	2004 Share Option Scheme
Number of options granted	494 000	3 544 950	1 196 400
Fair value at measurement date (Rand)	6,51	6,12	5,86
Share price (Rand)	23,85	24,72	19,97
Exercise price (Rand)	23,85	22,62	18,96
Expected volatility (%)	25,55	25,57	25,88
Expected life (years)	5	4	5
Risk free interest rate (%)	7,92	7,92	8,73

All the above inputs are expressed as weighted averages.

The expected volatility is based on the annualised historic volatility of the share price over a period commensurate with the expected option life, ending on the date of valuation of the option. The expected life assumption is based on the average length of time similar options have remained outstanding in the past and the type of employees to which awards have been granted.

35.2 Details of RSP awards

2005	Management Incentive Scheme	Senior Black Management Scheme	Broad-based Scheme
Number of shares granted	983 225	232 345	751 100
Forfeited due to resignations	(17 790)	(5 340)	–
Total in issue	965 435	227 005	751 100
Weighted average fair value per share at grant date (Rand)	24,69	24,69	24,50

The share price at grant date was used to determine the fair value of the RSPs. Expected dividends were not considered when the fair value of the RSPs were determined as the holders of the RSPs are entitled to dividends throughout the vesting period of the shares.

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
36. OTHER SHARE-BASED PAYMENTS				
Black Business Partners	85	–	85	–
Community	34	–	34	–
	119	–	119	–

As detailed in note 34.4, the group operates equity settled share-based schemes for the benefit of black business partners. They take the form of grants not subject to service conditions. The black business partners were granted specific rights in respect of 11 332 443 company shares. The rights vested on grant date and the share-based expense recognised in the income statement represents the fair value of the rights at grant date. The fair value of the rights were measured using the Black Scholes model.

As detailed in note 34.3, the group operates an equity settled share-based scheme for the benefit of the community. The company issued 1 394 291 shares to the scheme at par value. The difference between the fair value of these shares at the date of issue and the par value received represents the share-based payment expense recognised in the income statement.

	Commercial Rm	Risk finance Rm	Personal Rm	Unallocated Rm	Total Rm
37. GROUP SEGMENTAL ANALYSIS					
37.1 Divisional segments					
2005					
Gross premiums	3 772	1 175	3 058	–	8 005
Less: Reinsurance premiums	612	469	50	–	1 131
Net premiums	3 160	706	3 008	–	6 874
Change in provision for unearned premiums	(9)	11	6	–	8
Earned premiums net of reinsurance	3 151	717	3 014	–	6 882
Commission income	173	55	5	–	233
Investment income				1 572	1 572
Dividends, interest and rentals				369	369
Realised surplus on investments				581	581
Unrealised surplus on investments				622	622
Other operating income	3	–	3	–	6
Net income	3 327	772	3 022	1 572	8 693
Net claims incurred	(1 880)	(192)	(2 218)	–	(4 290)
Gross amount	(2 101)	(405)	(2 230)	–	(4 736)
Reinsurers' share	221	213	12	–	446
Acquisition costs	(579)	(563)	(497)	–	(1 639)
Administration expenses	(436)	(5)	(320)	–	(761)
Impairment of goodwill	–	–	–	(58)	(58)
Profit before taxation	432	12	(13)	1 514	1 945
Segment assets					
Intangible assets and goodwill	59	–	48	82	189
Property and equipment	111	2	89	–	202
Investments	–	–	–	5 749	5 749
Technical assets	771	139	38	–	948
Agents' and reinsurers' balances	229	102	133	–	464
Other assets	168	55	137	1 958	2 318
Total assets	1 338	298	445	7 789	9 870
Segment liabilities					
Deferred taxation	–	–	–	262	262
Technical reserves	2 431	306	902	–	3 639
Post-retirement medical benefit provision	72	1	58	–	131
Other liabilities	400	38	306	25	769
Total liabilities	2 903	345	1 266	287	4 801
Other segment items					
Depreciation	23	–	19	–	42
Capital expenditure	77	1	63	–	141

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

	Commercial Rm	Risk finance Rm	Personal Rm	Unallocated Rm	Total Rm
37. GROUP SEGMENTAL ANALYSIS (continued)					
37.1 Divisional segments (continued)					
2004					
Gross premiums	3 306	1 116	2 938	–	7 360
Less: Reinsurance premiums	520	374	49	–	943
Net premiums	2 786	742	2 889	–	6 417
Change in provision for unearned premiums	22	20	(10)	–	32
Earned premiums net of reinsurance	2 808	762	2 879	–	6 449
Commission income	136	54	4	–	194
Investment income				1 018	1 018
Dividends, interest and rentals				321	321
Realised surplus on investments				99	99
Unrealised surplus on investments				598	598
Other operating income	17	–	13	–	30
Net income	2 961	816	2 896	1 018	7 691
Net claims incurred	(1 641)	(357)	(2 013)	–	(4 011)
Gross amount	(1 918)	(592)	(2 028)	–	(4 538)
Reinsurers' share	277	235	15	–	527
Acquisition costs	(571)	(445)	(469)	–	(1 485)
Administration expenses	(334)	(4)	(262)	–	(600)
Impairment of goodwill	–	–	–	(2)	(2)
Profit before taxation	415	10	152	1 016	1 593
Segment assets					
Intangible assets and goodwill	54	–	40	140	234
Property and equipment	94	1	71	–	166
Investments	–	–	–	4 330	4 330
Technical assets	822	91	49	–	962
Agents' and reinsurers' balances	236	18	125	–	379
Other assets	108	56	82	1 381	1 627
Total assets	1 314	166	367	5 851	7 698
Segment liabilities					
Deferred taxation	–	–	–	135	135
Technical reserves	2 129	290	885	–	3 304
Post-retirement medical benefit provision	56	1	43	–	100
Other liabilities	237	129	165	12	543
Total liabilities	2 422	420	1 093	147	4 082
Other segment items					
Depreciation	17	–	13	–	30
Capital expenditure	61	1	50	–	112

	South Africa Rm	Namibia Rm	Botswana Rm	Total Rm
37. GROUP SEGMENTAL ANALYSIS <i>(continued)</i>				
37.2 Geographical segments				
2005				
Gross premiums	7 603	297	105	8 005
Less: Reinsurance premiums	1 080	13	38	1 131
Net premiums	6 523	284	67	6 874
Change in provision for unearned premiums	5	1	2	8
Earned premiums net of reinsurance	6 528	285	69	6 882
Commission income	224	2	7	233
Investment income	1 535	14	23	1 572
Dividends, interest and rentals	345	14	10	369
Realised surplus on investments	581	–	–	581
Unrealised surplus on investments	609	–	13	622
Other operating income	6	–	–	6
Net income	8 293	301	99	8 693
Net claims incurred	(4 061)	(179)	(50)	(4 290)
Gross amount	(4 445)	(179)	(112)	(4 736)
Reinsurers' share	384	–	62	446
Acquisition costs	(1 569)	(52)	(18)	(1 639)
Administration expenses	(730)	(25)	(6)	(761)
Impairment of goodwill	(38)	(20)	–	(58)
Profit before taxation	1 895	25	25	1 945
Taxation	(412)	(16)	(2)	(430)
Profit after taxation	1 483	9	23	1 515
Segment assets				
Intangible assets and goodwill	182	7	–	189
Property and equipment	200	2	–	202
Investments	5 639	–	110	5 749
Technical assets	863	34	51	948
Agents' and reinsurers' balances	438	13	13	464
Other assets	2 074	225	19	2 318
Total assets	9 396	281	193	9 870
Segment liabilities				
Deferred taxation	253	9	–	262
Technical reserves	3 383	151	105	3 639
Post-retirement medical benefit provision	131	–	–	131
Other liabilities	710	55	4	769
Total liabilities	4 477	215	109	4 801
Other segment items				
Depreciation	41	1	–	42
Capital expenditure	140	1	–	141

South Africa is the home country of the parent company, which is also the main operating company. Transactions between corporations are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

	South Africa Rm	Namibia Rm	Botswana Rm	Total Rm
37. GROUP SEGMENTAL ANALYSIS (continued)				
37.2 Geographical segments (continued)				
2004				
Gross premiums	6 973	293	94	7 360
Less: Reinsurance premiums	885	39	19	943
Net premiums	6 088	254	75	6 417
Change in provision for unearned premiums	33	2	(3)	32
Earned premiums net of reinsurance	6 121	256	72	6 449
Commission income	184	9	1	194
Investment income	990	14	14	1 018
Dividends, interest and rentals	296	16	9	321
Realised surplus on investments	100	(1)	–	99
Unrealised surplus on investments	594	(1)	5	598
Other operating income	30	–	–	30
Net income	7 325	279	87	7 691
Net claims incurred	(3 794)	(167)	(50)	(4 011)
Gross amount	(4 301)	(176)	(61)	(4 538)
Reinsurers' share	507	9	11	527
Acquisition costs	(1 428)	(46)	(11)	(1 485)
Administration expenses	(567)	(26)	(7)	(600)
Impairment of goodwill	–	(2)	–	(2)
Profit before taxation	1 536	38	19	1 593
Taxation	(426)	(14)	(2)	(442)
Profit after taxation	1 110	24	17	1 151
Segment assets				
Intangible assets and goodwill	209	25	–	234
Property and equipment	164	2	–	166
Investments	4 260	–	70	4 330
Technical assets	874	41	47	962
Agents' and reinsurers' balances	348	18	13	379
Other assets	1 364	206	57	1 627
Total assets	7 219	292	187	7 698
Segment liabilities				
Deferred taxation	127	8	–	135
Technical reserves	3 058	146	100	3 304
Post-retirement medical benefit provision	100	–	–	100
Other liabilities	507	18	18	543
Total liabilities	3 792	172	118	4 082
Other segment items				
Depreciation	29	1	–	30
Capital expenditure	111	1	–	112

South Africa is the home country of the parent company, which is also the main operating company. Transactions between corporations are eliminated on consolidation.

	GROUP		COMPANY	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
38. 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.				
Total future minimum lease payments under non-cancellable operating leases	151	141	150	141
Not later than 1 year	40	23	40	23
Between 1 and 5 years	111	111	110	111
More than 5 years	-	7	-	7

39. POST-BALANCE SHEET EVENTS

There were no post-balance sheet events which affected the presentation of the financial statements for the year ended 31 December 2005.

APPENDIX 1: INTEREST IN SUBSIDIARY COMPANIES

		Issued share capital		Fair value of shares in subsidiaries		Indebtedness by/(to) subsidiaries	
		2005 Rm	2004 Rm	2005 Rm	2004 Rm	2005 Rm	2004 Rm
DIRECTLY HELD							
Cougar Investment Holding Company Limited	(a)	5	5	952	800	–	98
Credit Guarantee Insurance Corporation of Africa Limited (52,52%)	(b)	2	–	297	–	–	–
Mutual & Federal Company of Zimbabwe (Private) Limited*	(a)	–	–	–	–	–	–
Mutual & Federal Insurance Company of Botswana Limited*	(b)	13	13	103	95	3	17
Mutual & Federal Insurance Company of Namibia Limited*	(b)	10	10	120	182	37	9
Mutual & Federal Risk Financing Limited	(b)	3	3	316	299	(74)	(31)
Portion 1 of Stand 210 Rosebank (Proprietary) Limited (75%)	(c)	–	–	–	–	–	(2)
INDIRECTLY HELD							
CGU Insurance Limited	(a)	10	10	1 044	909	(113)	(99)
Equestrian Risk Services (Proprietary) Limited	(c)	–	–	–	–	–	–
Fedsure General Insurance Namibia Limited*	(c)	13	13	16	16	–	–
Huis-en-Haard Beskermingskoöperasie	(c)	–	–	–	–	–	–
Jesop Finance Company (Proprietary) Limited (50%)	(d)	–	–	–	–	–	–
Sentrasure Limited	(a)	169	169	410	368	(41)	10
SPECIAL PURPOSE VEHICLES							
The Mutual & Federal Management Incentive Trust		–	–	–	–	349	–
The Mutual & Federal Senior Black Management Trust		–	–	–	–	–	–
The Mutual & Federal Black Broker Trust		–	–	–	–	34	–
The Mutual & Federal Community Trust		–	–	–	–	–	–
BoE Trust Limited – WIPHOLD Trust		–	–	–	–	–	–
BoE Trust Limited – Mtha Financial Services Trust		–	–	–	–	–	–

*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 2005 was as follows:

Profits: R427 million (2004: R245 million).

SHAREHOLDER INFORMATION

	Number of shareholders	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	433	32,10	249 690	0,09
1 001 – 10 000 shares	642	47,59	2 458 909	0,88
10 001 – 100 000 shares	220	16,31	6 370 862	2,27
100 001 – 1 000 000 shares	40	2,97	11 780 288	4,19
1 000 001 shares and over	14	1,03	260 133 606	92,57
	1 349	100,00	280 993 355	100,00

Distribution of shareholders				
Investment companies	18	1,33	215 738 535	76,78
Empowerment	7	0,52	32 119 639	11,43
Mutual funds	34	2,52	8 488 358	3,02
Insurance companies	10	0,74	7 624 627	2,71
Pension funds	54	4,00	5 440 585	1,94
Individuals	853	63,24	4 736 864	1,69
Nominees and trusts	257	19,06	3 051 449	1,09
Banks	12	0,89	1 805 507	0,64
Private companies	49	3,63	924 447	0,33
Public companies	5	0,37	520 103	0,18
Endowment funds	17	1,26	248 830	0,09
Other corporations	10	0,74	180 977	0,06
Close corporations	20	1,48	56 474	0,02
Medical aid schemes	3	0,22	56 960	0,02
	1 349	100,00	280 993 355	100,00

Public/Non-public shareholders

Non-public shareholders	20	1,48	247 801 286	88,19
Directors and associates of the company holdings	12	0,89	431 400	0,15
Empowerment	7	0,52	32 119 639	11,43
Strategic holdings (more than 10%)	1	0,07	215 250 247	76,60
Public shareholders	1 329	98,52	33 192 069	11,81
	1 349	100,00	280 993 355	100,00

Top 10 beneficial shareholders

Old Mutual Group			215 935 810	76,85
Mutual & Federal Management Incentive Trust			14 230 969	5,06
BoE Trust Limited – Wiphold Trust			9 915 887	3,53
Liberty Group			4 861 805	1,73
Investec			3 086 077	1,10
Mutual & Federal Senior Black Management Incentive Trust			3 016 546	1,07
Public Investment Commissioners			1 893 708	0,67
Rand Merchant Bank			1 731 046	0,62
Capital Alliance			1 542 910	0,55
Santam			1 487 780	0,53

Registered shareholders holding more than 1 000 000 shares

Mutual & Federal Investments			215 250 247	76,60
Mutual & Federal Management Incentive Trust			14 230 969	5,06
BoE Trust Limited – Wiphold Trust			9 915 887	3,53
Liberty Group			4 348 705	1,55
Mutual & Federal Senior Black Management Incentive Trust			3 016 546	1,07
Public Investment Commissioners Equity Portfolio			1 893 708	0,67
Investec Opportunity Fund			1 632 772	0,58
Rand Merchant Bank			1 525 546	0,54
Santam Portfolio			1 487 780	0,53
Capital Alliance Absolute Return Fund			1 456 640	0,52
BoE Trust Limited – Mtha Fin Serv			1 416 555	0,50
Mutual & Federal Black Broker Trust			1 394 291	0,50
Mutual & Federal Community Trust			1 394 291	0,50
Investec Special Focus Fund			1 169 669	0,42

MANAGERS AND BRANCH ORGANISATION

Department	Group Manager	Department	Group Manager
Accounting Services	J S Smit	IT Architecture	J Maritz, N.Dip. Info. Tech.
Actuarial	E O Paul, B.Sc.(Hons.), F.F.A., C.F.A.	Information Services	L Gennari R Roxburgh, B.Sc. I M Williamson, M.Comm. K Wishart
Administration	M F Seroba, B. Comm., C.A.I.B.(S.A.)	Internal Audit	P M J Hancock, B.Compt.(Hons.) C.A.(S.A.), C.I.A.
Agriculture and Crop	J H du Plessis	Investments	A J Uren, B.Com.
Business Intelligence	J A Ulyate, EDP Dip,	Legal	A T Bouwer, B.Iur., LL.B., Dip.LL.
Business Systems Support	L Dyasi, B.Comm., SAD, Dip.PM.	Marketing & Communications	L G M Comyn, B.A.
Claims Quality Assurance	C J Hayhurst, A.I.I.S.A.	Old Mutual Liaison	M S Isaacs, A.C.I.I., A.I.I.S.A.
Commercial Schemes	D A Hopcroft	Personal Schemes	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.
Commercial Technical	W V Richards, F.I.I.S.A.	Personal Business Technical	L Beckbessinger, F.C.I.I., F.I.I.S.A.
Corporate Accounting	J R Heunes, Dip. Bus. Man.	Reinsurance & Business Initiatives	G D Montagnani, B.A., A.I.I.S.A.
Financial Services	K H Kietzman, B.Compt.(Hons.), C.A.(S.A.)	Specialist Investigation	P J K Viljoen, B.A. Police Science, B.A.(Hons.) M Tladinyane, B.Sc., Dip. Bus. Man
Governance	M P Arnold, B.Com., B.Acc.	Strategy	
Group Procurement	A M Dias, H.D. Bus. Man.		
Human Resources	M Low, B.Admin.		
IT Application Development and maintenance	L Wolmarans, EDP Dip.		

Branch	Regional Manager *Manager	Branch	Regional Manager *Manager
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Corporate Business P O Box 1120 Telephone +27 11 374 9111 Fax +27 11 374 3153	S Miller , A.I.I.S.A. *P Lowrie, A.I.I.S.A. *M Wedderburn, ICiBS.		

Other branches

Branch	Regional Manager *Manager	Sub/Local Office	Branch Manager *Area Manager
BENONI P O Box 201 Telephone +27 11 747 1747 Fax +27 11 747 1865 (Marketing) Fax +27 11 747 1863 (UW Pers) Fax +27 11 747 1862 (UW Comm)	*G C Horn , A.C.I.I., A.I.I.S.A. *R W Stolsie, A.I.I.S.A. *E K Sweet ICiBS. *W L Jorgensen, ICiBS., N.Dip. Marketing.	Vereeniging P O Box 672 Telephone +27 16 454-1200 Fax +27 16 454 1249	C Ahrends , ICiBS.
BENONI CLAIMS P O Box 201 Telephone +27 11 747 1747 Fax +27 11 747 1860 (Motor) Fax +27 11 420 1861 (Non Motor)	C J Grosch *B Kasselmann *P Panday, A.C.I.I., A.I.I.S.A.		
BLOEMFONTEIN P O Box 1085 Telephone +27 51 410 9200 Fax +27 51 448 9866	J Squires , B. Com. * C Thessner *M van der Westhuizen, H.C.i.l. *G Stapelberg, B.A. *S G von Berg, Nat.Dip.Mgt.	Bethlehem P O Box 1642 Telephone +27 58 303 4557 Fax +27 58 303 4759 Kroonstad P O Box 353 Telephone +27 56 212 7131 Fax +27 56 213 1718 Welkom P O Box 614 Telephone +27 57 352 6256/7 Fax +27 57 352 7369	G Pansegrouw , H.C.i.l. *B Coetzee J P Moelich
CAPE TOWN P O Box 16 Telephone +27 21 401 6911 Fax +27 21 401 6605/6/7/12	M L Glasby , F.I.I.S.A. *G V Gore, F.I.A.C., C.F.A.(S.A.) *C M Grove H.C.i.l. *K E Vels, A.I.I.S.A. *E E E H Vroom, A.I.I.S.A., A.I.R.M.S.A.	Bellville P O Box 1830 Telephone +27 21 910 2011/5 Fax +27 21 910 2016 Mutual Park P O Box 66 Cape Town Telephone +27 21 509 3593 Fax +27 21 531 1243	*G Pennacchini
CAPE TOWN CLAIMS P O Box 16 Telephone +27 21 401 6911 Fax +27 21 401 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.l. *A Weddell, B.Sc.QS., F.I.I.S.A.		
DURBAN P O Box 66 Telephone +27 31 362 6111 Fax +27 31 362 6175	R C Meer *L J Brown, A.C.I.I., A.I.I.S.A., Chartered Insurer *H A E Fountain, H.D. Bus. Man. *D F Kerrin, F.I.I.S.A. *R Pietersen, H.C.i.l.	Empangeni P O Box 84 Telephone +27 35 772 4811 Fax +27 35 772 2179	
DURBAN CLAIMS P O Box 66 Telephone +27 31 362 6111 Fax +27 31 362 6119	P J Foley , F.I.I.S.A. *O S Dixon *R W Wilson, A.I.I.S.A.		

MANAGERS AND BRANCH ORGANISATION (continued)

Other branches (continued)

Branch	Regional Manager *Manager	Sub/Local Office	Branch Manager *Area manager
EAST LONDON P O Box 608 Telephone +27 43 705 4800 Fax +27 43 721 0350	C Dallas , F.I.I.S.A. *D B Arries, A.I.I.S.A. *A S Lotz, ICiBS.	Queenstown P O Box 428 Telephone +27 45 839 3106/7 Fax +27 45 838 1194	*M Smuts, ICiBS.
KIMBERLEY Private Bag X6063 Telephone +27 53 807 5000 Fax +27 53 831 2741	*I G Manchest , A.C.I.I. *D K Delpot *R G Talbot *P J Vermeulen	Hopetown P O Box 313 Telephone +27 53 203 0534/5 Fax +27 53 203 0292 Upington P O Box 820 Telephone +27 54 338 6000/1/2 Fax +27 54 332 4684	*P van Heerden *H van Wyk, Dip. Bus. Mgt.
KLERKSDORP P O Box 565 Telephone +27 18 464 8800 Fax +27 18 462 9238	G Booyesen , B.Com. (Hons.), A.C.I.I. *J G Bignaut *J J Goosen	Lichtenburg P O Box 1643 Telephone +27 18 632 1204 Fax +27 18 632 5211 Vryburg P O Box 427 Telephone +27 53 927 2227/8 Fax +27 53 927 3081	*R C Herbst
NELSPRUIT P O Box 307 Telephone +27 13 753 2221/2/3 Fax +27 13 752 5912	A T Wiese *H Breedts, ICiBS *A Loubscher, B.A. (Hons.)	Ermelo P O Box 1602 Telephone +27 17 819 1117 Fax +27 17 811 4814	*J du Toit, Nat.Dip.Mkt.
PAARL P O Box 289 Telephone +27 21 860 8500 Fax +27 21 872 9264	G P Kloppers , F.I.I.S.A. *C J van der Merwe *D Pawson	Stellenbosch P O Box 175 Telephone +27 21 808 5500 Fax +27 21 808 5570 Vredendal P O Box 328 Telephone +27 27 213 3263 Fax +27 27 213 3204 Worcester P O Box 206 Telephone +27 23 342 2454/5 Fax +27 23 342 8769	M H Nacerodien , F.I.I.S.A. *J Theron C de Jager , ICiBS
PIETERMARITZBURG P O Box 420 Telephone +27 33 897 4700 Fax +27 33 345 5424	J M Trybus *N D Bothwell *D G Manning *N R Taylor, A.I.I.S.A. *S J Bouwer, Police Diploma	Vryheid P O Box 432 Telephone +27 34 980 9856 Fax +27 34 980 9703 Ladysmith P O Box 372 Telephone +27 36 637 7031 Fax +27 36 637 2606 Newcastle P O Box 2338 Telephone +27 34 312 7094/5 Fax +27 34 315 2880	*A M H Lombaard C L Stretch , F.I.I.S.A.

Other branches (continued)

Branch	Regional Manager *Manager	Sub/Local Office	Branch Manager *Area manager
PINETOWN P O Box 2178 Telephone +27 31 717 8300 Fax +27 31 702 9646	D S Pascal , F.I.I.S.A. *C F Coleman, A.I.I.S.A., B.A. *T Achary, ICiBS, B.A. Law., LL.B.	Port Shepstone P O Box 263 Telephone +27 39 682 5825 Fax +27 39 682 0097	*M J Marais, H.C.i.I. National Diploma of Organisation & Workstudy
POLOKWANE P O Box 675 Telephone +27 15 293 3300/1/2/3 Fax +27 15 293 3340/90	G L Fijma , F.I.I.S.A. *A. Coertzen, H.C.i.I. *N Dube	Modimolle P O Box 2136 Telephone +27 14 717 1712 Fax +27 14 717 1719 Tzaneen P O Box 3125 Telephone +27 15 307 2001/2 Fax +27 15 307 2046	*C J C Jansen van Vuuren, A.C.I.I. *C S Donaldson
PORT ELIZABETH P O Box 342 Telephone +27 41 508 3111 Fax +27 41 508 3153	A R P Shaddock , Dip.Bus.Man. *T Daniels, A.C.I.I. *M R Delponte, H.C.i.I. *H Platt	George P O Box 300 Telephone +27 44 802 5200 Fax +27 44 873 3864	*A Cronje, H.C.i.I.
PORT ELIZABETH CLAIMS P O Box 342 Telephone +27 41 508 3111 Fax +27 41 508 3153	J H Welthagen , ICiBS. *L Westerman, B.Com. *A Fiebiger, A.I.I.S.A.		
PRETORIA P O Box 29357 Sunnyside Telephone +27 12 400 8100 Fax +27 12 400 8130	G E Martin , ICiBS *A Fourie, Nat. Cert: Short Term Insurance *G P Lucas, A.I.I.S.A. *F L Marshall, H.C.i.I. *J Sam, B. Com. (Hons.), C.A. (S.A.)	Witbank P O Box 2118 Telephone +27 13 690 2850 Fax +27 13 656 5591	J H Botha , ICiBS.
PRETORIA CLAIMS P O Box 29357 Sunnyside Telephone +27 12 400 8100 Fax +27 12 400 8308	S M Kapito , M.B.A., ICiBS. *A Berge *S Papadopoulos, H.C.i.I.		
RANDBURG Commercial Business P O Box 3909 Randburg Telephone +27 11 777 8400 Fax +27 11 886 1901	A S Errington , A.I.I.S.A. *J B Goodchild *L L Greer, ICiBS. *C A Kotze, F.I.I.S.A. *J Kayter, H.C.i.I.		
Personal Business P O Box 1060 Telephone +27 11 777 8400 Fax +27 11 789 2615	M P McCann , A.C.I.I., A.I.I.S.A., Chartered Insurer *M Bown ICiBS. *J Chapman, A.C.I.I. *R R Boggenpoel, ICiBS.		
ROODEPOORT P O Box 5802 Telephone +27 11 671 7800 Fax +27 11 475 7651	A W G Vögel , A.I.I.S.A. *W J Badenhorst, B.Proc. *L van Heerden, A.C.I.I. *F Sepuru, F.I.I.S.A.	Carletonville P O Box 997 Telephone +27 18 786 1147 Fax +27 18 788 5758	*R P van Rooyen, ICiBS.
RUSTENBURG P O Box 518 Telephone +27 14 592 1191 Fax +27 14 594 1651	W J J Botha *L de Koker		

MANAGERS AND BRANCH ORGANISATION (continued)

Branch	Manager	
Old Mutual Liaison	L H Swanepoel, ICiBS.	Benoni, Vaal Triangle, Mpumalanga
	W F Immelman	Bloemfontein, Kimberley
	O Collins	Cape Town, Paarl
	D J R Blair, A.C.I.I., A.I.I.S.A.	Durban, Pinetown, Northern Natal
	S C Stevenson, ICiBS	Head Office – Support Services
	I D Dreyer	Johannesburg
	H A Duvenhage	Pietermaritzburg
	Z de Clercq	Port Elizabeth, East London
	E C Albrecht	Pretoria, Limpopo

Mutual & Federal Insurance Company of Botswana Limited

Branch	Managing Director *Manager
Private Bag 00347 Gaborone Telephone +92 67 390 3333 Fax +92 67 390 3400	B A Kelly , H.Dip. Proj. M. (DMS) *J Bekker *J S Heldsinger, A.I.I.S.A.

Mutual & Federal Insurance Company of Namibia Limited

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

RM Insurance Company (Private) Limited – Zimbabwe

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

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

SHAREHOLDER'S DIARY

Annual General Meeting	3 May 2006
Announcement of interim results	31 July 2006
Financial year-end	31 December
Announcement of annual results	February 2007

Dividend number 72:

Dividend as at 31 December declared	14 February 2006
Last date to trade cum dividend	10 March 2006
Share trade ex-dividend	13 March 2006
Record date	17 March 2006
Dividend payable	20 March 2006
Last date for shareholders to register	17 March 2006
Dematerialisation of shares prohibited	13 to 17 March 2006, 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)

JSE share code: MAF NSX Share code: MTF ISIN: ZAE000010823

("Mutual & Federal" or "the company")

NOTICE TO SHAREHOLDERS

Notice is hereby given that the thirty-fifth annual general meeting of shareholders of Mutual & Federal will be held on the 4th floor, Mutual & Federal Centre, 75 President Street, Johannesburg, at 12:15 on Wednesday, 3 May 2006 for the following purposes:

1. To receive and adopt the annual financial statements and reports for the year ended 31 December 2005.
2. To elect directors of the company.

The following directors retire in accordance with the company's Articles of Association.

- (a) A M Hyatt
- (b) J B Magwaza
- (c) L M Mojela
- (d) B T Ngcuka
- (e) K T M Saggars
- (f) E P Theron
- (g) R A Williams

The following retiring directors, being eligible, offer themselves for re-election:

- (a) J B Magwaza
- (b) L M Mojela
- (c) B T Ngcuka

A brief curriculum vitae in respect of each director referred to above appears on pages 22 to 23 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, with effect from 1 January 2006 as follows:
 - 4.1 Chairman of the company – R250 000 per annum
 - 4.2 Non-executive directors – R100 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 Insurance Company Limited Share Option Scheme and the Mutual & Federal Management Incentive Scheme.

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

6. Ordinary Resolution

Resolved that the directors of the company 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.

In accordance with the JSE Listings Requirements, this ordinary resolution will require to be approved by a 75% majority of votes cast by members present or represented by proxy at the annual general meeting.

NOTICE TO SHAREHOLDERS (continued)

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 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 12:15 on Friday, 28 April 2006.

Shareholders who have dematerialised their shares through a Central Securities Depository 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



G M Benton

Company Secretary

Johannesburg
14 February 2006

Company Secretary:	G M Benton, B.A.(Hons.), C.A.(S.A.), F.C.A. (U.K.)
Address and registered office:	19th floor, Mutual & Federal Centre 75 President Street, Johannesburg, 2001, South Africa P O Box 1120, Johannesburg, 2000
Auditors:	KPMG Inc.
Bankers:	First National Bank of Southern Africa Limited Nedbank Limited The Standard Bank of South Africa Limited
Transfer secretaries:	Computershare Investor Services 2004 (Pty) Limited 70 Marshall Street, Johannesburg, 2001 P O Box 61051, Marshalltown, 2107
Joint sponsors:	Merrill Lynch, 138 West Street, Sandown, 2196 Nedbank Capital, a division of Nedbank Limited 135 Rivonia Road, Sandown, 2196

Mutual & Federal Insurance Company Limited

(Incorporated in the Republic of South Africa)

(Registration number 1970/006619/06)

JSE share code: MAF NSX Share code: MTF ISIN: ZAE000010823

("Mutual & Federal" or "the company")

For use by certificated and own name registered dematerialised shareholders at the thirty-fifth annual general meeting of the company to be held on the 4th floor, Mutual & Federal Centre, 75 President Street, Johannesburg, at 12:15 on Wednesday, 3 May 2006.

Shareholders who have dematerialised their shares through a Central Securities Depository 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, holding ordinary shares

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 Wednesday, 3 May 2006 and at every adjournment thereof.

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

Resolution in respect of item of business number.

	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 – R250 000 per annum			
4.2 Non-executive directors – R100 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 FORM OF PROXY

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; and
 - 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 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107) to be received by no later than 12:15 on Friday, 28 April 2006.

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



Authorised Financial Services Provider

www.mf.co.za